4 Cameroon

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4.1 Introduction

A) History and Geographical Features

The Republic of Cameroon is located on the West Central coast of Africa. The country has been inhabited for at least 50,000 years according to archaeological evidence of hunters-gatherers who lived in small, nomadic communities. Then in 1472 arrived Portuguese mariners who subsequently named the area Rio dos Camaråos, or River of Prawns having found giant shrimps in the estuaries. By the 16th century, Cameroon had become a major source of slaves for the New World, involving the Portuguese, Dutch, British, French and finally the Americans. The country was then colonized by the Germans from 1884 to 1914. During World War 1 British, French and Belgian armies invaded German Kamerun, and through the League of Nations it was divided up, beginning a period of British rule in two small portions in the west and French rule in the remainder of the territory. In 1957 French Cameroon became an autonomous state within the French Community, and on 1st January 1960 gained independence. A year later the southern portion of British-ruled Cameroon voted to join the newly independent state; Northern Cameroon voted to merge with Nigeria. The New Federal Republic of Cameroon comprised two states– the former French Zone became East Cameroon, and the former British zone, West Cameroon. In 1972, a unitary state was formed and since then, power has been highly centralized with the pretext of preserving national unity.

Cameroon has a coast line of 402 kilometers bordering the gulf of Guinea and shares borders with Nigeria to the north west, Chad to the north east, the Central African Republic to the east, Congo Republic, Gabon, Equatorial Guinea to the south, and the Atlantic Ocean to the west. The country covers a surface area 475,000 square kilometers, 466,454 square kilometers of land and 8,546 square kilometers of water (including tributaries, creeks and lakes)..

Cameroon is one of the most geographically diverse countries in Africa. The country embraces vast ecological and climatic diversity and is endowed with exceptional bio-diversity. The country is a perfect synthesis of the landscape and climate of the African continent, comprising three major zones: the northern tropical zone characterized by savannah and sahelian landscape; the southern and eastern equatorial climate zone dominated by dense forests; the north-western hill region near Nigeria, and the sea with a coastline of 402 kilometers smoothly completes this landscape. The country's game reserves teem with elephants, lions, giant eland, bongos, chimpanzees, crocodiles and birds galore. There are a few remaining lowland gorilla families in remote pockets of the under developed south-east. The variations in rainfall range from barely enough rain to support agriculture in the extreme north to over 500cm (200in) in the south-west around mount Cameroon. In the north, the rainy season is from June to September; in the south, light rains in March and April are followed by down pours from May to November. Humidity soars in the south in July and August. The warmest months are March and May, when the average daily is 30°C (86°F) but the north gets up to a scorching 40°C (104°F).

B) Natural Resources

Cameroon compared with other sub-Saharan African countries, has one of the most diversified production and resource bases. The country is endowed with substantial oil reserves and abundant forest reserves (Cameroon is one of six countries in the Congo basin which make up the second largest tropical moist forest in the world after the Amazon Basin). With substantial oil reserves, Cameroon is Sub-Sahara Africa's fifth largest petroleum producer after Nigeria, Angola, Gabon and Congo republic. Crude oil production is of major economic importance and accounts for the bulk of the country's foreign exchange earnings in any given year. The country's forest and woodland make up nearly 78 percent of the its area, the forestry sector is the country's second largest export earner after oil, generating about 20 percent of export revenue and employing some 55,000 people. Other natural resources include hydropower [1], forests, bauxite (have been identified but remain unexploited), deposits of iron ore and potential reserves of gold, diamonds, uranium, rutile, industrial clays and low-grade nickel and cobalt. Tin is mined on a very small scale. The country is also endowed with favorable agricultural conditions. The country has a great potential for development if its resources were well managed.

C) Population

The population was estimated at about 15.2 million in mid-2001 with a growth rate of about 2.7%. Poverty levels are high - according to a 1996 survey over 50% of the population fell below the poverty line, and almost a quarter lived in extreme poverty. Almost all of these live in the rural areas. The age structure is as follows: 0-14 years: 43 percent; 15-64 years: 54 percent; and 65 years and over: 3 percent. The two main cities, Douala the port and commercial centre, and Yaoundé the capital, each have over 1 million inhabitants.

D) Culture and Religions

Cameroon has a highly diversified and complex population profile, comprising some 200 ethnic groups. Cameroon Highlanders 31 percent, Equatorial Bantu 19 percent, Kirdi 11 percent, Fulani10 percent, Northwestern Bantu 8 percent, Eastern Nigritic 7 percent, other African 13 percent. There are about 200,000 Europeans in the country, mainly French speakers.

Languages spoken in Cameroon are French (official), English (official); and about 24 major African language groups. Around 80 percent speak French as a second language (Francophone Cameroon) and 20 percent speak English as a second language (Anglophone - ex-British West Cameroon), and about 25 main African languages are also spoken.

About 53 percent of the population relies on Christianity, 22 percent on Islam, and 25 percent on indigenous beliefs.

E) Political Structure and Administrative Divisions

Since independence, Cameroon's political system has been dominated by a single party with supreme power vested in the presidency. A new constitution of 1996, introduced a multi-party system, which calls for a more decentralized form of government with elected regional councils. The country has 10 Provinces divided into a plethora of divisions, sub-divisions, and districts. The legal system is based on the French civil law system, with common law influence.

There are three arms of power: (1) the executive branch composed of the Head of state who is President; the Head of government who is Prime Minister, and a cabinet appointed by the President. The President is elected for seven years renewable once; (2) the legislative branch composed of a unicameral National assembly; and (3) the judicial branch comprising a supreme court whose judges are appointed by the Head of state.

F) Education

Cameroon's educational system is a mirror of its colonial heritage, with the French and English systems of education co-existing side by side. A distinctly British system operates in former British West Cameroon, while a Gallic system operates in the Francophone Cameroon. Formal education system is organized at four levels: pre-primary, primary, secondary, and the tertiary levels. After unification, French and English became the official languages. Since then, the

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[1] Annual internal renewable water resources: 18,711 cu m per capita; sector withdrawals: domestic 46%; industrial 19%; and agricultural 35%.

development of French –English bilingualism has become the greatest hope for national unity, yet the greatest problem in the education system (Yembe 1988). The degree of Cameroon's bilingualism leaves much to be desired. There exist however some bilingual schools that are established with a view to providing adequate bilingual training. However, this objective is yet to be achieved. At the administrative level, English and French are widely used in the Anglophone and francophone zones respectively. The authorities, mindful of the fact that, Cameroon is member of both the Francophonie and Commonwealth organizations, have been making efforts to promote effective bilingualism through the creation of language centers all over the country and encouraging all Cameroonians who can read and write to be apt in both English and French languages.

Table 4.1 Demographic statistics[2]

	1991/1992	1992/1993	1993/1994	1994/1995
Total Population	12,195,000	12,549,000	12,927,000	13,090,000
Total active population	4,759,000	4,897,000	5,035,300	5,108,000
Working population	4,510,000	4,652,200	4,783,500	4,852,600
primary sector	3,580,900	3,693,800	3,798,100	3,852,900
secondary sector	302,200	311,700	320,500	325,100
tertiary sector	626,900	646,700	664,900	674,600
Pop. by age(% of total pop.)	100,0	100,0	100,0	100,0
Below 6 years	20,9	20,6	20,6	20,3
6 to 14 years	25,2	25,2	25,1	25,0
15 to 54 years	46,5	47,8	46,9	47,3
55 years and above	7,4	7,4	7,4	7,4

Source: Ministry of Economy and Finance / Department of Statistics and National Accounts

4.2 Overview of Macroeconomic Activity and Fiscal Position

The main characteristics of Cameroon's economic situation are balance of payments deficits, current account deficits, high external debt and high debt service ratio. An analysis of the country's recent macroeconomic achievement can be done by reviewing its economic performance during three distinct periods. The period 1963-1986 (economic boom period); the period 1987-93 (recession period); and the period 1994-96 (post devaluation period).

A) The economic boom period, 1963-86[3].

Upon gaining independence in 1960, Cameroon adopted an interventionist approach to industrialization and development. Its commercial policies kept import prices high, while its tax system (a legacy of the French system) was fraught with inequalities. From 1963 to 1977, Cameroon experienced a period of steady economic growth. Real GDP grew on average by 4,6 percent per annum as a result of global stability of the terms of trade and rapid expansion in its agricultural exports. The primary sector (including agriculture, forestry and fishing) accounted for 34 percent of total value added on average during 1963-77, and employed a large fraction of the labor force. The country remained dependent on agricultural exports with over 70 percent of export earnings coming from two main cash crops – cocoa and coffee. Government revenue represented 17 percent of GDP, and total government expenditure averaged about 18 percent of GDP, with the average overall budget deficit being maintained at 1 percent of GDP.

[2] Figures are projections and extrapolation from figures of the General Population & Housing Census of April 1987
[3] This period is subdivided into the pre-oil period 1963-77; and the oil period 1978-86.

The situation changed when in 1975, offshore oil was discovered. From 1978 when oil production started, the agricultural sector shrank giving way to the oil and service sectors. Oil became the main source of foreign exchange earnings improving Cameroon's foreign exchange earnings resulting to high growth of the economy. This growth accelerated in 1982 fuelled by the oil boom. The share of GDP of the secondary sector (including mining, manufacturing, electricity, housing, and public works) increased from 19 percent on average during 1965-77 to an average of 28 percent during 1978-86 periods (Dhura, 1997). In real terms, the economy grew at a rate of about 8,8 percent propelled by the oil sector accounting for two thirds of export earnings. From 1978 to 1986 the country's per capita income in real terms increased by about 52 percent (in 1981 it was $ 880 considered to be one of the then highest in Africa South of the Sahara). Total government revenue increased from an average of about 17 percent of GDP during 1965-77 to an average of 21 percent in 1978-86. Total government spending grew in tandem with government revenue thus keeping the budget in balance. Government investment grew significantly, a large number of public agencies, marketing boards, and public enterprises were created all of them supported by government subsidies. The transport sector was heavily dominated by public enterprises in railways, urban transport, air travel, road maintenance and many others. In addition, a price and interest rates regulation system was put in place. External trade was regulated through import licensing and marketing boards, while quota import restrictions were imposed on goods that competed with domestic production.

Ghuru (1997) notes that, the oil boom experienced by Cameroon during 1978-86 should have given rise to the "Dutch disease" problem, characterized by a rise in the relative price of nontraded to traded goods. The Dutch disease was however largely averted, because the government used its liquid position to raise producer prices of cash crops keeping therefore, the real exchange rate from appreciating and preventing the export sector from contracting the Dutch disease. Also, a large portion (about three-fourths) of the oil revenues was saved abroad. The government carried out large investment expenditures from domestic resources with very little foreign borrowing, such that in this period, external financing represented only 6 percent of total expenditure. External debt was less than 27 percent of GDP in 1988/89 (World Bank, 1989).

B) The recession period, 1987-93

The success story of the economic boom period was short lived as in the mid 1980s, the country started experiencing a steep and uninterrupted decline in its GDP. From 1987 to 1993, Cameroon fell into a decade of long recession. This recession was sparked by a sharp decrease in oil prices and also a reduction of the country's oil production, followed by a decline in the prices of commodity products mostly cocoa and coffee and lastly by an appreciation of its real effective exchange rate. This dealt a big blow on the economy reducing drastically foreign exchange earnings accompanied by about 40 percent degeneration in the external terms of trade in the period 1986-92.

This negative shock in the terms of trade was further compounded by a fiscal crisis as well as economic mismanagement. The combination of declining terms of trade and an overvalued currency was detrimental to Cameroon's competitive position. At this time, the population was growing at a rate of 3 percent per annum and with a contracting economy, per capita incomes in real terms decreased by 42 percent over the period 1987 to 1993. Budgetary revenues also dropped by about 60 percent during the same period. The fiscal balance turned into an average deficit of about 7 percent of GDP during 1987-93, compared with an average surplus of 1 percent during 1978-86. This impacted negatively on the economic and social development of the country. Investment dropped by more than 70 percent between 1985/86 and 1992/93. In the same period, per capita consumption fell by 40 percent.

The deficit was financed from two main sources: external borrowings and an accumulation of domestic and external arrears. As a result, the country's external outstanding debt rose to about 49 percent of GDP during 1987-93, from 31 percent during 1978-86. The percentage of the population leaving below the poverty line rose to a record high of 50.5 percent. The deteriorating financial conditions aggravated the functioning of some local banks which had run out of liquidity mainly because of poor management. The lack of liquidity inhibited routine deposit withdrawals from most of these banks. The situation became worse when, following the widely contested Presidential elections of October 1992, serious confrontations broke out between the government and the opposition. These incidents aggravated Cameroon's already severe economic and financial crisis with the opposition leaders encouraging the population to stop paying taxes. Violence ensued and strikes became more frequent. The government became handicapped and was unable to honor its financial engagements even the wage bills could not be covered.

At this point, the government had no choice but to resort to internal adjustment austerity measures. The salient aspects of this strategy included reducing the fiscal deficit through increase in tax rates, cuts in the wage bill and public enterprise subsidies, as well as reducing domestic costs and restructuring public enterprises. In January 1993, nominal wages of civil servants were reduced by 15 percent and later on in November 1993, by a further 32 percent. Two months later, on 12 January 1994, and after a long period of speculation came a 50 percent downward realignment of the parity of the CFA franc. Inflation soared at about 17 percent. This situation increased the cost of living index by 60 percent within two years, while nominal wages continued to dwindle. For example, from December 1992 to December 1995, wages of senior civil servants in real terms fell by 75-80 percent. However, given the magnitude of the macroeconomic imbalances, the above austerity measures were insufficient to restore the economy on a recovery track.

C) The post-devaluation period, 1994-to date

The 1994 currency devaluation was reinforced by the adoption of a new trade and fiscal code by the Central African Economic and Monetary Community within a Regional Fiscal Reform Program. In addition to this, the government of Cameroon implemented some structural reforms related to the reorganization and downsizing of the civil service, privatization of public enterprises, bank restructuring, and the liberalization of domestic prices and interest rates. These reforms have contributed a great deal in stabilizing Cameroon's economy. Output recovered steadily and Cameroon's external competitiveness restored. Overall real GDP reversed from an average decline of 4 percent during 1987-93 to an average growth of about 2 percent during 1994-96. Gross domestic investment also increased by about 3 percentage points of GDP between those two periods. Since 1997, inflation fluctuates between 2 and 3 percent per annum. Agricultural output has seen a 5-6 percent improvement per year since the devaluation, helping to improve the situation in rural areas. In the same light, most exports have recorded strong gains, the most prominent being coffee, cocoa, cotton, timber, and aluminum. Similarly, activities in domestically oriented industries especially for beverages and tobacco experienced an increase in 1995. Balance of payments stability has been maintained with the current account deficit averaging 3.2 percent of GDP in 1998-2000.

These positive macroeconomic performances reversed overall real GDP from an average negative 4 percent during 1987-93 to an average positive 5 percent in 1996-2000. This growth in the GDP has been accompanied by a rise in private investment from 11 percent of GDP to 13 percent. In addition, fiscal reforms carried out from 1994 have propelled non-oil revenues increase by 2 percentage points of GDP as a result of improvements in tax administration and the implementation of the Value Added Tax in 1999. During the last five years, the economy has benefited from improved macroeconomic performance and the progress made in implementing key structural reforms. Overall, macroeconomic stability has strengthened, reflecting substantial progress toward fiscal sustainability. Some progress has been made in public finance, and in relations with the country's external creditors. These reforms notwithstanding, Cameroon's external debt still stands at 84 percent of GDP, and debt service payments represent 40 percent of exports before debt relief (18 percent after debt relief).

It is worth noting that, the economic reform and recovery have so far brought few tangible benefits especially for the poor. From all indications today, and despite the average 5 percent growth rates recorded since 1996, social indicators have seen little progress. The population leaving under the poverty line has rather increased to between 55 and 57 percent. Similarly, increase in unemployment has reached disturbing proportions in spite of the revival of the economic growth which has enabled enterprises to create new jobs. The unemployment rate moved from 7.3 percent in 1983 to 24.6 percent in 1993 after reaching an all time high of 29 percent in 1990/91. Findings of the 1996 household survey revealed that close to a quarter of the active population is unemployed or seeking employment. These findings also show that 51 percent of the population had consumption expenditures below the poverty line and 23 percent had consumption levels insufficient to meet even the food component of the minimum consumption basket. Poverty reduction remains a daunting challenge with dilapidated physical infrastructure and poor delivery of basic social services.

Table 4.2 Evolution of selected macroeconomic indicators

	1963-77	1978-86	1987-93	1994-96
National accounts	**Annual average % change**			
Real GDP growth rate	4.6	8.8	-4.0	1.9
Per capita real GDP	1.2	5.6	-6.5	-1.1
Inflation	17.9	24.9	18.2	15.2
Gross domestic investment (% of GDP)	6.6	11.3	2.1	16.6
Central government operations	**% of GDP**			
Total revenue	16.6	21.3	15.8	12.5
Current expenditure	15.5	11.8	16.3	16.3
Capital expenditure	2.0	8.7	6.8	1.8
Overall budget balance	-0.9	0.8	-7.3	-5.5
Monetary developments				
Real money balances				
- level (in thousands of 1980 CFA francs)	110.4	329.2	327.4	211.5
- growth (annual average)	7.6	9.5	-6.8	-10.5
Income velocity of circulation	6.6	5.2	4.7	6.2
BEAC discount rate	4.4	8.1	9.9	9.8
French money market rate	6.8	11.4	8.8	5.7
External sector				
Current Account Balance (in billions of CFAF)	-173.2	-68.6	-243.0	-282.0
Total debt (% of GDP)	37.3	46.3	131.6	102.8
Total debt service (% of exports)	14.6	22.5	42.9	45.2

Source: Department of Statistics and National Accounts Cam, World Bank & IMF tables various issues.

