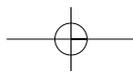
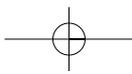
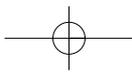
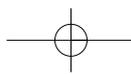


Cameroon







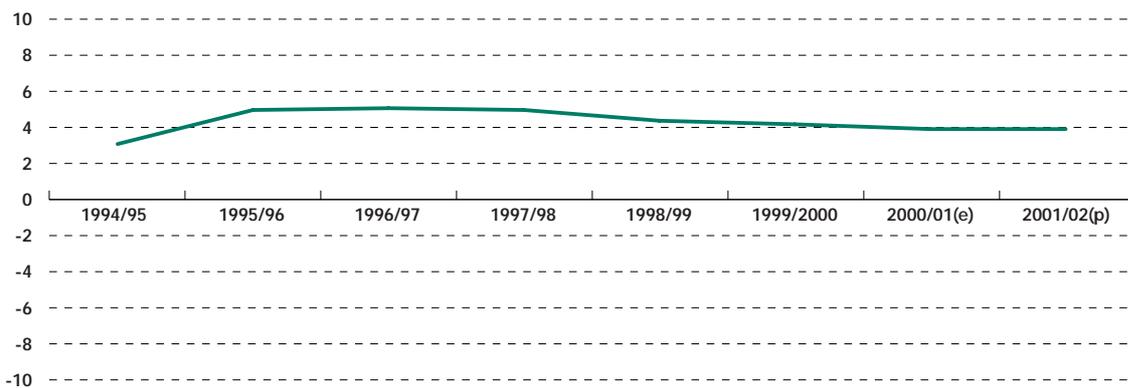
Cameroon

THE CAMEROON ECONOMY has performed satisfactorily since 1996, with growth of more than 4 per cent a year and low inflation (less than 3 per cent). The country also has better education and health indicators than the rest of sub-Saharan Africa. However it suffers from weak institutions and persistent corruption that hampers development projects. Medium-term prospects depend very much on solving problems of governance, especially making good use of the debt remission obtained under the Heavily Indebted Poor Countries (HIPC) Initiative. But in the short term, support from international funding agencies

and the spin-off from building the Chad-Cameroon oil pipeline should ensure good investment performance. The recovery of the purchasing power of wages, very badly hit by devaluation, continues. GDP growth should be around 3.9 per cent in 2000/01, below the average performance of recent years, because of disruption in export crops (cocoa and coffee) and the timber sector. Lower oil production and a drop in world oil prices from 2001/02, along with the fall in the price of coffee, may keep the growth rate at 3.9 in 2001/02.

The future of Cameroon depends very much on solving problems of governance

Figure 1 - Real GDP Growth



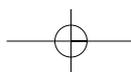
Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

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Recent Economic Developments

Since devaluation in January 1994, Cameroon has seen renewed growth of between 4 and 5 per cent a year. Population increase has been about 2.7 per cent over the period, resulting in GDP per capita growth of between 1.5 and 2.7 per cent. Apart from its economic vigour, Cameroon has stood out among its neighbours in recent years for its steady performances (despite erratic results in the oil sector), demonstrating its relatively broad-based productive capacity.

In the early 1980s, Cameroon's economy was heavily dependent on oil. But from 1986, oil production fell in volume, from 9 million tonnes to 5 million in 1997. At the same time, the price dropped sharply because of the oil slump and the fall in the US dollar. Oil accounted for 20 per cent of the country's GDP (in current dollars) in the early 1980s but only 5.6 per cent in 1998/99. But in 2000, the big rise in oil prices almost doubled the share of oil in the GDP (current dollars). The price rise, however, hid a 4.7 per cent drop in the volume of production.