4.2.1 Macroeconomic Activity

4.2.1.1 International Environment

Trade Balance

Cameroon is a small open economy. Though the country is small on world markets, regionally, Cameroon accounts for nearly half the combined GDP of the Central African Economic and Monetary Zone, and is an important market as well as providing the main export access for Central African Republic and Chad. Cameroon therefore, possesses a market potential on regional markets. Cameroon’s main export destinations include in order of importance: France; United States; Netherlands; Italy; Germany; and the CEMAC countries. Its main suppliers include in order of importance: France; Germany; United States; Japan; Italy; and the CEMAC countries. The European Union in general and France in particular are the main trading partners of Cameroon.

During the two decades following Cameroon’s independence, the government relied heavily on selective tax and tariff exemptions to promote industrial development. The country adopted a protectionist trade strategy vis-à-vis external trade. This strategy was manifested by important tariff barriers and quantitative restrictions on imports, and widespread price controls on most manufactured products. Cameroon (including the other members of the CEMAC zone) had four different levies on imports: an import duty, an entry duty, a duty on import turnover and a complementary tax. On top of all these policies, was a marketing board for the main agriculture export crops (coffee and cocoa). This board acted as intermediary between farmers and foreign buyers. Farmers were therefore at the wimps and caprices of the board whose management was far from been exemplary. This protectionist strategy was also reflected in a highly diversified tariff structure. Tariffs were applicable selectively to imports and exports at rates that ranged from 2,5 percent to 150 percent.

The effects of this trade regime were negative especially on exports such that from 1984 to 1988, Cameroon’s external terms of trade fell by over half – from about 14 percent of GDP in 1984/85 to about 6 percent of GDP in 1987/88. Similarly, during 1985 to 1987, the fall in the export prices of the country’s main export products – oil (65%), cocoa (24%), coffee (11%), and rubber (20%), led to 47 percent deterioration in the global terms of trade. As a result, a drastic decline in the balance of payments ensued, moving from a surplus of about 4 percent of GDP in 1984/85 to a deficit of about 9 percent of GDP in 1986/87.

In 1988, a liberal trade option was ushered in through the implementation of the Structural Adjustment Program (SAP) in Cameroon. This policy option led to a slight reduction in the protectionist tendencies. The quantitative restrictions and price controls were gradually abandoned such that between 1989 and 1990, quantitative restrictions were lifted from the over 127 products which had quotas imposed on them (MINDIC[4] 1989).

In 1994, following the devaluation of the CFA franc, the CEMAC countries rapidly implemented policies aimed at the total elimination of barriers to regional trade and a reduction in the common external tariff, with a view to instituting trade liberalization within the region. Cameroon followed shortly after by dismantling the existing trade policy system. In several decrees, attempts were made to correct anti-trade biases by increasing the importance of domestic taxes and reducing tariffs. The salient aspects of this trade reform were: (1) elimination of tariffs on imports from its regional partners; (2) elimination of tariffs on Cameroon’s exports by its regional partners; and (3) reduction of Cameroon’s tariffs on its imports from the rest of the world. The new policy regime included several components that impacted positively on external trade. The following trade policy options were implemented: (a) the many different types of tariffs were replaced by a unified single system – the Tarif Extérieur Commun (Common External Tariff), applicable to imports from the rest of the world; (b) imports are now classified into four categories, with tariff rates ranging from 5 percent to 30 percent, compared with rates ranging from about 3 percent to 150 percent under the previous system; (c) introduction of a general preferential tariff for trade between CEMAC countries whose rate evolved from 20 percent in 1994 to 10 percent in 1996 and then to 0 percent since 1998.

These policies including the 1994 devaluation of Cameroon’s currency bore fruits for the economy. The country became competitive and enjoyed some gains in its competitiveness. Total non-oil exports are estimated to have grown in volume terms by almost 12 percent in 1996/97 fuelled by logs, coffee, cotton, natural rubber and manufactured goods. Similarly, oil exports are

[4] Ministry of Industrial and Commercial Development

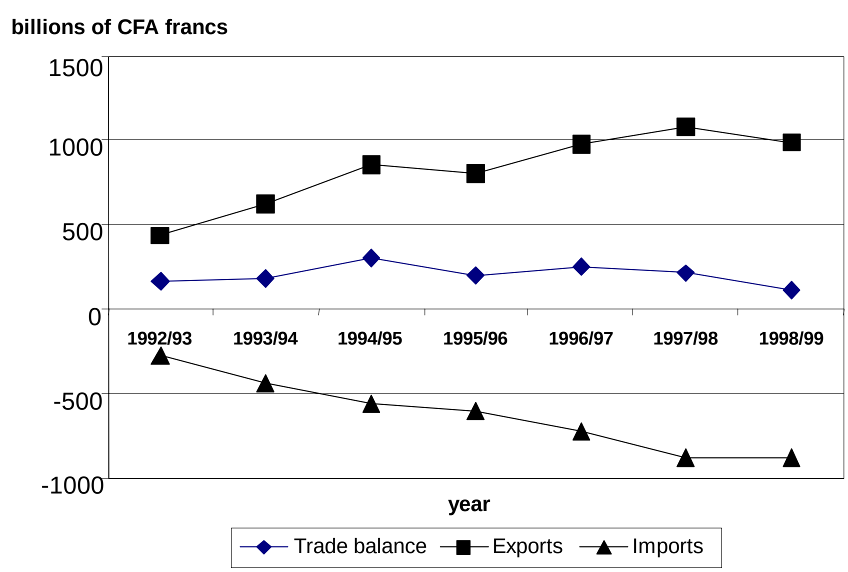
estimated to have increased by about 10 percent in volume and by about 36 percent in value. Import volume grew by 19 percent in tandem with the strong growth in total demand. This notwithstanding, gains in the value of exports reduced the external current account deficit pushing the latter down from 4,4 percent of GDP in 1995/96 to 2,8 percent of GDP in 1996/97.

Table 4.3 Balance of Payments indicators, 1992-1999 in billions of CFA francs

	1992/93	1993/94	1995/96	1997/98	1998/99
Current account balance	-164.6	-141.0	-188.0	-141.1	-231.2
Trade Balance	167.4	182.5	203.2	209.5	112.5
Exports f.o.b	438.3	624.7	805.6	1,084.0	994.0
- oil	206.7	262.2	286.4	356.3	314.3
- non-oil	231.6	362.5	519.2	727.7	679.7
Imports f.o.b	-270.9	-442.2	-602.4	-874.5	-881.5
Net services	-327.1	-332.1	-408.4	-413.8	-412.6
of which interest due on debt	-124.9	-213.5	-260.5	-269.9	-254.2
Net transfers	-4.9	8.6	17.2	63.2	68.9
Capital account balance	-80.5	-280.1	-138.4	-62.1	-83.1
Long term capital	-47.1	-37.8	-195.2	-28.4	-87.3
- public debt	-20.7	-16.5	-222.4	-32.3	-96.2
- net private sector	-26.4	-21.3	27.2	3.9	8.9
Short term capital	-28.8	-78.1	18.6	-33.7	4.2
net errors and omissions	-4.6	-164.2	38.2	0.0	0.0
Overall balance	-245.1	-421.1	-326.4	-203.2	-314.3

Sources: Department of Statistics and National Accounts Cam, World Bank & IMF statistics, Bank of Central African States

Figure 4.1 Evolution of Trade Balance

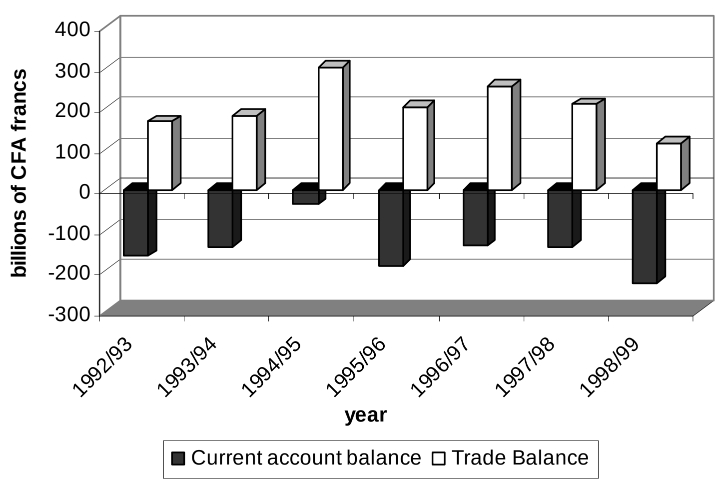


Current Account Balance

Cameroon has the largest deficit in the current account compared to the other members of the CEMAC sub region. Cameroon's economy has experienced a sustained negative current account balance for the past decades. In 1973, the current account balance was negative 4.0 billion CFA francs. Ten years later in 1983, the current account balance increased ten fold to negative 19.5 billion francs and in 1993, it reached a record high of negative 167 billion francs. During these periods, imports of goods and services (factor and nonfactor services) exceeded exports greatly, except in 1984 and 1985 when the current account balance recorded a surplus (82 and 155 billion CFA francs respectively). The worst years were in 1987 and 1988 when the country was already experiencing a severe economic crisis. During this period, the current account balance reached an unprecedented high of negative 365 billion francs (-6.3 percent of GDP) in 1987 and negative 323 billion francs (-5.3 percent of GDP) in 1988. This negative performance prevailed in spite of the enforcement of Cameroon's trade policies based on protectionism. The main characteristics of these policies included tariff barriers and quota restrictions on imports, reinforced by the subventions of local production and price controls. These policies fell short of producing the expected results as they led to the development of a relatively large industrial sector, which unfortunately satisfied mainly domestic demand. As a result, imports increased which were not matched by a corresponding increase in exports. Most of the local industries needed inputs from abroad hence the dominance of imports over exports. The adoption of the Structural Adjustment Program in 1988 whose main objective was economic liberalization worsen the country's current account balance situation as it was during this year that the current account balance reached an unprecedented high.

It was not until 1994 that the implementation of a substantial reform in trade policy within the Regional Fiscal Reform Program (RFRP) in the CEMAC sub region, before some positive results were noticed. Thus in 1995, the current account balance surplus was 90 billion CFA francs accounting for 1.9 percent of GDP. This figure however, plummeted to negative 139 billion francs in 1996/97 or -2.8 percent of GDP and to negative 231 billion in 1998/99 or -4.5 percent of GDP. This negative trend has been sustained such that in 2000/2001, the current account balance accounted for -4.2 percent of GDP. This situation can be explained by an increase in the importation of goods and services which represented 21.6 percent of GDP in 1999/2000 and 26 percent of GDP in 2000/2001. In contrast, exports represented 25.3 percent in 1999/2000 and 25.5 percent in 2000/2001. This performance implies that the recent economic and fiscal reforms carried out by Cameroon have, rather than mitigate the balance of payments problems, instead permitted the country to maintain the status quo of sustained negative current account balance.

Figure 4.2 Trade and Current Account Balance



A) Exports

Cameroon’s principal exports revenues are generated from crude petroleum (32%), agriculture (cocoa (16%), coffee (12%), timber, bananas, cotton, and natural rubber); and wood and forest products (11%).

Prior to the discovery of offshore oil in 1975, Cameroon’s external trade was dominated by cash crops exports with cocoa and coffee representing the single largest share of total exports. In the periods 1970/71 to 1980/81, on average, the share of cash crops exports in total exports was 71 percent. Of this, cocoa and coffee represented 30 percent and 26 percent respectively. When the production of oil started in late 1970s and early 1980s, the contribution of cash crop exports plummeted giving way to oil exports. Thus in the periods 1981/82 to 1995/96, oil exports accounted for 44 percent of total exports representing therefore, the largest single share of total exports. Coffee and cocoa constitute the other two main exports. The principal exports clearly indicate how vulnerable the country will be to world market price fluctuations.

Between the periods 1989/90 to 1996/97, the value of exports increased strongly from 699.2 billion to 1,289.8 billion francs, though in between, the value of exports first experienced a downward trend and then an upward trend. Thus in 1992/93, export value decreased but this was followed by a strong increase which progressed by 35.6 percent in 1993/94 and 40.6 percent in 1994/95.

In 1999/2000, the value of exports was 1,092 billion francs representing an increase of 16.2 percent from the previous year. This positive performance was fuelled by a strong increase in oil revenue (benefiting from high oil prices in the world market) in spite of a 6.7 percent decline in the quantity of crude oil exported. Similarly, an increase in the quantity of coffee, cotton and aluminum exported stimulated their export value which increased by 43.8 percent, 4.2 percent and 28 percent respectively. In contrast, the new law on timber exports[5] impacted negatively on logs exports pushing the latter down by almost 50 percent in favor of processed wood exports which increased by 31.5 percent. Cocoa and natural rubber exportation decreased by 25.1 percent and 37.3 percent respectively due on the one hand to a decline in world prices of cocoa and on the other hand, to a decrease in the quantity of cocoa beans and latex exports. Banana exportation volume also experienced a decline.

The devaluation of the CFA currency in 1994 impacted somewhat positively on the value of exports. From 1993/94, total exports grow at an annual average rate of 13.9 percent. This growth rate has been sustained so far as a result of the combined effects of the devaluation and amelioration in the world prices of Cameroon’s main export products. In this period, the ratio of exports to imports increased by almost 20 percentage points such that in 1996/97, the ratio was 126.6 percent but reduced to 124 percent in 1997/98 as a result of the Asian crisis. The good performance of Cameroon’s total exports in the past decades has been responsible for the sustained surplus on Cameroon’s merchandise account in spite of its track record of negative current account balance.

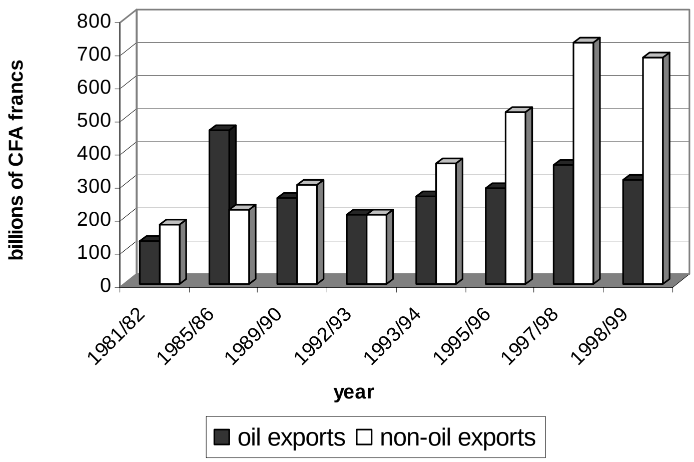
Table 4.4 Exports by main category in billion CFA francs

	1980	1990	1995	1998	1999
Food Items	132.67	127.64	207.41	218.39	217.34
Agricultural raw materials	41.46	89.48	211.25	313.26	264.18
Fuels	84.85	312.22	224.31	304.36	327.88
Ores & metals	5.25	43.17	64.53	56.33	56.21
Manufactured goods	10.50	53.18	60.68	62.26	44.97
Total exports	274.73	625.69	768.18	954.60	910.58

Source: own calculations using data from World Trade Tables

[5] Rates are 17.5 percent of f.o.b value of logs and 12.5 percent on processed logs.

Figure 4.3 Oil and Non Oil Export Values



B) Imports

The country's main imports include capital goods, semi-finished goods, raw materials for the needs of local industries, and some food products like rice and flour. Manufactured goods represent the main category of all imports into the country and account for about 75 percent of total imports. This reflects on the one hand, the heavy dependence of Cameroon's external trade on imports and on the other hand, the underdeveloped insignificant manufacturing sector. This reality can be explained by the fact that Cameroon is an agricultural country with the latter contributing about 44 percent to the GDP, followed by the service sector which contributes some 36 percent to GDP and the manufacturing sector contributing a meager 10 percent to GDP. The country's main industries are petroleum production and refining, food processing, light consumer goods, textiles and lumber.

Between the periods 1989/90 to 1996/97, imports values increased by 24 percent, from 823 billion in 1989/90 to 1,018 billion francs in 1996/97. Since 1992/93, the effects of the CFA franc devaluation include among other things, a 10,7 percent annual average growth of imports in tandem with an increase in exports which have experienced a 13.9 percent annual average growth following the devaluation. However, in 1999/2000 while exportation of major commodity products declined, imports values increased by about 8.9 percent propelled by a combined effect of an increase in the price of hydrocarbons, an increase in public contract procurement and an increase in the quantity of machinery and household consumer goods imported in 1999/2000.

Table 4.5 Imports by main category in billions CFA francs

	1980	1990	1995	1998	1999
Food Items	27.67	92.11	93.72	135.81	146.74
Agricultural raw materials	1.29	2.49	13.46	18.52	16.30
Fuels	37.65	7.47	13.46	107.59	122.67
Ores & metals	8.04	21.91	30.16	33.51	34.16
Manufactured goods	246.82	373.92	386.71	586.46	453.42
Total exports	321.47	497.90	537.51	881.89	773.29

Source: own calculations using data from World Trade Tables

2.1.1.3 Exchange rate and exchange system

Cameroon unilaterally, does not have an exchange system per se. Its exchange system is implemented by the franc zone monetary union of which Cameroon is member. The franc zone is made up of two regional central banks, the Central Bank of West African States (BCEAO) and the Bank of Central African States (BEAC). These two central banks issue a common currency, the CFA Franc (CFAF). Being a member of BEAC, Cameroon shares the same legal tender with the other members of the union. Participating in the CFAF zone, members enjoy three important privileges:

(i) members of the zone enjoy monetary integration through the pooling of their foreign exchange reserves with the French treasury. Each union's central bank sets monetary policy based on its overall asset position, and all bank members face the same interest rates. The central bank influences each member's monetary position by imposing country-specific credit constraints and limiting each country's central government's borrowing to 20 percent of its previous year's receipts. Some of the seigniorage cost which is associated with holding exchange reserves is reduced through the pooling of reserves. The zone also uses a common foreign exchange policy against the rest of the world;

(ii) a fixed exchange rate. Prior to January 1999, the official rate was pegged to the French Franc (FF) at a fixed exchange rate of CFAF 50 per FF. The devaluation of the CFAF on January 12, 1994, realigned the CFAF to the FF at a fixed rate of CFAF 100 per FF. Since January 1999, the CFAF is pegged to the euro at a fixed rate of CFAF 655.957 per euro;

(iii) full currency convertibility as the CFAF is guaranteed through a special operations account opened at the French Treasury for BCEAO and BEAC. Even with euro replacing the FF, the BCEAO and BEAC still maintain their special operations account in the French Treasury. With this operations account, each member country can overdraw at a graduated interest rate that rises to the Banque de France's rediscount rate. The Banque de France (French Central Bank) and the French Treasury are actually the two institutions that hold effective monetary sovereignty over the franc zone as a whole, and as a result, depriving the zone from exercising this monetary sovereignty power. All CFA countries' foreign exchange transactions take place through the Banque de France. The nominal exchange rate is exogenous hence does not constitute a policy instrument. Some observers contend that, though the franc zone enjoys a convertible currency, pooled resources and greater monetary and fiscal "discipline", the lack of autonomy of the zone's two central banks and thus the surrender of the exchange rate as a policy instrument, has impeded its members' growth. It is however, highly debatable whether the zone's members' growth trend would be different if the CFAF exchange system was otherwise.

For external trade transactions, the CFAF is converted ex ante with the acquired FF which is the monetary unit that the members use to make transfers to the rest of the world. Franc zone convertibility is not quantitatively restrained as such both central banks convert their currencies according to their needs. Though BCEAO and BEAC have an operations account in the French Treasury, each country of the zone maintains a separate account with the central banks where 65 percent of its official reserves are held in the operations account, and 35 percent are held in other hard currencies deposited elsewhere. Members compensate each other in case the net balance of one of them is in dire straits. If one country has fully drawn its own pooled or unpooled reserves, it can use those of another country. The French treasury steps in when the operations account of the union as a whole has been fully drawn down.

The French guarantee allows easy capital inflows into the zone. Also, the union's monetary policy imposes a limit on excessive inflationary tension[6] and thus renders the CFAF credible

[6] The zone has managed to maintain a relatively low rate of inflation as compared with other sub-Saharan countries. The median of the zone annual inflation rate declined from more than 12% in the 1970s to around 4% in the 1980s. Meanwhile inflation in the other SSA countries stood at 17% per annum during 1982-89.

which through the French guarantee allows the zone countries greater borrowing capacity outside the zone, given that they can obtain capital abroad beyond their own net foreign assets.

Compared with non-CFA countries, the franc zone countries have enjoyed a relatively more stable real effective exchange rate since 1970. However, this exchange system arrangement has somewhat impacted negatively on the zone's countries' economies. Up to the early 1980s, the arrangement is believed to have enforced the zone's monetary stability, much openness and convertibility, which led to more direct investments and a strong regional currency. But from 1986, when Cameroon plunged into a serious economic crisis, the problem of the CFAF being over-valued was brought into focus. As the world commodity prices plummeted, Cameroon's commodity exports on which the country depended so much, declined greatly. Capital inflows declined as well leading to foreign exchange shortages. Cameroon's situation worsened as the US dollar depreciated while the FF to which Cameroon's currency was pegged appreciated. As a result, Cameroon's exports especially agricultural exports lost their international competitiveness. The other members of the franc zone were also affected by the FF appreciation. As these economies nose dived in a more or less sustained manner, the desire to depreciate the CFAF became prominent. A 50 percent realignment of the CFAF to the FF was achieved in 1994. Since 1994, one can say without fear of being contradicted that, the union's economies have regained some relative international competitiveness.

Cameroon has no liquid securities or bond market. However, ongoing discussions between the six member states of CEMAC move towards creating a regional market. Cameroon intends to create a Cameroonian stock exchange market very soon.

Table 4.6 International Liquidity (in millions of US dollars)

	1994	1995	1996	1997	1998	1999	2000
Special Drawing Rights (SDR)*	0.05	0.04	0.16	na	0.02	2.61	7.73
Reserve position in IMF	0.49	0.53	0.53	0.55	0.63	0.69	0.67
Foreign exchange	1.72	3.22	2.08	0.31	0.64	1.13	203.6
Total reserves excluding gold	**2.26**	**3.79**	**2.77**	**0.86**	**1.29**	**4.43**	**212**
Gold (m troy oz)	0.03	0.03	0.03	0.03	na	Na	na
BEAC's other liabilities	650.63	713.03	537.11	300.24	238.09	188.63	62.45
Cameroon's financial institutions' foreign account.							
- Assets	135.55	131.07	90.23	105.23	122.82	163.34	163.1
- Liabilities	50.01	81.98	71.5	62.51	85.92	84.52	70.75

* IMF's unit of account

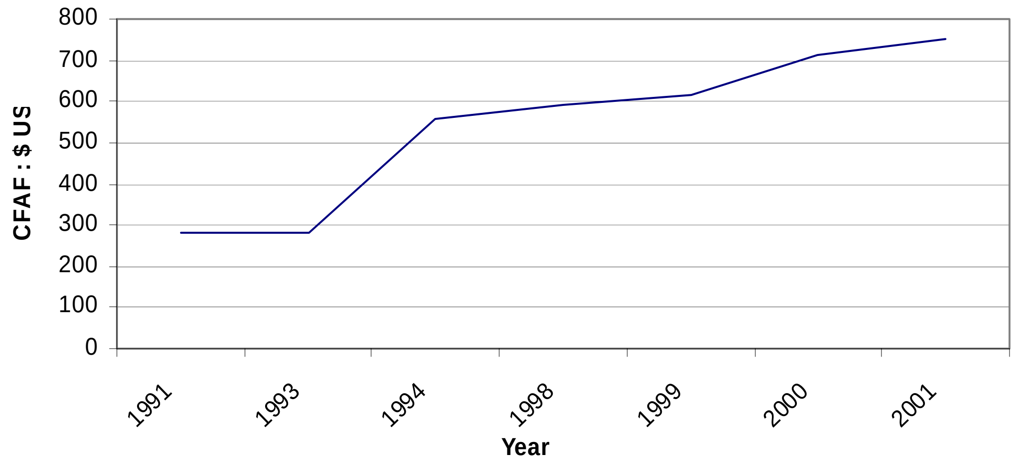
Source: IMF International Financial Statistics, July 2001

Table 4.7 Official exchange rates of CFAF per US dollar (period averages)

	1991	1993	1994	1998	1999	2000	2001
CFAF per $ US	282.11	283.26	555.2	589.95	615.7	711.98	750.57

Source: IMF International Financial Statistics, July 2001

Figure 4.4 Official Exchange of CFA per US dollar (period averages)



Foreign Direct Investment

A) Capital Inflow

In the 1970s and 1980s, there were some flows of Foreign Direct Investments (FDIs) in to Cameroon. The sectors that benefited from FDIs were mostly the agro-business and manufacturing sectors. The investment regime was such that, joint ventures were encouraged. Enterprises set up were owned by foreign investors (who usually held strategic positions), local private investors and the government through a state-owned holding company. The economic environment was conducive to investment such that in 1980, FDI in Cameroon was estimated at about 27 billion CFA francs.

In the mid 1980s, the situation changed as the massive economic problems resulting from the 1986-93 depression affected foreign investment and Cameroon's economic performance. As the level of export earnings dwindled, the government had no choice but to borrow from external sources to finance its recurrent expenditure. The government did not only borrow but did so massively. The excessive indebtedness of the country had a negative impact on FDI which as a result plummeted drastically. Thus FDI in Cameroon reduced from 27 billion francs in 1980 to about 717 million francs in 1988 and to a further 54 million francs in 1989, representing a drop of about 99 percent between 1980 and 1989.

Apart from Cameroon's excessive indebtedness, other factors contributed to the downward trend of FDIs in the country. One of such factors was the socio-political upheavals which accompanied the advent of democracy in the early 1990s. During this period, the call by some hard core opposition leaders for a general strike and civil disobedience further discouraged potential foreign investors as foreign capital was exposed to destruction and plunder. The country and its people have suffered a great deal as FDIs were not forth coming.

In a bid to boost FDI, the government has been engaged in a number of economic and fiscal reforms since 1994. There has been an extensive privatization of state-owned corporations (all of which were non profitable and extremely badly managed). Foreign investors are being wooed into Cameroon through an improved, flexible and favorable investment charter and an industrial free zone that offers substantial benefits to potential investors.

The industrial free zone is aimed at encouraging export-oriented companies. Special provisions provide benefits such as a 50 percent reduction of corporate income tax during the first 10 years of operation; carry forward of loss for a period of 5 years and exemption of registration duties.

There are also statutory provisions aimed at encouraging exports promotion, namely: (1) exempt from export duties and insurance on manufactured products; and (2) a non-transferable sum reduced from the taxable income to the tune of 0.5 percent of the f.o.b. value of manufactured products.

So far, France is the most important foreign investor in terms of the total capital in Cameroonian enterprises and percent of the total stock of foreign investment. China has concluded an agreement to construct a tractor assembly plant in the south of the country and has also signed a convention that will lead to the implantation of a tire rethreading plant. Norway is expected to open and operate a fertilizer plant. United States direct foreign investment in Cameroon is significant through five major U.S. petroleum companies. Several dozen U.S. companies are currently represented in Cameroon either through agents or distributors. With the construction of the multinational Chad/Cameroon pipeline, the total U.S. pipeline investment in Cameroon will be one of the largest in the country. Cameroon has bilateral investment and/or commercial agreements with the following countries: Austria, Belgium, Canada, Denmark, France, Germany, Greece, Italy, Japan, Russia, South Korea, Spain, Switzerland, the United Kingdom, and the United States. Similar agreements also exist with other African countries, Asia, Latin America, and Eastern Europe.

B) Capital Outflow Policy

The Cameroon government is not favorable to the export of capital. There is no policy on Cameroonian investments in foreign countries. Most Cameroonian capital is presumed to be in some European financial institutions and/or real estate.

Table 4.8 Trend of FDI in Cameroon (in millions of CFA francs)

	1980	1988	1989	1990	1991	1992	1993	1994
FDI	27,000,000	716,912	53,833	44,298	43,987	46,625	37,063	32,950

Source: Ministry of Economy and Finance

Borrowing from abroad

Since the end of the 1970s, Cameroon's external debt, especially its debt servicing, has grown so much that it has become an extremely heavy burden, hampering economic growth (Tamba 2001). The various categories of loans contracted by Cameroon include bilateral, multilateral and loans from commercial private banks. At the end of 1999, the country's public and guaranteed debt was estimated at 7,670 million US dollars. Of these, bilateral debts accounted for 70 percent, multilateral debt accounted for 21 percent while commercial private loans accounted for 9 percent. As of June 30, 1999, Cameroon's external debt outstanding was estimated at US $ 8 billion, representing almost 78 percent of the country's GDP or 314 percent of exports of goods and services.[7]. By September 2000, Cameroon's external debt had reached US $ 10 billion. In order to face its debt problem, the country has always turned to its creditors of the Paris Club to obtain the rescheduling of its external debt. To date, Cameroon's external debt has been rescheduled six times. Even after the debt rescheduling, the country's debt service still represents one third of state revenues and about 20 percent of non-factor exports over the period 1996-2000.

In October 2000, Cameroon's debt was again rescheduled after successfully completing its first three-year (1999-2000) economic recovery program with the assistance of the Bretton Woods Institutions. After rescheduling, the Net Present value of the country's debt stood at about US $ 5 billion, with France alone holding about 37 percent of the total package. The debt-export ratio dropped to 214 percent from 314 percent in 1999. The country finally reached decision point in mid October and is now eligible for the Highly Indebted Poor Countries' Initiative (HIPC.I). Savings from debt reduction under the enhanced HIPC initiative are estimated at US $100 million

[7] Average exports between 1999 and 2000 were estimated at 2,287 million US dollars.

in the year following the decision point, and annual savings are projected to rise progressively with cumulated savings reaching US $1.5 billion in Net Present Value terms over the next twenty years.

A) Structure of Cameroon's external debt

(i) Bilateral Loans: Since the 1980s, Cameroon's bilateral debt has been on a steady rise. It increased exponentially from 759 million US dollars in 1980 to 5,644 million US dollars in 1997. The ratio of bilateral debt burden to total debt burden has increased steadily from 30 percent in 1980 to over 60 percent in 1997.

Table 4.9 Evolution of total debt and proportion of bilateral debt to total debt (in million US dollars)

	1980	1985	1990	1993	1994	1995	1997
Bilateral debt	759	880	2,474	3,396	3,699	5,468	5,644
Total debt	2,513	2,940	5,995	6,818	7,175	9,346	9,293
BD/TD (in %)	30.2%	29.9%	41.3%	49.8%	51.6%	58.5%	60.7%

Source: World Bank, World debt tables

(ii) Multilateral Loans: Contracted from various international organizations such as IBRD, IMF, ADB, IDA and others, these loans have also experienced a steady increase in absolute terms since 1980. However, the ratio of multilateral loans to total loans experienced an unsteady trend over the period 1980-1997.

Table 4.10 Trend of Multilateral debt (in million US dollars)

	1980	1985	1990	1993	1994	1995	1997
Multilateral debt	422	691	1,283	1,390	1,620	1,674	1,465
Total debt	2,513	2,940	5,995	6,818	7,175	9,346	9,293
MD/TD(in %)	16.8%	23.5%	21.4%	20.4%	22.6%	17.9%	15.8%

Source: World Bank, World debt tables

(iii) Commercial Private Banks Loans: Private Banks used to constitute an important source of funding for Cameroon's development projects. Over the 1980-1990 period, in absolute terms, private debt increased from 1,273 million US dollars to 2,112 million US dollars. But between 1993 and 1997, there was a decline in private debt from 2,017 to 777 million US dollars respectively. This decline came about as a result of the dire financial crisis private commercial banks in Cameroon were facing during this period. This notwithstanding, in relative terms, the ratio of private debt to total debt increased in the period under reference.

Table 4.11 Trend of Commercial Private debt (in million US dollars)

	1980	1985	1990	1993	1994	1995	1997
Private debt	1,273	1,342	2,112	2,017	1,912	1,116	777
Total debt	2,513	2,940	5,995	6,818	7,175	9,346	9,293
MD/TD (in %)	50.7%	45.6%	35.2%	29.6%	26.6%	11.9%	8.4%

Source: World Bank, World debt tables

B) Situation of Cameroon's debt servicing

Cameroon's debt servicing has been a serious impediment to the implementation of other development projects especially those related to the social sectors. From Table 4.21, it can be observed that, debt servicing increased exponentially between 1987/88 and 1998/99. It increased from 109.8 billion francs in 1987/88 to 318.8 billion in 1998/99 after reaching a record high of 592 billion in 1993/94, 569 billion in 1995/96, 585 billion in 1996/97 and 550 billion francs in 1997/98. In twelve years, external debt servicing grew by 190 percent. The 50 percent devaluation of the CFA franc in 1994 impacted negatively on the already precarious situation as the amount of debt servicing increased two fold. This increase in debt servicing put a serious strain on public revenue as is evidenced by the proportion of public revenue devoted to debt servicing. From 1991/92 to 1997/98 this proportion rose from 34.1 percent to 65.6 percent. Through out this period, the proportion stayed above 34 percent. These unbearable levels of the country's external debt resulted in a squeeze on social expenditure, and forced the government to request for rescheduling so as to meet other recurrent expenditures.

Table 4.12 Evolution of debt servicing (in CFA billions)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1998	1999
Debt servicing	109.8	170.0	142.7	172.7	249.0	250.3	347.7	569.2	585.0	550.0	318.8

Source: Bank of Central African States (BEAC)

Table 4.13 Trend of debt servicing and public revenue (in CFA billions)

	81/82	85/86	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99
Debt servicing	45.7	139.1	172.8	249.0	250.3	347.7	569.2	585.1	550.0	318.8
Public revenue	390.4	877.1	506.2	448.2	385.2	536.7	656.2	767.4	838.3	867.5
DS/PR (in %)	11.7%	15.9%	34.1%	55.6%	65.0%	64.8%	86.7%	76.2%	65.6%	36.7%

Source: Ministry of Economy and Finance, BEAC

Aid

During the past decades, aid flow into Cameroon has been quite modest. The country's track record of poor public expenditure management, bad coordination of aid received, poor governance policies, coupled with the country's poor image abroad were responsible for the low inflow of external aid. Two periods are distinguished here. Between 1980 and 1984 when Cameroon benefited from substantial oil export earnings and broad access to capital markets, the country received sizable positive net transfers from multilateral development banks. The second period from 1994 to 1998, when net transfers from private creditors became negative and oil receipts were shrinking, net transfers from multilateral development banks became negative. Negative signals were received from 1989 when Cameroon started experiencing the debt crisis.