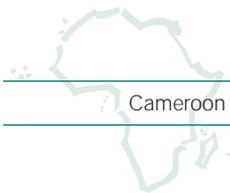
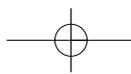
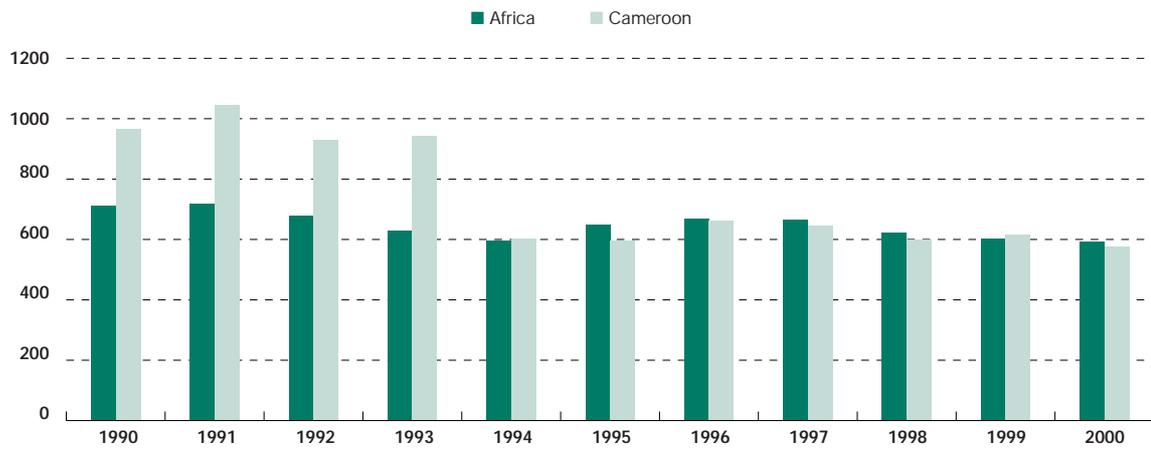


Figure 2 - GDP Per Capita in Cameroon and in Africa (\$ current)



Source: Authors' estimates based on IMF data.

Agriculture remains a key sector of the economy¹, making Cameroon self-sufficient in food, unlike its neighbours. Agriculture employs 70 per cent of the working population and brings in 40 per cent of export revenue. Food crops have enjoyed good weather since the mid-1990s, resulting in good harvests and a steady annual growth in production of between 3 and 8 per cent since 1995. Export crops face problems however due to the fall in world prices and because of disruptions in the cocoa and coffee sectors following privatisation.

Major structural reforms were recently begun in the forestry sector. A law banning the export of unprocessed timber, passed in 1994 but not implemented until 1999, was recently amended to make it more applicable by partially exempting some species, with the aim of encouraging processing without threatening government revenue². At the same time, timber companies were subject to greater control and public forests were introduced. But it was hard to apply these ambitious reforms. The biggest obstacle was the difficulty of effectively monitoring the new standards and the currently widespread problem of illegal felling. The 22 per cent drop in production in 2000 can be blamed on the timber market becoming more informal as well as on the new forest regulations.

In the secondary sector, construction and manufacturing grew strongly in 2000 due to revival of public investment and consumption. But the tertiary sector seems to have contributed most to GDP growth in 2000/01, accounting for 4.65 per cent of the 5.4 per cent total growth figure. The partial recovery in purchasing power as well as the numerous events held in Yaounde and Douala explains the new vitality in the commerce, hotels and restaurants category, while road and port repairs along with privatisation of mobile telecommunications accounts for the vigour of the transport and communications item. The "other commercial services" grouping, which includes activity linked to the informal economy such as handicrafts, services and micro business, also grew strongly in 2000.

The economic crisis appears to have boosted the importance of the informal sector, which now employs about three-quarters of the urban workforce and a sizeable number of skilled people.

From 2000/01, non-oil growth has mainly been fed by internal demand. The notable increase in private investment is helped by the resumed flow of international funding, but the rate of investment at the end of the 1990s was still much lower than it was during the

1. Data is lacking for this sector however, the last survey on the ground being in 1992.

2. Until 1999, taxes were higher on unprocessed timber than on processed, which gave no incentive to the government to apply the ban on the unprocessed product. Recently a tax based on land area created a more balanced tax structure.