In a situation of debt crisis, the country's creditors became reluctant to grant new loans, reducing therefore the flow of external funds into the country with resultant net negative transfers. The situation became very serious such that during the period 1995 to 1998 when most mid-size adjusting African countries received net transfers that ranged from 6 to 12 percent of their respective GDP, that of Cameroon from all sources was negative. Over the 1985 to 1997 period, the ratio of net disbursement of Official Development Assistance (ODA)[8] to GDP to Cameroon was half the amount received by the average CFA country and one third of that received by the average Sub Saharan African country not belonging to the CFA zone.

Net World Bank disbursements were insignificant over the period 1996 to 1999, World Bank net transfers were negative (about -$300 million) over 1992 and 1999 period. From 1999, Cameroon's position was improved through government's effort in honoring its engagements vis-à-vis some of its creditors and the granting of some adjustment assistance from donors. These

[8] IDA accounted for 8.5 percent of net ODA disbursements from all sources, compared with 45 percent from France, 14 percent from the EU and 9 percent from Germany.

actions resulted to small improvement in net transfers. As such net World Bank transfers became positive in 1994.

From 1998 to 1994, France and the EU accounted for virtually the entire increase in external assistance to Cameroon. Cameroon receives financial assistance from multilateral sources (mainly World Bank, IMF and the African Development Bank) and, from bilateral sources including France which provides financial and technical support in a wide range of fields the most prominent of which is the infrastructure sector. The European Union also funds a hand full of projects in the infrastructure sector. Japan is a big investor in the construction sector. Japan in the past 10 years has built a reasonable number of ultra modern primary schools in almost all the provincial capitals of the national territory. The Netherlands is involved in environment and biodiversity conservation while Canada provides support in the development of microfinance.

Table 4.14 Annual Net Transfers (average net transfers in millions of US$ at 1990 prices)

	1980-84	1990-93	1994-98
Multilateral	51.9	-42.8	-49.0
- World Bank	41.6	-39.0	-21.5
- IMF	-7.3	-32.2	23.0
- African Development Bank	17.6	28.4	-50.5
Private Creditors	116.4	-31.1	-56.7
Total Bilateral plus Grants	146.1	443.9	178.2
Grand Total	314.4	370.0	72.5

Source: Global Development Finance

4.2.1.2 Domestic Environment

Economic Growth Rate

Food and export crops, livestock, fishing and forestry are the mainstay of the economy, accounting for about 29% of GDP, employing some 50% of the active population, and generating more than half of total export earnings. The petroleum and manufacturing sectors represent 20% of GDP. Of this the oil sector accounts for less than 5% of GDP but contributes 35% of government revenue and export receipts. Its contribution, however, is expected to diminish sharply in the next decade as most of the oilfields have started to mature. The secondary sector contributes 31% of GDP and employs 15% of the population.

In past years, Cameroon experienced episodes of sustained high economic growth. From the periods 1967 to 1978, GDP and national income growth averaged 5.7 percent. During this period the private investment to GDP ratio rose from 11 percent to about 19 percent, albeit government investment remained low as a share of GDP averaging about 2 percent during the period. Beginning 1976 when Cameroon's economy experienced a structural change with the discovery of offshore oil and the production of oil there after, providing much of foreign exchange earnings, the pace of income growth increased sharply, averaging about 10 percent until 1985. This performance reflected in part the oil sector's rising output (oil production increased from less than 5 million barrels in 1978 to more than 66 million barrels in 1986) and in part the high world oil prices. During the same period, GDP per capita rose by 52 percent.

The periods 1985 to 1993 marked by a reversal in economic performance, manifested itself in 4 percent and 6.3 percent decline on average in real GDP and real per capita GDP a year. This translated into a 6 percent rate of decline in private consumption per capita, representing cumulatively, a drop in average per capita consumption of over 40 percent in eight years.

After an eight-year period of economic decline, activity picked up in 1994/95 reflecting the joint effects of the 1994 devaluation of the CFA franc and subsequent trade, fiscal, and macroeconomic reforms, accompanied by an upturn in world economic activity. Real GDP which had declined by a yearly average of 4 percent, rose by 3.3 percent in 1994/95 and then by 5 percent in 1995/96. Growth in real GDP per capita has averaged at 1.6 annually. Economic activity remained buoyant in 1996/97. Real GDP growth stabilized at 5 percent in 1997/98. This growth was propelled by a substantial improvement in the tradable goods sector. However, real GDP growth rate dropped to 4.2 percent in 1998/99. In 1999, the pace of economic activity slowed as a result of a decline in world commodity prices especially timber, rubber, cotton, and other non-oil commodity exports as well as the weakening of domestic demand. Growth was also affected during this period by the Asian crisis (the Asian market is important for some of Cameroon exports mainly timber and cotton), an unfriendly business environment and governance issues in the country.

Between 1999 and 2001 the growth rose from 4.1 percent to about 5 percent, reflecting an improvement in government's capacity to mobilize non-oil revenue. This growth has been accompanied by a rise in overall private investment which increased by 16.5 percent of GDP from 1995 to 1999.

The building of the 1,070 km Chad-Cameroon pipeline, estimated to employ about 7,000 people, is expected to boost the construction industry, having already stimulated an increase of 1.1 percent real GDP growth in 2000-01. It is estimated that the pipeline will generate annually revenues equivalent to some 3 percent of current budgetary revenue. Construction of the pipeline, which will cost about US$2bn, had begun by the end of 2001.

Table 4.15 Selected Macroeconomic Indicators

	1985	1989	1991	1994	1996	1999	2000
Real GDP (billions of FCFA)	4,280	3,896	3,491	4,465	5,370	6,582	6,956
Real per Capita GDP(US $)	1,260	1,063	903	757	777	824	840
Annual growth in percent							
Real GDP	8.1	-1.8	-3.8	-2.5	5.0	4.4	4.8
Real Per Capita GDP	5.3	-4.7	-6.6	-5.3	2.1	1.6	1.9
In percent of GDP							
Total Investment	24.9	17.1	16.7	15.3	15.4	19.0	19.6
Domestic Saving	26.8	20.0	22.0	17.9	17.3	18.3	20.2
Gross fixed capital investment	24.5	18.2	16.6	16.5	15.4	19.0	19.6
Private fixed capital investment	16.8	12.0	12.7	14.0	14.9	16.2	16.0
Primary fiscal balance	-0.8	-2.8	-4.1	-2.2	4.9	1.7	1.6
External Public Debt	26.4	36.3	54.8	97.5	86.7	85.5	79.1

Source: Cameroon, country assistance evaluation, January 2001 (IMF)

A) Contribution of the different sectors to GDP

The sectors are: (1) primary sector (agriculture, forestry and fishery) contributes 21%-23% of GDP; (2) secondary sector (mining, construction, and energy) contributes 25%-27%; and (3) service sector (particularly transport, storage, communications) on average contributes more than 50% to GDP. Growth in the informal sector is in the rise. In 1992, the informal sector accounted for 47 percent and increased to 52 percent in 1997.

Trend in the contribution of the different sectors to GDP has changed over time. Agriculture sector was the sole engine of growth and foreign exchange earnings until the late 1970s when oil became the primary engine of growth. This sector accounted for 34 percent of GDP on average. From 1978 the contribution of the secondary sector to GDP rose from 19 percent on average during the 1965 to 1977 periods to an average of 28 percent during the 1978 to 1985 periods. Mining and oil extraction are dominant, constituting about 46 per cent of total exports in 1999 making oil a principal source of the government's revenue. The manufacturing sector, which is focused on import substitution (radios, soap, tyres, footwear manufacture) and the processing of agricultural commodities (sugar refining, brewing, palm oil processing, cotton spinning, tobacco and wood-pulp production), and oil refining (petroleum) accounted for 10.6 per cent of GDP in

1998. Other heavy industries are aluminum smelting (using imported bauxite), steel processing and leather tanning.

Table 4.16 GDP by sector of origin at current market prices (in billions of CFA francs)

	92/93	93/94	94/95	95/96	96/97	97/98	98/99
GDP	3,155	3,410	4,130	4,570	4,932	5,240	5,406
of which non-oil sector	2,976	3,102	3,766	4,237	4,617	4,952	5,195
Primary Sector	**860.7**	**1,322**	**1,617**	**1,836**	**2,017**	**2,159**	**2,288**
- Food crops	463.6	629.0	754.0	845.1	938.0	1,011.0	1,109.0
- cash crops	119.5	256.0	326.0	374.6	411.0	430.0	449.0
- Livestock and hunting	138.0	157.0	178.0	191.7	217.0	36.0	243.0
- Fishing	5.1	7.0	8.0	8.8	10.0	11.0	11.0
- Forestry	134.5	273.0	351.0	415.7	441.0	471.0	476.0
Secondary sector	**758.6**	**785**	**962**	**1,007**	**1,059**	**1,100**	**1,064**
- Mining	178.6	314.0	364.0	333.5	315.0	288.0	211.0
- Manufacturing	420.2	331.0	412.0	452.9	506.0	545.0	572.0
- Electricity, gas, % water	54.9	58.0	66.0	73.4	75.0	78.0	81.0
- Housing &public works	104.9	82.0	120.0	146.7	163.0	189.0	200.0
Tertiary Sector	**1,463**	**1,234**	**1,448**	**1,600**	**1,716**	**1,829**	**1,903**
Primary Sector (% of GDP)	27.3	38.7	39.2	40.2	40.9	41.2	42.3
Secondary sector (% GDP)	24.0	23.0	23.3	22.0	21.5	21.0	19.7
Tertiary Sector (% of GDP)	46.4	36.1	35.1	35.0	34.8	34.9	35.2

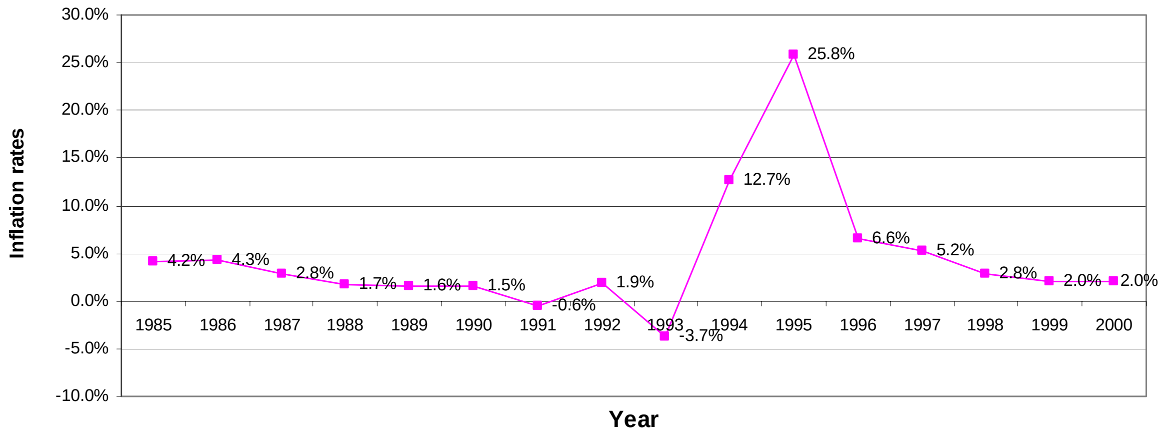
Source: Cameroon, statistical appendix, July 2000 (IMF)

Inflation Rate

Over the years, stringent monetary policies adopted by the Central African States monetary authority have enabled countries of the CEMAC zone to restrain inflationary pressures. In Cameroon, during the 1980s and 1990s, the annual inflation rate on average has been kept at single digit numbers, except in 1994 and 1995 when high rates of 12.7 and 25.8 respectively were observed. These high inflation rates ensued after the 50 percent devaluation of the CFA franc in January 1994, such that by the end of 1994, prices had risen by over 26 percent. The highest increase was observed in the prices of foodstuffs and manufactured goods in the informal sector. But as the effects of the devaluation tapered off, inflation fell from about 26 percent in 1995 to about 5 percent in 1997 and to a further 2.8 percent in 1998.

A series of macroeconomic adjustment measures taken by the government, such as the removal of the surtax on imports, reduction of tariffs and an improvement of the distribution of foodstuffs, contributed a great deal in keeping the price level at as low as 2 percent. Inflation has remained low and has leveled off at about 2 percent. In fiscal year 2000/2001, government's objective was to maintain the inflation rate at this level.

Figure 4.5 Average Annual Inflation Rates (1985-2000)



Consumption

From 1983 to 1999, a steady deterioration in the consumption levels of Cameroonian households has been observed. The successive implementation of the Structural Adjustment Program (SAP), two drastic salary cuts in 1993, and the devaluation of the CFA francs impacted negatively on the standard of living of the country's households. In the 1990s the labor market deteriorated as was reflected in massive lay-offs of workers both in the private and public sector in such a way that the quantity and quality of household consumption plummeted.

Between the periods 1983 to 1993, average annual per capita consumption is estimated to have dropped from about 1,014 to about 523 US dollars representing a decline of over 45 percent. Although households in all walks of life experienced a substantial reduction in consumption in 1993, the most affected were those belonging to the most vulnerable categories found mainly in rural areas. The drop in the level of consumption in rural areas forced the inhabitants to resort to self-subsistence which in turn led to a substantial drop in monetary expenditure, particularly in basic areas such as education, health, and potable water (Tamba 2001).

Significant regional disparities occur in the structure of consumption patterns, reflecting differences in production and food habits, and in access to economic and social infrastructure. For example, the share of the budget allocated to food and beverages is about 57 percent nationally. This figure is higher in the northern provinces of the country where about 70 percent of consumption expenditure goes for food compared with about 60 percent in other areas. In the rural north it is 78 percent and 63 percent in the urban north. In addition, the share of expenditures for education (less than 1 percent) and health (less than 2 percent) is about one-half to one-fourth of those in other areas. In the southern parts of the country, the share of the budget allocated to food is between 37 percent and 50 percent in the large cities and urban south.

The reduction in household consumption as well as in general government expenditure over the 1983 to 1993 periods, led to a decline in total final consumption. However, from 1994, there was an upturn in consumption levels. Private consumption grew at a rate of 3.9 percent on average while government consumption observed an unsteady trend beginning 1994.

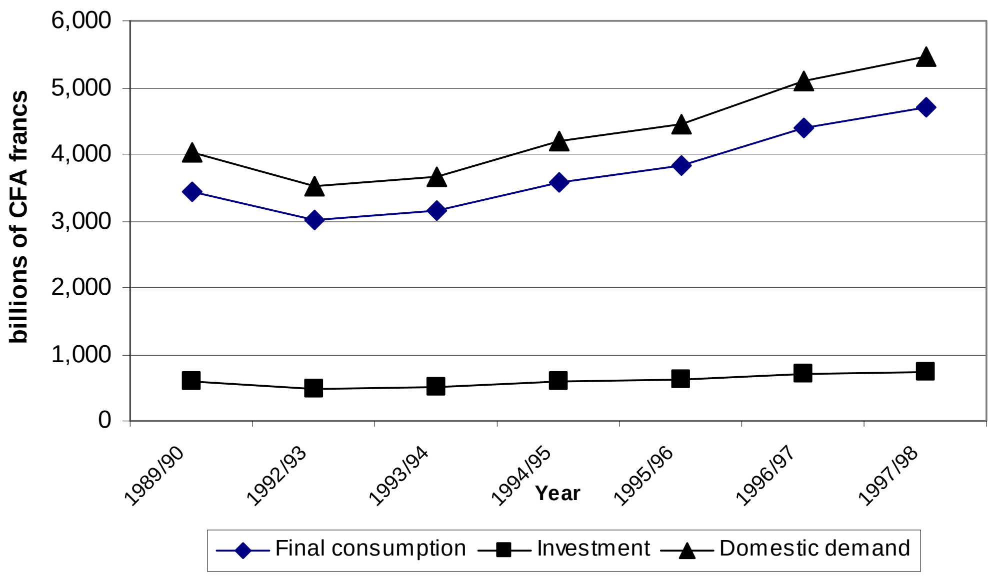
Table 4.17 Evolution of domestic demand at current prices (billions of CFA francs)

	89/90	92/93	93/94	94/95	95/96	96/97	97/98
Final consumption	3,435	3,026	3,157	3,585	3,825	4,407	4,712
- Private	3,048	2,683	2,880	3,319	3,540	3,953	4,227
- Public	387	343	277	266	285	454	485
Investment	585	485	497	600	618	693	741
of which GFCF*	596	494	483	601	628	688	741
- Private	456	390	415	505	502	559	602
- Public	140	104	68	96	126	129	139
Stock variation	-11	-9	14	-1	-10	5	0
Domestic demand	4,020	3,511	3,654	4,185	4,443	5,100	5,453
Investment rate	15.02	13.96	13.24	13.44	12.89	12.90	12.90

*Gross Fixed Capital Formation

Source: Department of Statistics and National Accounts, 1999

Figure 4.6 Evolution of Domestic Demand



Savings and Investments

A) Savings

Table 4.18 Private and Public Savings in Cameroon (in million CFAF)

	81/82	84/85	85/86	86/87	92/93	93/94	94/95	95/96	96/97
Private Saving	344.2	636.5	530.1	711.5	347.4	558.7	705.0	667.7	642.9
Public Saving	36.1	247.2	278.0	-72.9	-77.8	-207.6	-45.5	45.5	77.9
Total Saving	380.2	883.7	808.1	638.6	269.6	351.1	659.5	713.2	720.7

Source: DSCN and BEAC

The increase in Cameroon's external debt led to inherent costs that far exceeded the country's real economic potential. The repayment of loans drained the country of a large part of its resources and as a result savings was negatively affected.

From 1981 to 1987, private savings grew steadily reaching an unprecedented high of about 711 billion CFA francs. Public savings grew in tandem with private savings attaining 278 million in 1986. After this point, the volume of savings dropped drastically and even reached negative levels because the government had to service its debts whose amount skyrocketed after 1986. Thus government's limited resources were used to finance its loans and nothing was left for any savings. Private savings also dwindled from 1986 when the country was in dire straits.

B) Investments

The decline in public savings had a negative impact on investments. Both private and public investments increased when debt servicing was not high and dropped when debt servicing became a real burden for the government.

Table 4.19 Trend of private and public investments in Cameroon (in million CFAF)

	81/82	84/85	85/86	86/87	92/93	93/94	94/95	95/96	96/97
Private Investment	447.4	659.9	619.6	521.4	381.8	430.3	513.5	491.3	589.2
Public Investment	91.3	295.2	427.9	447.3	103.5	66.1	86.2	126.5	103.6
Total Investment	**538.6**	**955.1**	**1047.5**	**968.7**	**485.3**	**496.3**	**599.7**	**617.8**	**692.8**

Source: Department of Statistics and National Accounts; Bank of Central African States

Money Supply

Cameroon's monetary policy is administered by the Bank of Central African States (BEAC). The country's monetary regime is affected by two factors (1) its membership in the African Financial Community (CFA) franc zone and, (2) the constraint imposed by the pegging of the CFA to the Euro.

The main monetary policy instruments of the BEAC have been direct credit ceilings, interest rate controls, and limits on Central Bank refinancing. From the 1960s through the early 1980s, BEAC's priority vis-à-vis its monetary policy was geared toward the promotion of economic development of member countries. Hence, credits were awarded to specific sectors at very low interest rates. The objective of this policy according to BEAC was to promote domestic savings in individual CEMAC member countries. This policy however, did not yield the expected result. Therefore, from 1986, following the deterioration in the economic and financial situations in the CFA franc zone, BEAC shifted from direct to indirect monetary policy instruments. As such, during the period 1989-93, interest rates were liberalized and credit controls were also lifted. From 1994, when member countries started experiencing some relative growth, the central bank changed its policies and started relying on open market operations. However, interest rates in the CEMAC region are set by the regional central bank (BEAC), which is closely monitored and regulated by the French Government, and as such, the region's interest rates are tied to those in the French money market.

In Cameroon, the period from 1963 to 1985 were positive in terms of economic performance with an annual GDP growth situated at a little over 6 percent. During this period, the ratio of broad money to GDP was significant, increasing from 15 percent in 1963-64 to over 20 percent in 1984-85.

This scenario reversed between 1986 and 1994 (GDP grew at a rate of negative 4 percent), during which time the ratio of broad money to GDP declined from 24 percent in 1991-92 to less than 17 percent in 1993-94. The situation was further compounded by deterioration in the performance of domestic financial institutions. During the period 1987 to 1993, several Cameroonian banks for the most part were either undercapitalized, badly managed and far from being profitable. As a result, starting 1996, money demand fell sharply reflecting the lack of confidence in the domestic banking sector. The result was an increase in currency from 17 percent of broad money in 1986 to 22 percent by 1993.

Macroeconomic reforms engaged in the CEMAC zone from 1994, bore some positive fruits. These reforms included restructuring of the financial system. Following the restructuring, fourteen commercial banks merged, closed, recapitalized or liquidated, leaving only eight functioning banks in the country. In 1996-97, some monetary developments were experienced in Cameroon. This was characterized by a strengthening in money demand and an improvement in net foreign assets of the banking system reflecting therefore, a gradual return of confidence in the banking sector. At the end of June 1997, net foreign assets increased by CFAF 114 billion. Similarly, total deposits in domestic commercial banks[9] rose by 7 percent during the same period reversing a decline of 21 percent in 1996. Also, broad money increased by about 14 percent.

In 1997/98 and 1998/99, rapid recovery in private sector credit resulting from buoyant economic activity, was observed. However, growth of deposits was slower than the increase in credit. This led to some banks drawing on the BEAC to finance expanded lending activity and thus reducing their net foreign assets in the Central Bank. In 2000, quasi money increased by over 28 percent, while broad money is estimated to have increased by 13 percent, reflecting mainly a recovery in deposits.

Table 4.20 Money Supply and Credit (in billions of CFA francs)

	1994	1995	1996	1997	1998	1999	2000
Narrow Money (M1)	359.4	316.3	308.8	418.0	476.8	531.9	626.9
- currency in circulation	136.3	102.3	95.3	180.3	205.8	237.4	264.9
- demand deposits	223.1	213.9	213.4	237.7	271.1	294.5	361.9
Time & savings deposits (quasi money)	329.8	329.3	268.9	267.4	259.8	306.4	374.6
Broad Money (M2)	689.2	645.6	577.7	685.4	736.6	838.3	1001.6
Domestic credit	797.8	791.3	762.8	806.1	881.1	959.5	952.0
-net claims on central government	384.4	368.9	331.5	405.2	383.1	418.0	313.9
-claims on public sector	39.4	42.1	36.3	39.8	53.9	54.3	89.2
- claims on private sector	369.5	371.4	385.9	348.1	428.8	481.5	543.9
-claims on banking institutions.	0.03	0.19	0.05	0.06	0.19	0.08	na
-claims on non bank institutions.	4.4	8.8	9.2	12.9	15.1	5.6	4.9
Net foreign assets	-318.1	-342.9	-302	-204.2	-195.4	-191.0	10.5

Source: IMF, International Financial Statistics 2001

Employment

The Cameroon government is facing a challenge of soaring unemployment especially among the young people. Cameroon has a relatively high literacy rate and offers a relatively well-educated labor force. Unemployment has been estimated at between 30 and 35 percent in the two major cities of Douala (commercial capital) and Yaoundé (administrative capital). From the mid 1980s, the growth in demand for labor in the formal sector has been very slow. New hiring was curtailed and personnel reductions have been a common phenomenon in recent years. Similarly, in some enterprises, there have been massive lay-offs as a result of bankruptcies and plant closures. In contrast, as labor demand dwindled, labor supply rose rapidly, especially in urban areas. Between the periods 1976 and 1987, while the population aged between 15 and 64 grew by 30 percent, the proportion of economically active population in this age group dropped from 66.3 percent to 65.7 percent (World Bank 1995).

[9] Commercial banks constitute the largest part of the financial sector with total assets of CFA francs 526 billion (US $ 917 million). Three institutions dominate the sector with a 60 percent of total bank assets.

The emergence of the economic crisis in 1986 worsened the employment situation in Cameroon. During the periods 1983 to 1993, the rate of employment fell by about 7 percent in the private manufacturing sector. During the same period, employment in the main public enterprises declined by about 15 percent. Nevertheless, employment in the public administration grew by about 10 percent during the 1986 to 1992 period. The expansion of public administration employment absorbed only a small fraction of new labor force entrants, such that over a ten-year period (1983 to 1993), the unemployment rate rose from 7.3 percent of the active population to 24.6 percent.

The situation is more precarious for younger job seekers. In 1993, the rate of unemployment for the 20-24 age group was 40 percent, for the 25-29 age group, it was 34 percent and for the 30-44 age group, on average it was about 16 percent. This trend has not changed much in recent years. The scenario has however changed in that, in the past decades, unemployment was high among those without an education, but in recent years, the unemployment rate increases with the level of education. Today almost one-third of the active population with a university degree is currently seeking employment, while 6.4 percent of those without formal education are unemployed.

Table 4.21 Ratio of unemployment to education level

	No schooling	Primary	Secondary	Post-Secondary	Total
1983	9.4	8.4	5.2	1.5	7.3
1987	9.4	14.9	16.5	9.4	14.7
1993	6.5	23.8	26.7	30.9	24.6

Source: World Bank Tables

As the unemployment situation soared in the formal sector, the proportion of salaried workers also experienced a steady decline. This was further compounded by a reduction in the number of civil servants in an effort to cut government spending. The reduction in the number of personnel in the government sector was accompanied by about two thirds of public sector salaries. In 1983, the proportion of salaried workers among the employed active population was about 65 percent; it fell slightly to 63 percent in 1987 and dropped to about 50 percent in 1993. This strong regression in the share of salaried employment led to an expansion of the informal sector. The informal sector has increasingly become the chief provider of jobs in Cameroon. In 1992, more than four in five jobs created were in the informal sector. Commerce (self-employed for the most part) is the largest provider of jobs in the informal sector.

The unemployment situation has constrained families into seeking ways to survive. Individuals and households have mobilized family labor and diversified activities so as to earn extra incomes to sustain their families. This has led to the active participation of women and the youth in low-earning and sometimes very precarious informal sector jobs.

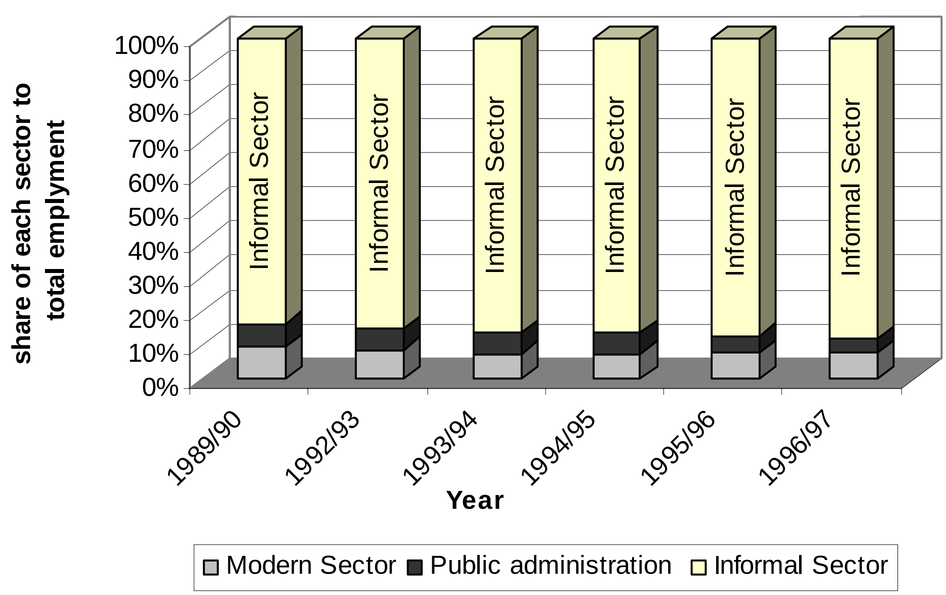
Employment in the informal sector has experienced a steady growth during the past years. In 1990, the informal sector accounted for over 84 percent of the employed and over 88 percent in 1997, growing at an average rate of about 2.5 percent per annum. Of these, over 63 percent are self-employed. In contrast, employment in the modern sector and public administration experienced a steady decline year on year. Today, the labor market in Cameroon is believed to be over stretched. Even the informal sector is strained.

Table 4.22 Employment status in Cameroon 1989 to 1997

	1989/90	1992/93	1993/94	1994/95	1995/96	1996/97
Modern Sector	342,361	335,682	292,717	303,960	312,379	325,112
- declared salaried workers	258,824	263,080	264,756	272,271	273,372	276,811
- non declared salaried workers	83,537	72,602	27,961	31,689	39,007	48,301
Public administration workers	244,849	236,778	236,778	236,625	212,715	184,261
Informal Sector	3,019,236	3,304,754	3,380,594	3,487,442	3,583,323	3,679,364
- declared salaried workers	298,460	326,518	334,002	344,551	354,016	370,530
- employers	4,414	4,831	4,942	5,099	5,240	5,916
- self-employed	1,914,670	2,095,104	2,143,200	2,210,943	2,271,735	2,324,401
- family help	801,692	878,301	898,450	926,849	952,332	978,517
Total	3,606,446	3,877,214	3,910,089	4,028,027	4,108,417	4,188,737

Source: Department of Statistics and National Accounts, April 1999.

Figure 4.7 Employment Trend 1989-1997



4.2.2 Fiscal Position

Since 1995, government's fiscal policy has been geared towards strengthening pubic finances and to raise the non-oil revenue to GDP ratio as well. To achieve this, the government has embarked on a comprehensive reform of the tax system. An important aspect of this reform has been to broaden the tax base and reduce the number of tax exemptions. Also there has been a reduction in anti-trade bias in the tax system through lowering non-forestry export taxes (from 10 percent to 5 percent) and increasing the weight of domestic taxes. As part of this reform, the turnover tax was replaced by the value added tax (VAT) in January 1999, with the elimination of the differential tax rates[10] under the old sales tax.

The government has also been focusing on improving the efficiency and transparency of government expenditure and strengthening the targeting of social spending as well. A plan of action to improve expenditure management has been adopted.

2.2.1 Government Expenditure

Government total expenditure includes: (1) current expenditure on personnel, goods and services, transfers and subsidies, and interest on domestic and external debts; (2) capital expenditure on investment, rehabilitation and restructuring.

The trend in government expenditure has experienced many changes over time, especially during the period of high economic growth and that of considerable economic decline. The period of high economic growth was characterized by increases in government expenditure that matched increases in government revenue. For example over the periods 1963 to 1977, government total expenditure averaged 18 percent of GDP while government revenue to GDP ratio was 17 percent. Optimistic investment projects were undertaken, a hand full of state corporations (most of which were badly managed) were created through which considerable amounts of subsidies were channeled. The period of decline was characterized by huge budget cuts, which affected the composition of government expenditure.

As a proportion of GDP, public expenditures have observed a steady increase over the years. This proportion rose from 11 percent in 1961 to 18 percent in 1981. It further increased to 21 percent in 1987 and dropped to 16 percent in 1994.

Analysis of trends in budget allocations over the years shows that, while the share of expenditure on education and health in total public expenditure increased by only 4 percent, national defense expenditure decreased from 21 percent in 1963 to 10 percent over the years. This reduction notwithstanding, national defense still occupies the second place after education in the budget allocation. The share of expenditure for agriculture in total public expenditure has ranged between 3 percent and 5 percent since 1961. The other sectors' allocations have been well below 4 percent over the years. In the late 1980s and early 1990s, during the crisis periods, there was a shift from priority development sectors such that budget allocations for agriculture, the social sectors and other development sectors were reduced while allocations for national sovereignty and environment sectors were raised.

The evolution of current and capital expenditures shows a steady positive trend of the former and a fluctuating trend of the latter. A striking feature of total public expenditure is that capital expenditures have always tailed behind current expenditure. Over the 1989 to 1999 period, total expenditure increased in nominal terms by 21 percent. This increase was matched by a 65 percent increase in current expenditure and a 50 percent reduction in capital expenditure. The share of expenditures for national defense increased by 18 percent, health increased slightly by 9 percent while that for agriculture, transportation and urban development fell sharply by over 24 percent.

The crisis of the mid 1980s put a stress on government's budget such that the government had enormous difficulties containing the fiscal deficit. From 1988 onwards, the overall deficit remained at or above CFA francs 210 billion. However, following two civil service wage cuts amounting to over 60 percent of salaries, accompanied by cuts in materials and government supplies, the deficit was somewhat reduced.

Budget allocations and actual expenditure are highly centralized, hence budget allocations by regions is almost non existent. Investment projects budgets earmarked for the different regions are voted in Parliament and executed from the central government.

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[10] Turnover tax rates were a standard rate of 17% for imports, 18.7% for domestically produced goods and services; and a reduced rate of 8.8 %.

Table 4.23 Evolution of Government Expenditure (in billion CFA)

	1989	1990	1991	1992	1993	1994	1995	1998	1999
Total Expenditure	1,019.4	1,042.7	973.9	912.2	814.9	746.4	791.2	1,172.8	1,298.8
Current Expenditure	757.5	858.0	822.4	810.8	767.4	710.8	746.9	1,069.8	1,179.6
- on goods & services	312.0	365.2	376.5	346.0	324.8	272.8	277.9	402.2	444.0
- wages and salaries	240.0	274.4	286.5	282.3	274.9	212.8	194.3	259.2	274.7
- other purchases	72.0	90.7	90.0	63.7	49.9	60.1	83.6	143.0	169.2
- interest payments	43.0	38.1	43.1	39.4	57.9	107.2	123.2	168.2	166.2
- subsidies & others	90.6	89.6	26.4	79.4	60.0	57.9	67.9	97.2	125.5
Capital Expenditure	261.9	184.7	151.5	101.4	47.5	35.6	44.3	103.0	119.2
- acquisition. of fixed capital. Assets	261.9	184.7	151.5	101.4	47.5	35.6	44.3	103.0	119.2

Source: Ministry of Economy and Finance, Cameroon

Figure 4.8 Composition of Government Expenditure (in % of Total Expenditure)
2000/2001

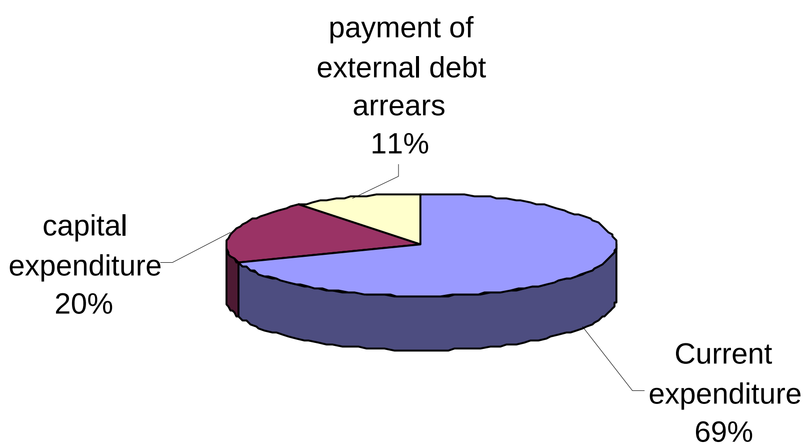


Table 4.24 Government Expenditure by function (in billion CFA)

	1989	1990	1991	1992	1993	1994	1995	1998	1999
Total Expenditure	1,082.6	1,051.8	940.5	847.7	680.2	658.2	737.9	1,106.9	1,238.2
General public services	66.1	131.7	135.2	126.9	95.6	102.5	116.1	160.8	182.3
Education	240.0	274.4	286.5	282.3	274.9	212.8	194.3	259.2	274.7
Health	71.9	90.7	90.0	63.7	49.9	60.1	83.6	143.0	169.2
Defense	47.2	57.9	56.4	53.2	46.9	46.6	64.3	72.5	81.8
Social secu. & welfare	43.0	38.1	43.0	39.4	57.9	107.2	123.2	168.2	166.2
Agriculture, forestry etc	90.6	89.6	26.4	79.4	59.9	57.9	67.9	97.2	125.5
Transportation & communication	261.9	184.7	151.4	101.4	47.5	35.6	44.3	103.0	119.2
Mining, manufacturing. & construction	261.9	184.7	151.4	101.4	47.5	35.6	44.3	103.0	119.2

Source: Ministry of Economy and Finance, Cameroon

4.2.2.2 Aggregate Tax Revenue

The Cameroon government derives its revenue from two main sources which include oil revenue and nonoil revenue.