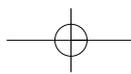
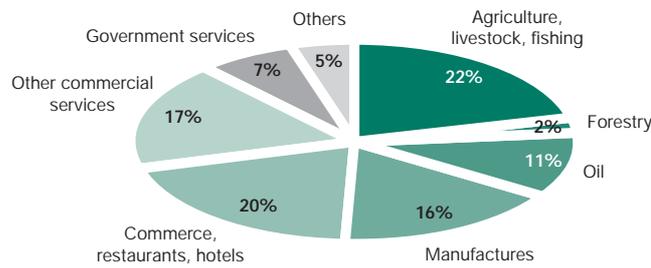
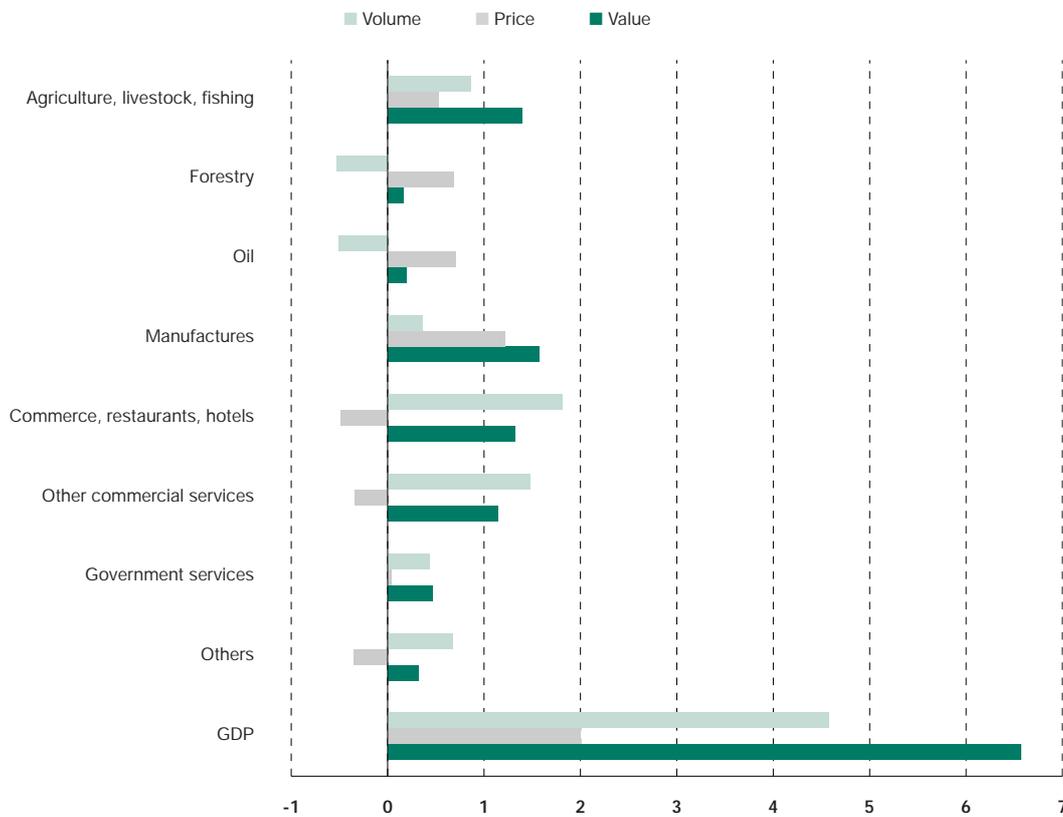


Figure 3 - GDP by Sector in 2000/01



Source: Authors' estimates based on National Statistics Institute data.

Figure 4 - Sectoral Contribution to GDP Growth in 2000/01

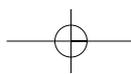


Source: Authors' estimates based on National Statistics Institute data.

golden age of the early 1980s. In the coming years, investment should grow even more with the building of the Doba-Kribi oil pipeline, whose spin-offs could have a substantial effect on the Cameroon economy.

Civil service salary increases (after gradual payment of arrears and following pay rises in 1997 and 2000)

somewhat boosted consumption, but this was offset by sluggish agricultural income and high urban unemployment that also affected white-collar workers. The pick-up in investment and consumption has also seen a big increase in imports which, along with the drop in oil production, is expected to produce an external deficit by 2002.



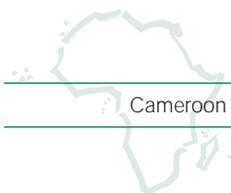
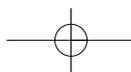


Tableau 1 - Demand Composition (percentage of GDP)

	1994/95	1997/98	1998/99	1999/2000	2000/01 (e)	2001/02 (p)
Gross capital formation	14.5	17.5	18.7	16.4	20.1	21.6
Public	1.2	2.0	2.7	3.6	4.1	5.9
Private	13.3	15.5	16.0	12.8	16.0	15.7
Consumption	80.5	80.8	81.6	79.7	79.9	78.8
Public	8.6	9.2	10.0	10.2	11.1	10.0
Private	71.9	71.6	71.6	69.5	68.8	68.8
External sector	5.0	1.7	-0.3	3.9	0.0	-0.4
Exports	25.7	26.5	24.4	30.7	28.0	27.6
Imports	-20.7	-24.8	-24.7	-26.8	-28.0	-28.0

Source: Authors' estimates and predictions based on National Statistics Institute data.

Macroeconomic Policy

Budgetary and Monetary Policy

Until mid-1996, Cameroon was seen as one of the IMF's "bad pupils". None of the four programmes negotiated with the international financial bodies had been completed by then. But the figures began to change in 1996-97 with the advent of a new government and drafting of a new programme that aimed to consolidate the benefits of devaluation, fight poverty and create favourable conditions for the private sector. The new political direction led to notable improvement in state finances despite the low price of oil and substantial debt servicing. However, the budget austerity was only made possible by a huge cut in capital expenditure, which eventually led to serious neglect of national infrastructures.

Since 1994, the budget has been helped by major structural reforms such as the TCA business turnover tax, introduced as part of the June 1993 tax and customs reforms and replaced in 1999 by the VAT. This has boosted tax revenue and tax transparency in the non-oil sector. Openness about oil revenues, still a key to budgetary balance, was helped by annual audits of the national oil company SNH (*Société Nationale des Hydrocarbures*). In 1999/00, higher oil prices produced a budget surplus and VAT revenue reached four per cent of GDP, which is high, compared with other sub-Saharan countries.

In the first half of 2000/01, oil revenue fell sharply because of the drop in oil prices. But the shortfall was made up for by increased revenue from non-oil items. Increased expenditure occurred under the headings of consumption of goods and services, investment and

Tableau 2 - Public Finances (percentage of GDP)^a

	1994/95	1997/98	1998/99	1999/2000	2000/01 (e)	2001/02 (p)
Total revenue and grants^b	13.1	16.4	15.7	18.8	20.6	18.5
Tax revenue	9.3	11.0	12.1	12.1	12.5	12.1
Total expenditure and net lending^b	16.2	17.9	18.9	17.4	18.3	
Current expenditure	15.0	14.9	15.2	14.5	15.1	
<i>Excluding interest</i>	8.6	9.2	10.0	10.1	11.1	10.6
Wages and salaries	4.7	4.9	5.1	5.0	5.3	5.2
Interest payments	6.4	5.7	5.2	4.4	4.0	
Capital expenditure	1.1	2.9	3.6	2.7	3.1	4.4
Primary balance	3.3	4.3	2.0	5.7	6.3	3.3
Overall balance	-3.1	-1.4	-3.2	1.4	2.3	

a. The financial year begins 1 July.

b. Only major items are reported.

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.





wages and salaries. But higher public investment is a positive sign pointing to the country's clearly improved capacity for absorption, even though there are still serious shortcomings in this domain. The government also continued to pay off its internal arrears on schedule. The fiscal year 2000/01 showed a strong overall balance but 2001/02 may be more tricky, with an expected fall in oil revenues and thus a smaller overall budget surplus.

Like the other CEMAC countries, Cameroon has an exchange rate pegged to the French franc and a monetary policy controlled by the BEAC, leaving budgetary policy as the government's main economic instrument. From 2000, the pick-up in investment and consumption was accompanied by inflation in the food and construction material sectors. But price rises should be modest and amount to 2.4 per cent inflation for 2000/01 and then fall to 0.3 per cent in 2001/02.