Oil revenue includes oil royalties paid to the public treasury by the National Hydrocarbons Company and the business profits tax levied on oil companies.

Nonoil revenue includes: (1) Tax revenue (direct and related taxes; customs duties; registration fees and stamp duty); (2) Non tax revenue (revenue from state property; and from other services); and (3) Other revenue (miscellaneous revenue; miscellaneous contribution; repayment of loans; remittances and deposits; interest on guarantees; & proceeds from securities). Fiscal revenue constitutes the most important source of government revenue accounting for over 75 percent of total revenue and about 14 percent of GDP. Fiscal revenue is raised from individuals (personal income tax), corporations (corporate profits tax), goods and services (consumption tax), property (capital tax), international trade (customs duties), registration dues and stamp duty.

The trend in total government revenue has changed significantly over the years. As a share of GDP, total revenue increased moderately over the ten-year period 1962 to 1972, during which time the ratio of total revenue to GDP increased annually by a modest one-percentage point on average. Between 1973 and 1983, total revenue share to GDP averaged 17 percent, and a budget deficit that represented 2.7 percent of GDP. In 1986, the ratio of total revenue to GDP rose to about 20 percent in 1986, at which time a budget surplus of 0.6 percent to GDP was observed. The share of total revenue dropped from 20 percent in 1986 to 14 percent in 1993, while the budget deficit represented 1.9 percent of GDP.

The effects of the 1994 devaluation accompanied by improvements in tax administration and the implementation of the Value Added Tax, as well as higher oil prices and the transfer of windfall oil revenue to the treasury, increased total revenue. As a result, budget surplus increased to 3.1 percent of GDP in 1996, to a further 5.1 percent of GDP in 1997, but dropped to 1.6 percent of GDP in 2000. In 2001, government finances improved, fiscal and overall fiscal surplus were projected to reach 7.4 percent of GDP and 2 percent of GDP respectively.

The importance of the different tax types has also changed over time. Between 1980 and 1982, the largest single source of tax revenue came from international trade taxes. In 1980/81, of total government receipts of 230 billion francs, 89 billion were raised from customs duties representing 38 percent of total revenue; 50 billion came from income tax; a further 42 billion from domestic taxes on goods and services; social security contributions amounted to 18 billion, taxes on property raised 6 billion and the remainder 6 billion was raised from other taxes. In 1981/82, the same trend was observed.

Between 1983 and 1989, the trend changed with the largest single source of government revenue coming from income tax. In 1983, of total government receipts of 672 billion francs, about 361 billion was raised from income tax representing over 54 percent of total revenue. 116 billion or 17 percent of total revenue was raised from customs duties. A further 64 billion or 10 percent of total revenue came from domestic taxes on goods and services, social security contributions amounted to 36 billion, taxes on property raised 11 billion and 2 billion was raised from other taxes. Non-tax revenue provided 21 billion francs. The same trend is observed between 1984 and 1985 with a peak in 1985 when income tax alone represented 70 percent of total government receipts and 11 percent of GDP.

Towards the end of 1980 and early 1990, effects of the economic decline changed the trend of government receipts. In 1990/91, not only did government revenue dwindle (from 886 billion in 1985 to 517 billion in 1990), but the largest single source of government receipts (the income tax) plummeted representing only 18 percent of total revenue compared with 70 percent in 1985. Non-tax revenue (mainly oil revenue) became important representing 28 percent of total revenue becoming therefore, the largest single source of government revenue. This trend continued until 1995 when economic activity picked up again.

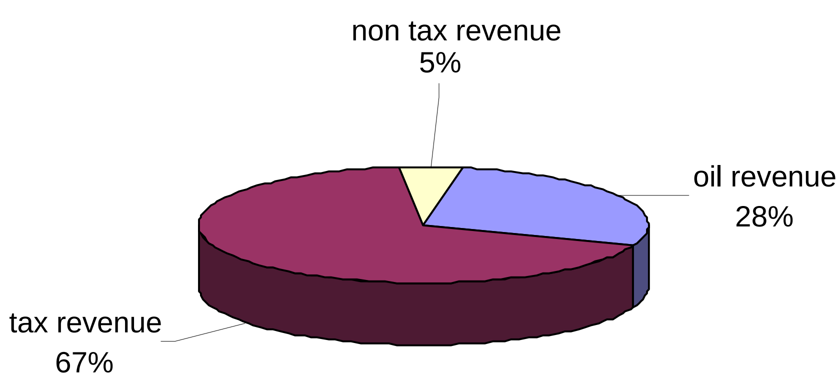
From 1995, customs duties and domestic taxes on goods and services took the lead once more. In 1995, of 536 billion total government receipts, 148 billion came from international trade representing 28 percent of total revenue. Domestic taxes on goods and services provided 135 billion or 25 percent of total revenue. With the introduction of VAT in 1999, accompanied by improvement of the tax administration, government revenue reached a record high of 867 billion francs. Of these, VAT alone amounted to 193 billion or 22 percent of total government receipts.

Table 4.25 Government Aggregate Revenue (in billions of CFA francs)

	1993/94	1995/96	1998/99	1999/2000	2000/2001
Total revenue	343.9	655.0	838.0	1,168.1	1,301.2
Oil revenue	74.1	142.8	133.0	305.8	364.6
Tax revenue	244.3	450.1	652.0	720.6	874.1
- Taxes on Income and Profits	42.6	65.1	174.0	201.5	293.6
- Taxes on goods and services	104.0	209.0	340.0	378.1	432.4
- Taxes on international trade	62.1	126.0	138.0	141.0	148.1
Non-tax revenue	25.5	62.1	53.0	136.0	58.7

Source: Ministry of Economy and Finance, Cameroon

Figure 4.9 Government Aggregate Revenue 2000/2001 (in % of Total Revenue)



4.3 Tax Structure: Institutions and the Reality

The tax structure has undergone some significant changes since independence. Upon gaining independence in 1960, the government enacted an investment code to attract foreign capital and encourage import-substituting industrialization. As a result, the government relied heavily on selective tax and tariff exemptions to promote industrial development. This policy was strengthened in 1964 when CEMAC member states signed a treaty specifying a number of taxes and duties to be implemented in all CEMAC countries. These measures increased Cameroon's special tax schemes and exemptions and further complicated the tax system. Under the tax treaty, taxpayers who did not enjoy any of the special programs were subject to a variety of direct and sales taxes. In addition, taxpayers who imported intermediate goods were subject to four tariffs unless they had special status. The overall tariff structure was highly diversified, with rates ranging from 0 percent to 500 percent. This complicated regime encouraged tax evasion and incentive for firms to seek special treatment from tax authorities.

From January 1994, the government began to dismantle this system. Reforms were introduced in an attempt to correct anti-trade biases by increasing the importance of domestic taxes and reducing tariffs. The reforms were also aimed at reducing inequalities, distortion, corruption among administrations and incentives for evasion. These reforms were motivated by the following objectives: (i) to comply with conditionality in the Brettons Woods Institutions' adjustment programs; (ii) to further CEMAC objectives of promoting regional economic integration; and (iii) to increase tax revenue which had been eroding as oil exports fell and tax exemptions and evasion became increasingly prevalent.

4.3.1 The Tax System

Apart from the changes mentioned above, most of the tax system inherited from the French colonial period is still intact. It is based on a self-assessment system and comprises domestic taxes, international trade taxes and council taxes. These taxes are administered by two departments of the Ministry of Finance – the Tax Department for all domestic taxes and the Customs Department for all international trade taxes.

The duties of the Tax Department include, tax assessment and collection, enforcement, drafting of tax laws and research. The department comprises a head office, 12 provincial tax bureaus and 110 tax offices across the country. The department carries out its functions within the framework of the tax law known as the General Tax Code.

The Customs Department known as Cameroon Customs is legislated by the Customs law. It carries out its functions through offices located at major ports, airports, railway stations in the country as well as at international border posts. The main office of Cameroon Customs is located at the main port of Cameroon found in Douala (commercial capital of Cameroon). This port serves Cameroon and three other countries of the CEMAC zone (Equatorial Guinea, Chad and Central African Republic).

In Cameroon, fiscal year runs from July 1 through June 30 inclusive. However, from year 2003, calendar year will be observed running from January 1 to December 31 inclusive.

The tax system includes the following taxes: (1) individual income tax and profits tax; (2) tax on capital; (3) tax on domestic goods, services and on transactions; (4) international trade taxes; and (5) stamp duty and tax on the formation of company.

4.3.1.1 Taxation of income

The Cameroonian concept of income is same as in many countries. There are two main income taxation systems, one for individuals and the other for entities.

The income tax system in Cameroon is by its nature horizontally inequitable, because taxpayers with the same total income pay different amounts of tax, depending on the form in which that income is received. Four types of incomes are distinguished – profits, wage, rent and income from financial investment. These incomes if earned by individuals are taxed at different flat rates under the scheduler income taxes, and then their sum is taxed at graduated rates under the general income tax. Income earned by corporations is not subject to the graduated surtax.

Company Income Taxation

Company income tax is levied under the General Tax Code. Company tax represents an important source of total tax revenue. In 2001, company tax receipts represented over 19 percent of total tax receipt and over 3 percent of GDP.

A) Taxable persons

Company income tax must be paid by joint-stock companies, limited liability companies. partnerships limited by shares, private companies undertaking commercial, industrial, agricultural or artisan activities; partnerships which have chosen the corporation tax regime or when at least one of their partners is a corporation; legal entities engaged in profit making activities; permanent establishments of foreign corporations; public bodies (other than scientific, teaching or relief organizations) and associations on income derived from the lease of developed or undeveloped real estate property, income derived from movable capital and on income derived from any profit making activity; private clubs or organizations on income derived from commercial activities.

B) Territoriality

Only profits made in Cameroon by way of industrial or commercial activity are subject to taxation. This also applies to foreign companies unless there is a tax treaty between their country and Cameroon to avoid double taxation.

C) Computation of Taxable Income

Corporation tax is established on the basis of profits made during the preceding fiscal year. Taxable income consists of gross income (excluding exempted income) less all allowable deductions. Income from movable capital is included for the purposes of computing net profits (tax on movable capital withheld at source is deducted from total taxable income). For tax purposes, operating losses may be carried forward to offset profits earned in four succeeding years. This limitation does not apply to losses from deferred depreciation, which can be carried forward without any time limit.

Capital gains are treated differently: In case of the sale (total or partial) or transfer of the business or cessation of business activities, the net gains will be subject to tax on one half of the amount if the sale or transfer occurs less than 5 years after the setting up or purchase of the business. Other wise the net gains will be subject to one third of the amount. In case decision is taken to reinvest the proceeds from the sale or transfer, the gains are tax exempt. However, reinvestment should be carried out within three years of the transaction.

Special regime for parent companies: Where a joint-stock company or a limited liability company owns shares in another company, the net gains realized from such shares will be deducted from the holding company's total net profit on condition that; (i) the shares owned by the parent company represents at least 25 percent of the capital of the subsidiary; (ii) both parent and subsidiary have their seat within the territory of the CEMAC sub region; (iii) the holding company retains the shares allocated to it on issue registered in its own name; or (iv) where the shares concerned were not allocated to the company on issue, then the parent company must undertake to retain them registered in its own name for a period of at least 2 consecutive years.

D) Tax Rates

Resident companies are subject to a standard tax rate of 35 percent of net taxable income plus an additional 10 percent local council tax, making a total tax charge of 38.5 percent.

Non-resident companies undertaking commercial activities in Cameroon are subject to company tax at the same rate as resident companies. Special provisions apply to permanent establishments of resident companies.

For oil companies and pipeline enterprises, special tax rates of 57.5 percent and 50 percent respectively apply.

Payments made abroad for copyrights, patents, know-how, film royalties, and technical assistance are subject to 15 percent tax rate. Such payments can be deducted against business income.

If the amount of tax payable by companies is less than 1 percent of turnover before tax from all activities, a minimum tax is levied. The tax rate is 1 percent of previous year's turnover plus 10 percent council tax making a total tax charge of 1.1 percent.

For foreign subcontractors of oil companies, they have the right to choose either to be subject to the normal company tax regime or to a special tax regime. If the latter option is taken, tax payable is 15 percent withholding tax on the gross income received by the foreign companies. The tax liability is paid in monthly installments where the amount of tax is more than FCFA 25,000 and three times a year where the amount is less than FCFA 25,000.

E) Current Payment System

Payments of company tax are made as follows:

- a monthly prepayment of 1 percent of turnover plus 10 percent for local councils, making a total of 1.1 percent. The payment is done before the 15th of each month for activities realized in the preceding month. The tax is withheld at source for government suppliers and certain private enterprises;
- the remainder (net of prepayments) is due in one payment by September 30th; and
- an advance payment of 1 percent levied on imports and purchases of goods from companies (reduced to 0.5 percent for fuel stations and exporters of basic products; it is increased to 5 percent for companies with no Taxpayer Identification Number). Any amount so paid is deducted from the final amount of company tax due.

F) Requirements for filling tax returns

All corporations are required by law to file a return showing the results from their activities in the period over which the tax is levied. This return must be filed within three months of the end of the fiscal year. The tax return must be accompanied by all documents supporting the contents thereof, and also documents provided for in the CEMAC Accounting Plan.

Individual Income Taxation

The individual income tax structure in Cameroon is first proportional under a schedular system with different rates on different kinds of income, and then progressive under a graduated surtax system levied in addition to the proportional tax on the total net income of the taxpayer. The proportional tax is levied at different rates on seven income categories : (1) profits from industrial and commercial activities; (2) profits from professional services and from non commercial activities; (3) income from movable property; (4) income from real estate; (5) income from agriculture; (6) income from artisan activities; and (7) tax on wages, pensions and life annuities.

A) Taxable persons (applicable to all seven income categories)

Three criteria are used to determine a Cameroon tax resident, liable to individual income tax. A resident is anyone:

- whose principal income comes from an entity subject to company income taxation in Cameroon;
- whose income is deducted from profits made by the employer in Cameroon; and
- who spends more than 183 days per year in Cameroon.

Subject to the provisions of tax treaties, Cameroon nationals and foreigners resident abroad will be subject to the proportional tax in respect of their income from sources in Cameroon. Cameroon civil servants carrying out duties abroad are subject to the proportional tax.

Partners in a general partnership or limited partnerships are subject to tax on their share of the profits (unless the partnership has opted to be subject to company tax)

With respect to the household as a unit of taxation, the general income tax is levied on the household as a whole. For tax purposes, the household comprises the head of the family, his spouse and dependent persons.

A married woman is taxed separately if her property is separate from that of her spouse either because she does not live with her husband or has been abandoned by her husband, or has abandoned her marital home, and thus has income of her own which is distinct and separate from her husband's. She will also be taxed separately on income earned in the year of her marriage for the months before the marriage date as well as on income earned in Cameroon where her spouse is not taxed in Cameroon.

B) Minimum Charge

The minimum charge payable by all individuals engaged in business activities is set at 1 percent of annual turnover realized in preceding year plus 10 percent council tax, making a total minimum charge of 1.1 percent.

C) Tax Returns

All taxpayers subject to the proportional tax are required to file tax returns which are due on September 30th of each year. These returns must be accompanied by a detailed statement of all income received during the fiscal year. The returns should also specify family status, all costs normally deductible and any other document requested by the tax authorities.

D) Tax Treatment of Different kinds of Income

D.1 Tax on Industrial and Commercial Profits:

This tax is levied on net income from Cameroonian sources received by both residents and non-residents. Pursuant to Finance Law of 1999/2000, this income is taxable under four different systems.

- Assessment on actual profits, for taxpayers whose annual turnover exceeds CFAF 100 million. The taxable income is net profit obtained by deducting there from all deductible expenses. Self-employed entrepreneur's remuneration is deductible for work actually effectuated;
- Simplified assessment, for taxpayers with annual turnover of between FCFA 60 million and FCFA 100 million. Net taxable profits are determined by applying to turnover the percentages specified by law. They are subject to simplified system for VAT purposes also;
- Basic assessment, for taxpayers with turnover between FCFA 15 million and FCFA 60 million, where net taxable profits are determined by applying to turnover certain percentages as specified by law. They are subject to basic system for VAT purposes also; and
- Final taxation, for small taxpayers with annual turnover of less than FCFA 15 million. Theses taxpayers pay a lump-sum tax in lieu of all taxes, such as income tax, business license and VAT. Flat tax amounts ranging from CFAF 20,000 up to FCFA 100,000 according to the type of business activity are paid.

Rates

Rates under the actual, simplified and basic regimes are 22 percent plus 10 percent council tax, making a total charge of 24.2 percent.

Payment of tax liability

For taxpayers liable under the actual and simplified systems, a prepayment of 1.1 percent of monthly turnover is paid before the 15th of each month following the month during which the turnover was realized, and payment of the remainder in one installment due before September 30th.

For taxpayers liable under the basic system, a prepayment of 1.1 percent of quarterly turnover is due before the 15th of the month following the end of each three-month period of the taxable year. Taxpayers of this regime may opt to be subject to taxation under the actual or simplified regimes. This decision is however, irrevocable.

D.2 Tax on non-commercial profits

This tax is levied on profits from non-commercial activities as well as on profits from professional services.

Tax base

The tax base includes income derived from rendering of professional services, activities of holders of an office of a non-commercial nature and the undertaking of a non-profit trading activity. These profits are not included in any other profit or income such as; income from stock exchange transactions carried out on a regular basis by private individuals; income from copyright royalties earned by writers, composers and their heirs and legatees; and income earned by inventors from the granting of licenses to use their patents or from the sale or transfer of trademarks.

Computation of taxable income

Taxable income consists of total receipts less necessary business expenses. Account is taken of gains and losses from the sale of business assets and any payments received in return for the cessation of business activity. Capital gains that are reinvested are not taxed. Taxpayers other than self-employed professionals are subject either to:

- Controlled tax return system, for taxpayers with an annual turnover of more than FCFA 20 million. They are required to keep books and file an income tax return which is due on September 30th of each year, showing the amount and nature of income, amount of their expenses and the net income from the previous taxable year;
- Simplified assessment, for taxpayers with annual turnover of less than FCFA 20 million.

Taxable income for both systems is determined by applying a rate of 15 percent to the annual turnover declared by the taxpayer. The amount due cannot be in any case less than 1.1 percent of the annual turnover realized.

For self-employed professionals, Finance Law of 1999/2000 subjects them to assessment on actual profits regardless of the amount of taxable income. Tax rates for this category of income are 22 percent plus 10 percent council tax, making a total charge of 24.2 percent.

D.3 Tax on agricultural profits

This tax is levied on net income of farmers. Income from farm land (used exclusively to grow food crops) with an arable area of less than five hectares is exempt from this tax.

Computation of taxable income

Three regimes of taxation are possible: (1) a presumptive assessment applicable to taxpayers with annual turnover of less than FCFA 5 million; (2) a simplified assessment for taxpayers with annual turnover of between FCFA 15 million and FCFA 30 million; and (3) an assessment on actual profits for taxpayers with annual turnover of over FCFA 30 million.

Tax rates

The tax rate is 15 percent plus 10 percent making an actual tax charge of 16.5 percent.

D.4 Tax on profits from artisan activities

The tax law defines artisans as manufacturers and workers operating on their own premises, having not more than five employees, or apprentices and selling only proceeds of their labor and also fishermen operating with not more than two persons.

Income realized by artisans is subject to a proportional tax rate of 11 percent plus 10 percent council tax, making a total charge of 12.1 percent.

D.5 Tax on real estate

This tax is levied on rental income from real estate.

Tax base

The following are regarded as income from real estate: (1) income from the leasing of developed or undeveloped property situated in Cameroon; (2) income from the leasing of plant or equipment forming part of permanent fixtures and fittings of an industrial establishment or as an integral part of the premises or from any industrial or commercial activities; and capital gains derived from the disposal of land or buildings by individuals.

Computation of taxable income

Taxable income is net income from property which is the difference between gross income received and the total amount of expenses relating to the property.

Tax rates

The tax rate is 20 percent plus 10 percent council tax, hence 22 percent. Capital gains realized from the disposal of land or buildings are subject to a proportional tax rate of 25 percent.

D.6 Tax on capital income

This is levied on income from movable capital and on all income distributed by companies.

Taxable persons

Individuals and legal entities on the income earned from movable capital. The tax is withheld at source by the company distributing such income.

Taxable income

The following are regarded as income from movable capital: (1) proceeds from stocks and shares and similar income; (2) income from bonds; (3) income for debt claims, deposits, guarantees and current accounts; and (4) income not invested in the business such as sums paid to associates, hidden payments, payments to the sole director of a joint-stock company and; fees paid to the directors of a joint-stock company.

Computation of taxable income

Taxable income from shares and stocks is determined in accordance with the accounts rendered to the board meeting; for bonds, the interest or income distributed during the year in the case of debentures, government stocks and bonds; for debt claim, deposits and guarantees, the gross amount of interest and back payments.

Tax rates

The tax rates vary according to the type of income involved.

For income on debt claims, deposits, guarantees and proceeds of stocks, shares and similar income, a standard rate of 16.5 percent inclusive of the council tax. This income is then subject to the progressive surtax (if individual) or the company tax (if company).

Special rates on income from bonds and negotiable instruments (with the exception of those issued by the state or state-owned corporations) at a rate of 11 percent inclusive of council tax; on interest, on bank and post office savings accounts exceeding FCFA 5 million a rate of 19.8 percent inclusive of the council tax applies; on interests from bonds issued by SICAV a rate of 22 percent inclusive of the council tax applies. Taxes levied at the special rates of 11 percent, 19.8 percent and 22 percent are final taxes in the case of individuals and thus are not subject to the progressive surtax.

Non-resident recipients of income from movable capital are subject to a proportional tax of 25 percent inclusive of the council tax and it is a final tax.

Income paid to non-residents from bonds issued by enterprises resident in Cameroon are subject to a tax rate of 10 percent and treated as final taxation if the loan is longer than five years and not final if the loan is shorter than five years.

Subject to international treaties, profits of companies trading in Cameroon but who don't have a registered office there, is deemed to have been distributed to persons who are not domiciled or who do not have a registered office in Cameroon. Such is subject to tax on income from movable capital. The tax is payable by the branch on profits for tax purposes after deduction of the company tax paid thereon.

Tax payment

The proportional tax on income from movable capital is withheld at source by the distributing party. Payment of the tax due is paid within fifteen days following the distribution of the income.

In the case of movable capital of foreign origin received by individuals or legal entities with a domicile, habitual residence or registered office in Cameroon, the tax due is withheld by the banker, exchange dealer or any other person making the payment in Cameroon.

D.7 Tax on wages, salaries, pensions and life annuities

The proportional tax is payable on public and private wages, salaries, emoluments, pensions and life annuities where the activity for which the remuneration is paid is realized in Cameroon. Pensions and life annuities are deemed to be received in Cameroon when the payer is located in Cameroon.

Computation of taxable income

The basis of assessment takes into account the gross amount of the tax base including all benefits in kind (assessed in accordance with a special schedule prescribed by law) or in cash. Any cash allowance representing benefits in kind is included in the basis of assessment within the limits of the rates provided for by the law.

The amount of taxable income is calculated by deducting professional expenses at a rate of 20 percent from the gross amount of sums paid including benefits granted in cash or in kind. An additional 10 percent deduction is granted to crews of airline companies.

Tax rates

The rate is 6.6 percent including a 10 percent council tax.

Tax payment

The proportional tax due by wage earners in the private and public sectors is withheld at source by the employer and remitted to the tax authority within fifteen days of the following month. Persons with monthly earnings of FCFA 25,000 or less are exempt from the proportional tax.

Employers' obligations

In addition to the monthly declaration of paid salaries and deductions that come with each pay, the employer has the obligation to make also an annual declaration of the salaries paid before July 31st with identification of the employees. The employer is also required to supply information permitting the calculation of all deductions made.

Employees' obligations

Employees have the obligation to annually declare their income before August 31st.

D.8 Graduated Surtax (General Income Tax)

This tax is due by all individual taxpayers residing in Cameroon and by those residing out of Cameroon but who derive income from Cameroon.

Taxable income

The graduated tax is assessed on the total amount of annual net income derived by each taxpayer. This net income is determined taking into consideration the property and capital owned by the taxpayer, his profession, kind of business or occupation, salaries, wages, pensions or life annuities received by him, as well as profits from any other activities, less all deductions which have not been taken into account for the calculation of income subject to proportional tax.

For the purpose of calculating the tax, taxable income is divided into splits which vary according to the family circumstances of each taxpayer. Taxpayers are allowed a split for their spouse and half a split for each dependent child, with an upper limit of five splits.

Rates

The tax is calculated by applying the following rates:

Annual Income (FCFA)	Rate (%)
up to 500,000	0
500,001 – 700,000	10
700,001 – 1,000,000	15
1,000,001 – 1,500,000	20
1,500,001 – 2,000,000	25
2,000,001 – 2,750,000	30
2,750,001 – 3,500,000	35
3,500,001 – 4,500,000	40
4,500,001 – 5,500,000	45
5,500,001 – 6,500,000	50
6,500,001 – 7,500,000	55
over 7,500,000	60

The rate table is applied to split income, and the resulting amount is multiplied by the number of splits. To this total, a further 10 percent council tax is added.

Wage and salary earners in the first income bracket pay a minimum of FCFA 3,300 inclusive of the council tax.

Payment and tax returns

Tax due is withheld at source by employer and remitted to the tax authority at the same time as the proportional tax due (i.e. before the 15th of each month). A tax return is filed on September 30th of each year.

4.3.1.2 Taxation of immovable property

Real property tax

This tax was introduced by Finance Law 1988/89.

Taxable persons

All individuals or legal entities who own or are co-owners of or/and who occupy real property are subject to this tax. Co-owners are jointly responsible for the payment of this tax.

Taxable property

The tax is payable on all types of registered real property, developed or undeveloped and situated in Cameroon. Property exempt from this tax include: (i) property belonging to the state, local authorities and public bodies and used for non-commercial purposes; (ii) property belonging to religious, cultural or charitable organizations and used for non-profit purposes; (iii) buildings belonging to international organizations which have signed an agreement with Cameroon subject to reciprocal treatment; and (iv) property situated outside major towns.

Computation of tax

The tax is computed on the basis of the surface area of each property.

Tax Rates

a) **Tax on developed property**

Surface area (m^2)	Rate (FCFA)
up to 400	5,000
401 – 1,000	10,000
1,001 – 3,000	15,000
3,001 – 5,000	24,000
over 5,000	24,000 plus FCFA 10 per additional m^2 with an upper limit of FCFA 50,000

b) Tax on undeveloped property

Surface area (m^2)	Rate (FCFA)
up to 400	2,500
401 – 1,000	5,000
1,001 – 3,000	7,500
3,001 – 5,000	12,000
over 5,000	12,000 plus FCFA 5 per additional m^2 with an upper limit of FCFA 50,000

Tax return

A tax return is filled either by the owner or his agent by September 30th of each year for tax due for that fiscal year. The tax is paid on filling the return.

Additional tax

An addition tax computed on the base of the real property is paid to the local authority. The tax amount is 25 percent of the real property tax.

4.3.1.3 Taxation of goods, services and transactions

Value Added Tax

The VAT was introduced in Cameroon by Finance law 1998/99 and went into force on January 1999. VAT is levied on transactions undertaken in Cameroon, either regularly or on a casual basis, purchase of goods for resale or industrial, commercial, non-commercial, artisan or professional services and activities related to importation. The VAT is levied on the value added to product by each producer and distributor. Tax paid on imports and other inputs is deductible. Tax on exports is reimbursed. The credit invoice method is used.

Taxable persons

All individuals or legal entities, including real estate developers, who normally or occasionally carry out taxable transactions in Cameroon, are subject to VAT even if the domicile or seat of the individual or company liable for the tax is situated outside Cameroon.

The threshold for VAT liability is FCFA 15 million of annual turnover.

Taxable transactions

Taxable transactions include (i) sales; (ii) building works (construction, demolition, repair and maintenance) and public works; (iii) rendering of services effectuated between two legally distinct persons, whether in kind or in cash.

Computation of tax

As from 1999, three systems for assessing income tax are applicable for VAT as well. These systems are assessment on actual profits; simplified assessment; and basic assessment.

Input VAT is deducted from output not later than June 30th of the second financial year after the payment was made. Credit resulting from the deduction can be set off against VAT liability without any time limit. The amount of credit may be reimbursed if the taxpayer is not liable to any other taxes which can be set off. However, tax credit will be reimbursed to exporters; to entrepreneurs who have realized investments resulting in a VAT credit exceeding FCFA 200 million; and to enterprises that are winding up business.

Non deductible Transactions

Transaction which do not give the right to deduction of input VAT include: (i) hotel expenses; (ii) hiring of vehicles for tourist and passenger use; (iii) import of goods which are not utilized in Cameroon; (iv) goods and services purchased by an enterprise but used by third parties; (v) services linked to goods excluded from the right of deduction.

VAT rates

A standard rate of 18.7 percent applies to all taxable transactions. 0 percent applies to export of taxable goods.

Non-residents

Individuals or legal entities who are not resident or established in Cameroon, but who take part in transactions subject to VAT, will be subject to the tax in Cameroon in the same way as residents.

Tax returns and payment

All taxpayers must file a return within 15 days from the commencement of activity or 15 days before the end of activity. Taxpayers of the actual and simplified regimes file and pay the tax due before the 15th of the following month. Those of the basic regime file and pay the tax due before the 15th which follows each three-month period.

Excise tax

This is an ad valorem tax of 25 percent levied on the sale of cigarettes, tobacco, alcoholic beverages, precious stones, metals, perfumes, and jewelry.

Special tax on petroleum products

This is levied at the retail level, on consumption of premium gasoline at a flat rate of FCFA 120 per liter and of diesel at a flat rate of FCFA 65 per liter.

Stumpage fee

This fee is levied on the businesses involved in the exploitation of forest resources at a rate of 2.5 percent of the fob value of timber exports.

Business license fee

This fee is levied on corporations and individuals (engaged in commercial, industrial, and professional activities) who are subject to either corporation tax or personal income tax. Tax liability is defined on the basis of turnover according to seven schedules with rates ranging from 0.075 percent to 0.4 percent. For transportation companies, a lump sum is paid per vehicle.

License fees

This fee is levied in addition to the business license fees on the sale of beer and other alcoholic beverages. Fees vary according to category of beverage and tax regime of taxpayers. Tax liability ranges from 0.5 to 6 times of business license fee.

4.3.1.4 Tax on international trade

In Customs taxation, Cameroon takes into account its adhesion to the GATT and its participation in the Economic and Monetary Community of Central African States. Import and export duties are regulated by CEMAC ACT NO 5/94. This Act fixes an External Common Tariff (TEC) for all countries which are not members of CEMAC. Customs taxes in Cameroon are levied on the cif value of imported goods. The prevailing practice is to value goods at the list price of the goods in the country of origin and include the cost of freight to Douala (the principal port of Cameroon)

Taxes on Imports

There are three kinds of taxes levied on imports:

(1) common external tariff which comprises ad valorem tax rates applied on all imports from non-CEMAC countries. The rates are 5 percent applied on goods of primary necessity (medications, agricultural inputs, books, journals, medical equipment…..); 10 percent on raw materials and industrial equipment, chemical products, industrial machines, and motor vehicles; 20 percent on intermediary products (textiles, industrial spare parts….); and 30 percent on common consumption goods (home production, all other products);

(2) inspection fee levied at a rate of 0.95 percent on the cif value of imports; and

(3) computer fee levied at a rate of 1.5 percent on the cif value of imports.

Imported goods are also subject to the VAT at 18.7% on the basis of CIF value plus customs duties and import duty amounts. In addition imported good are subject to other less important duties and taxes such as inspection tax or computer tax.

Taxes on Exports

The following export duties apply :(1) export duty levied at a rate of 17.5 percent of the fob value of timber exports; 3 percent or 4 percent of log content of transformed forestry products; (2) progressive surtax levied on timber exports exceeding 30 percent of total production. Flat rates ranging from FCFA 500 to 4000 per cubic meter are applied as specified by law; (3) inspection fee levied at 0.95 percent on the fob value of agricultural exports; (4) sanitary inspection fee levied at a rate of 1 percent on fish, meat, cattle; and (5) port fee levied at a rate of 0.25 percent on fob value of all exports.

4.3.1.5 Stamp duty and taxes on the formation of a company

Registration duties

These taxes consist of fixed, variable, digressive, and progressive duties.

Fixed duties are levied on documents which do not relate to the transfer of property or right of use or enjoyment of movable or immovable property, acknowledgements of debts, documents relating to dowry payment, capital contribution to a company, or documents relating to the division of movable or immovable property. Any other document presented voluntarily – even if exempt from the formality – shall be subject to these duties. Rates vary according to the type of deed involved and range from FCFA 10,000 to FCFA 50,000.

Variable duties are levied on transfer of ownership or rights of use or enjoyment of movable or immovable property, acknowledgements of debts, documents relating to dowry payment, capital contribution to a company, or documents relating to the division of movable or immovable property. Rates are (i) 15 percent on sale of real property and transfer of business; (ii) 10 percent on lease for a limited period of property for professional, industrial or commercial purposes; (iii) 5 percent on auction sale of movable property, exchange of movable property and to life time leases of movable or immovable property; (iv) 2 percent applicable to transfer of shares, bonds in private or commercial companies which do not have their seat in any of the CEMAC countries, and to loans secured by pledge or mortgage; (v) applicable to divisions of movable property, guarantees relating to movable property.

Regressive duties levied at rates ranging from 2 percent to 0.25 percent on the setting-up or extending the life of a company, increase in capital.

Progressive duties applied to various categories of transfers.

Stamp Duty

Stamp duty is levied on all official documents and judicial instruments and documents to be used as evidence in judicial proceedings. Certain stamps are payable according to the size of the document; these vary between FCFA 500 and 1,500. Graduated stamps are payable on deeds relating to land at a flat rate of between FCFA 10,000 and FCFA 3,000, according to the value of the deed.