External Position

Cameroon's trade structure is fairly broad-based, with oil accounting for less than 10 per cent of GDP and a third of total exports. Export crops account for another third by value and are themselves quite varied, including coffee, cocoa, cotton, bananas, palm oil and rubber. The other important export item is timber (15 per cent of exports).

Cameroon has an overall trade surplus but this hides a decline of trade in non-oil items. Since 1995, imports have been rising while non-oil exports have stagnated. This is connected to the gradual revival of demand following devaluation along with major adjustment problems in the country's productive capacity. Traditional export crops have been neglected because of low market prices and disruptions in the

Tableau 3 - Current Account (percentage of GDP)

	1994/95	1997/98	1998/99	1999/2000	2000/01 (e)	2001/02 (p)
Trade balance	7.3	4.1	2.2	6.6	3.7	3.4
Exports of goods	20.8	20.7	18.3	24.0	21.9	21.5
Imports of goods	-13.5	-16.6	-16.1	-17.4	-18.1	-18.1
Services	-2.3	-2.4	-2.5	-2.7		
Factor income	-6.7	-5.4	-5.1	-6.7		
Current transfers	0.8	1.1	1.3	1.1		
Current account balance	-0.9	-2.5	-4.1	-1.7		

Source: Authors' estimates and predictions based on IMF and domestic authorities' data.

production process³. The Asian crisis slashed demand for timber in 1999 and despite recovery in 2000, the partial ban on exporting unprocessed timber has reduced the number of logging permits being issued.

For many years, Cameroon has received far fewer soft loans than other members of the franc zone (about half the number they did between 1985 and 1997). However, when oil prices collapsed in the 1980s, it accumulated a large external debt that is now a heavy burden on economic development since servicing it absorbs a third of the national budget. It amounts to

108 per cent of GDP, despite a big reduction following devaluation, before which it was 127 per cent of GNP.

Because of the large external debt servicing by the government, net transfers from multilateral funding sources became negative in the early 1990s. The system of international aid was a factor in this reversal. After much evidence of corruption in the late 1980s and failure to fulfil the conditions of the structural adjustment programmes, the international financial bodies became very wary about supplying credit. But Cameroon's low absorption capacity and a lack of

3. Dilapidated infrastructure hinders shipment of these crops. There is also no adequate means of financing cultivation and privatisation in the cocoa and coffee sectors has made the procedures unreliable.

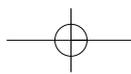
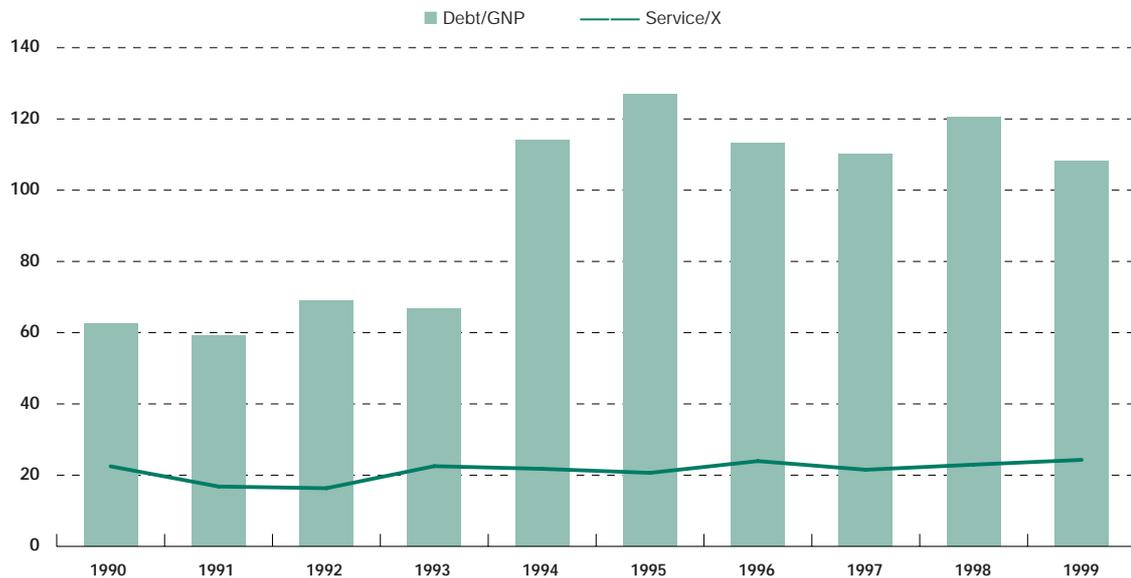