Tax on Insurance Contracts

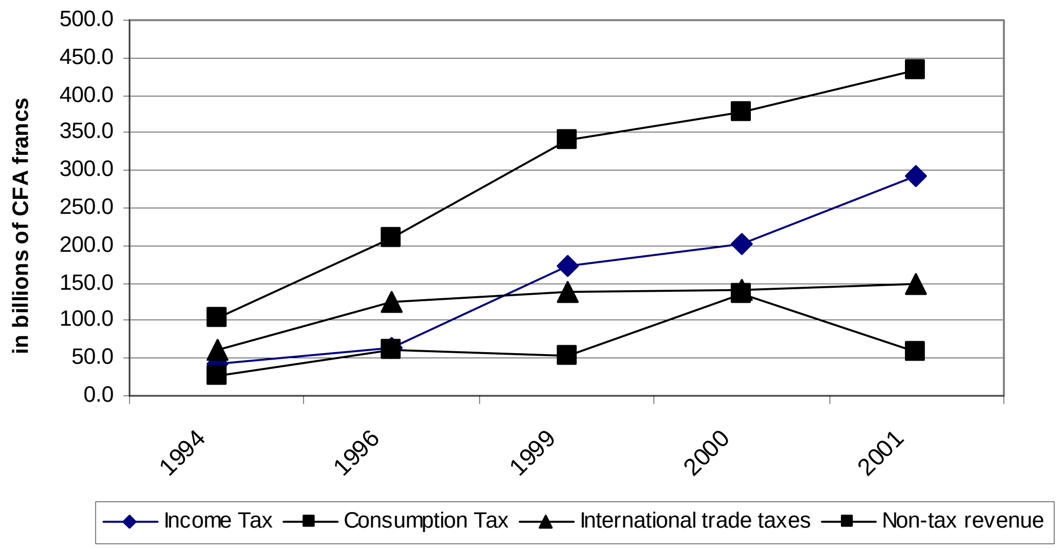
This tax is calculated on the amount of the premium. The following tax rates are applied: (i) 4 percent for insurance relating to inland, waterways or air transport; (ii) 25 percent for insurance against fire (iii) 4 percent for life annuity policies; (v) 10 percent for any other category of insurance. Reinsurance, life assurance and similar types of insurance contracts are exempted from this tax.

Table 4.26 Central Government Revenue (in billions of CFA francs)

	1993/94	1995/96	1998/99	1999/2000	2000/2001
Total revenue	343.9	655.0	838.0	1,168.1	1,301.2
Oil revenue	74.1	142.8	133.0	305.8	364.6
Tax revenue	244.3	450.1	652.0	720.6	874.1
Taxes on Income and Profits	42.6	65.1	174.0	201.5	293.6
- Corporate income tax	*13.7*	*29.5*	*63.0*	88.6	166.0
- Individual income tax	*28.9*	*35.5*	*52.0*	87.5	109.5
- Other direct taxes	*0.0*	*0.0*	*59.0*	25.4	18.1
Taxes on goods and services	104.0	209.0	340.0	378.1	432.4
- Sales tax / VAT	*33.4*	*153.9*	*225.0*	269.2	312.1
- Excise taxes	*12.4*	*19.0*	*25.0*	26.6	30.5
- Others	*53.4*	*36.2*	*82.0*	82.3	89.8
Taxes on international trade	62.1	126.0	138.0	141.0	148.1
- Import duties	*54.5*	*72.1*	*103.0*	112.1	127.9
- Export duties	*7.6*	*51.2*	*26.0*	14.6	5.0
- Others	*0.0*	*2.7*	*11.0*	14.3	15.2
Non-tax revenue	25.5	62.1	53.0	136.0	58.7
(in percent of total revenue)					
Total Revenue	100.0	100.0	100.0	100.0	100.0
Oil Revenue	21.5	21.8	15.9	26.2	28.0
Tax Revenue	71.1	68.7	77.8	61.7	67.2
- Taxes on income and profits	12.4	9.9	20.8	17.3	22.6
- Taxes on goods and services	30.2	31.9	40.5	32.4	33.2
- Taxes on international trade	18.1	19.2	16.5	12.1	11.4
Non-tax revenue	7.4	9.5	6.3	11.6	4.5
(in percent of GDP)					
Total Revenue	10.1	14.3	15.5	17.7	18.7
Oil Revenue	2.2	3.1	2.5	4.6	5.2
Tax Revenue	7.2	9.8	12.1	10.9	12.6
- Taxes on income and profits	1.2	1.4	3.2	3.1	4.2
- Taxes on goods and services	3.0	4.6	6.3	5.7	6.2
- Taxes on international trade	1.8	2.8	2.6	2.1	2.1
Non-tax revenue	0.7	1.4	1.0	2.1	0.8

Source: Own calculations using data from Ministry of Economy and Finance

Figure 4.10 Evolution of Tax Revenue



4.4 Country-Specific Fiscal Issues

The major challenge for the government today is to enhance non-oil revenue mobilization and to strengthen much further public expenditure management. On the revenue side, much emphasis is on broadening the tax base as well as in reducing the number of VAT exemptions. Other big issues on the government's agenda are the reforms on the personal income tax and the property tax.

It is clear from the description of Cameroon's tax system that the latter is very complex. Because of this complexity, taxpayers, and sometimes, the tax officials, are faced with difficulties to understand and implement the tax matters correctly. The scheduler individual income tax system with different methods for arriving at tax base coupled with too many rates applied to different kinds of incomes is responsible for the complex nature of the tax system. If the scheduler taxes were abolished, the objective of horizontal equity would be achieved.

Reforms undertaken so far in this respect are focused on converting the scheduler tax on profits realized by individual taxpayers, into a system of taxes payable on profit income under the general income tax. Under this system, tax liability shall be due on total income.

Another challenge for the fiscal administration is with respect to the continuous growth of the informal sector. The existing income tax system is almost wholly limited to the formal sector. Taxpayers of the informal sector are subject to the final assessment system, under which flat tax amounts of between 20,000 and 100,000 CFA francs are paid every quarter. Therefore, of a total of about 200,000 taxpayers in Cameroon, about 166,000 who operate in the informal sector pay the above flat rates, leaving only about 34,000 taxpayers in the formal sector to bear the income tax.

In a nutshell, the following fiscal issues are pending completion:

4.4.1 On the revenue side

4.4.1.1 Domestic taxation

- Cleaning-up of the taxpayer master file;

- Expansion of the taxpayer master file by assigning Taxpayers Identification Numbers (TIN) to all economic operators;
- Establishment of a computer interface between finance departments to facilitate information exchanges;
- Improvement of performance in tax audits through the harmonization of penalties, dates for filling returns and paying;
- Provision of adequate training to staff in charge of tax collection;
- Establishment of a special unit to monitor tax compliance of the largest corporations; and
- Establishment of a management centre which will be responsible for providing assistance and guidance to taxpayers.

4.4.1.2 Customs Administration

- Simplification of customs clearance and export procedures;
- Closer monitoring of transit trade between Cameroon and neighboring countries;
- Transformation of the joint unit of customs and tax departments into a unit responsible for the collection and analysis of tax data, and making it productive.

4.4.2 On the expenditure side

Government's greatest challenge is to impose a principle of budgetary rigor and discipline, as well as improve on the quality and efficiency of public spending. To achieve these, government's actions have been focused on the shortening, simplification and enhancing budget execution and procedures, the programming of expenditure on the basis of precise objectives, reinforcing the systematic control of the effective rendering of services and the fight against artificial inflation of government bills. Furthermore, to improve the monitoring of transferred appropriation, government has instituted quarterly budget execution reports for the social sector Ministries (education and health), and to other Ministries as well. Other actions include:

- Improving cash management and enhancing the accounting system;
- Improving the budgetary credit delegation system;
- Settlement of outstanding domestic arrears payments.
- Profound reform of the public procurement system through the intensification of the rules governing public contracts and the systemization of audits.

4.5 Conclusion: Where We Stand and Where We Go.

Despite being a resource-rich country**,** Cameroon has remained plagued with problems of unsustainable high level of foreign debt, poverty, corruption and governmental mismanagement. The level of poverty in the country is a cause for great concern. A household survey conducted in 1996 revealed that, about half the population are poor, and of these almost 60 percent live below the poverty line of FCFA 148,000 (about US $250) per year. 84 percent of the poor live in rural areas. The proportion of poor households in urban areas is about 43 percent. Income distribution is highly skewed (average annual income per adult for the poorest 10 percent is about US $100, while for the wealthiest 10 percent it is about US $1,500)[11]. Poverty reduction therefore, remains government's top priority.

In addition, there have been no national development plans since 1989, when the first adjustment program was agreed. Since then, public expenditure programming has been ineffective as a tool for establishing and implementing national development priorities, including poverty reduction. Actual expenditures and decisions, about which components of what programs are funded, are centralized at the Ministry of Finance.

[11] The Human Development Index for 2000 ranked Cameroon 134th out of 174 countries.

Coordination between ministries is problematic. Even coordination and collaboration within ministries are weak. Civil service management conditions and practices most of the times work against public sector effectiveness. Basic supplies and equipment that would allow staff to carry out their jobs are lacking; existing equipment is not maintained. Salaries in the public sector are low such that staff are discouraged and serve the public in a mediocre way. Because of lack of motivation many civil servants have resorted to other ways of making money to make ends meet. Such ways include taking on extra employment and in some cases resort to bribe taking from the very people they are expected to serve.

Formal local government is weak compared to the representation of the central government at the local level. The commune which is the unit of local government lacks the ability to raise its own revenue, and has few legal powers. In contrast, representatives of the central government at the local level are responsible for law enforcement and regulation of local business, in addition to their administrative responsibilities. This portrays the highly centralized nature of Cameroonian institutions.

To address these problems, various programs have been adopted since the 1990's. Under an IMF supported medium term three-year Poverty Reduction and Growth Facility (PRGF) program introduced in July 1997, structural reforms aimed at liberalizing the economy and foreign trade, and stimulating private initiative were introduced, while government efforts centered on strengthening expenditure management and control, and improving transparency in government operations. A new three-year PRGF facility with the IMF worth US$134m was approved in December 2000 in recognition of improvement in macroeconomic management and market oriented reforms. By late 2001 significant progress had been made in privatization. A focus on governance and the promotion of transparency in the management of public affairs, as well as tackling the high level of corruption remain key policy trends.

Cameroon which had accumulated considerable arrears on the eve of the currency devaluation succeeded in restoring normal relations with its external creditors, though at high cost. The international community has supported the country’s interim poverty reduction strategy with the first phase of debt relief under the Highly Indebted Poor Countries initiative (HIPC) and a new Poverty Reduction and Growth Facility from the IMF. Cameroon reached decision point for the HIPC initiative in October 2000. The challenge for the country is to convince the donor community that savings from debt reduction will be used efficiently to reduce poverty. It is therefore important for the government to develop and implement a poverty reduction strategy, which responds fully to the concerns of all Cameroonians. For the past years there has been lack of explicit poverty reduction policies backed up by leadership in implementing such polices.

From the foregoing, the government of Cameroon has understood that it faces a serious challenge if it is to reverse the decline in the social sectors, reduce poverty, complete its privatization program, and improve its image that has been tainted by corruption. The government has therefore decided to take a series of measures to meet these challenges.

4.5.1 Social and poverty reduction policies

With an economic growth rate which stands at about 4.3 percent, far higher than the population growth rate of 2.7 percent, the Cameroon government seeks to significantly improve the living conditions of the populations in order to reduce poverty in a sustainable way. In this regard, a Framework document of a medium-term economic and financial policy (2000-2003), set the following objectives: (1) achievement of strong and sustainable growth; (2) definition and implementation of poverty control policies; (3) improved management of public expenditure; and (4) enhanced good governance. To efficiently address poverty, the government plans to improve the productivity of the agricultural sector in order to increase incomes and create jobs. To achieve this, the government intends to make production factors more accessible; promote the development of efficient and sustainable production systems; promote technical innovations and the processing of agricultural produce; develop the competitiveness of production sectors; and promote the development of enterprises in the agricultural sectors. Thus in the past three years, the main focus of the government's social policies has been to strengthen economic performance so that it translates into tangible results in terms of poverty reduction; job creation and genuine improvement in the economic welfare of the population as a whole. Strategies are being developed in the education and health sectors (budget allocations for education and health sectors have been increased), rural roads infrastructure, and portable water

In the private sector, the government has established a joint Competitiveness Committee with business representatives to identify major constraints to growth with a view to improving the overall competitiveness of the economy.

In the financial sector, government's focus is on completing reforms of the banking and insurance sectors, and in starting the reform of the social security system which recognizes the needs of different groups of beneficiaries (family allowances, workers' compensation and pensions), as well as micro-finance.

It is important to note that, poverty reduction measures will succeed if and only if, the poverty reduction strategy is comprehensive involving the government, the civil society and the poor themselves. Poverty reduction can only succeed if all the players are engaged fully in it. Rebuilding the partnership between the public sector and civil society at large will not only help reduce poverty, but will also turn Cameroon's diversity and dynamism into a much valued asset.

4.5.2 Governance

The government has undertaken to improve governance by enhancing transparency and accountability in its operations and to fight the wide spread corruption (corruption has been identified as a major contributor to abject poverty in Cameroon). Government has focused its actions on public expenditure management, transparency in oil sector operations, and the privatization of all public corporations. To reinforce these measures the government has developed a comprehensive strategy aimed at promoting good governance and reducing poverty based on the National Governance Program. Anti corruption measures play an important role in this program. In the recent past, dismissals, arrests and convictions of both senior and low ranking officials on corruption charges have occurred. In addition, measures have also been taken to correct the deficiencies of the legal system and making it completely independent.

Endowed with significant petroleum and forestry resources, Cameroon has the potential to be one of the wealthiest countries in sub-Sahara Africa. With its abundant natural resources the country has solid foundations, as well as tremendous development potential that have yet to be efficiently exploited to restore economic growth that would benefit the majority of its citizens.

Appendix 1

Investment Incentives

Tax advantages are contained in the Investment Code to encourage investment and attract foreign capital.

The major law governing investments in Cameroon is the Investment Code, enacted in 1990 and currently pending revision for further liberalization. The code has made investing in Cameroon simpler and has established very attractive financial and fiscal incentives in exchange for minimal eligibility and performance requirements. The code provides incentives that are identical for both local and foreign investors. It provides over fourteen basic guarantees to investors which include property ownership, ability to repatriate capital and income, prior compensation in case of expropriation, and freedom of movement within Cameroon. General benefits provided by the Investment Code are available to all new and existing enterprises in Cameroon which process goods for export or use inputs from the local or regional markets of the Central African Economic and Monetary Community (CEMAC).

An important investment feature of the code is the Industrial free Zone (IFZ) Regime which is applicable to all locations through “industrial park” or “single factory” zones. The code creates conditions for the Industrial Free Zone investor to operate virtually outside of the jurisdiction of the country’s established legal and regulatory systems; there are no requirements for technology transfer, no requirements to locate in specific geographical areas and foreign exchange privileges are not rationed. Investors can transfer dividends, return of capital, interest and capital on foreign debt, lease payments, royalties and management fees, returns on liquidation and many other benefits. The only eligibility requirements to qualify for Industrial Free Zone status are production of goods or services at least 80 percent of which are export bound and which do not have bad effects on the environment.

Industrial Free Zone firms receive a 10 year exemption from taxes and are subject only to a flat tax of 15 percent on corporate profits beginning in the 11th year. They have a right to tax free repatriation of all funds earned on some goods. Also duty free status is granted to equipment and materials imported for manufacturing under the Industrial Free Zone and for the execution of public contracts. Statistics of the National Office for Industrial Free Zones show tha about 33 enterprises currently have Industrial Free Zone status, 22 of which are operational throughout the country.

Appendix 2

Exchange Controls

Cameroon is a member of the franc zone and as a result, exchange controls do not exist between the following states:

- France and Monaco.
- Member states of the Central African Economic Monetary Community (CEMAC): Cameroon, Central African Republic, Congo, Gabon, Chad and Equatorial Guinea.
- Members of the West Africa Economic and Monetary Union: Benin, Burkina-Faso, Côte d'Ivoire, Equatorial Guinea, Mali, Niger, Senegal and Togo.

Exchange controls otherwise exist on monetary transactions with other states. The transfer of foreign currency in and out of Cameroon is subject to approval by the Ministry of Finance. However, foreign investors who pay regular taxes in Cameroon should not encounter difficulties in remitting funds abroad. These authorizations are routinely granted

Appendix 3

International Tax Treaties

Cameroon has concluded a general treaty of fiscal cooperation with members of the OCAM (Organisation Commune Africaine, Malgache et Mauricienne) whose members include: Benin, Burkina Faso, the Central African Republic, the Congo, Ivory Coast, Madagascar, Mauritius, Niger, Rwanda, Chad, Togo and the Democratic Republic of Congo

Cameroon has also concluded double taxation treaties with France singed in 1976 and Canada signed in 1982.

Cameroon signed the Harmonization of Business Laws in the Franc Zone (known by its French acronym as OHADA, for Organisation pour l'Hamonisation du Droit des Affaires en Afrique) treaty. This treaty was signed in 1994 and ratified in 1996. The treaty's objective is the harmonization of the regulations governing business making in Africa. The treaty is going to have uniform regulations in the following: (1) General Commercial Law; (2) Commercial Company Law; (3) Guaranties; (4) Rapid debt collection; (5) Bankruptcy Law; and (6) Accounting rules

Article 21 of the treaty also provides for the creation of a Common Justice and Arbitration Court.

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