Figure 5 - Stock of Total External Debt (percentage of GNP) and Ratio of Debt Service (percentage of exports of goods and services)



Source: World Bank (2001), *Global Development Finance*.

communication also contributed to the meagre disbursement of credit.

To lighten the debt burden on the economy, Cameroon was declared eligible for the Enhanced HIPC Initiative, though this was not at first planned. The country reached decision point in October 2000 and got a very substantial debt cancellation of \$2 billion in nominal terms (\$1.26 billion NPV). It should reduce the amount of government revenue spent on debt servicing from 23 per cent in 2000 to 10 per cent by 2008 and to cut the ratio of total debt to exports from 200 per cent in 2000 to 120 per cent in 2001 and 100 per cent in 2007.

The meeting of the Paris Club authorising the start of project funding was held in January 2001. The effects of debt reduction have not yet been felt however because despite availability of the first part of the money released through the HIPC, the projects are not ready. So 37 billion CFA francs (about \$50 million) have been rolled over from the 2000/01 budget to 2001/02. Completion point still depends, among other things, on drafting a final version of a plan for the poverty reduction and growth facility (PRGF) which should be

ready by spring 2002, meaning it could be reached in late 2003.

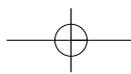
Structural Issues

Broad reforms are under way to restructure the banking sector, encourage privatisation and improve national infrastructure. Despite delays, the goals of the 1997-2000 programme have been achieved.

Privatisation was started fairly late in Cameroon and was an especially big task because the partly state-owned sector was very extensive. It has been completed for sugar (*Camsuco*), rubber (*Hevecam*) and part of the palm oil sector (*Socapalm*). The railway (*Camrail*) and recently the electricity company (*Sone*) have also been privatised. Two mobile phone licences have been granted to private firms (SCM and MTN). Banking and insurance have been thoroughly reformed and the companies in the sector either sold or disbanded. A road maintenance fund has been set up.

The third wave of privatisation, which began in 1999, involved the major public services. There have been





delays, mainly because of the size and complexity of the enterprises concerned. The telephone and water companies, *Camtel* and *Snec*, are embroiled in disputes over the financial terms of transfer. *Telcel*, which wants to take control of *Camtel*, is questioning the latter's share value in view of its large outstanding debt. The company's assets are being revalued. The French firm *Lyonnaise des Eaux* has made a bid for *Snec* that the government thinks is far too low. The firm's offer is being studied by private experts. All the major public bodies should be in private hands by the end of 2001. The takeover of *Sonel* by AES Sirocco was approved on 19 July 2001.

A final series of privatisations is due to start in 2002/03 and procedural problems are currently being studied. A private manager has been appointed to head the national airline *Camair* and a consultant will soon be named to organise its privatisation. The situation at *Sodecoton* is at a standstill because of a legal challenge to the initial share offering. In agro-industry, privatisation of CDC is still under study because of land problems. The commercial side of the port of Douala is also to be privatised.

Restructuring the banking sector and its general restoration to health has been one of the successes of the programme approved in 1997. However it is little suited to the country's needs. A financial system is being set up, with the opening of a stock exchange in Douala (along with a regional one in Libreville), but these are only beginnings. The Cameroon economy lacks financial machinery. Local co-ops manage to attract some of the population's savings while the banks offer low interest loans to some large-scale operators. But the intermediate section of small and medium-sized firms and those seeking long-term funding usually have nowhere to turn. As well as these shortcomings are legal deficiencies that raise fears of arbitrary action. Recently, for example, courts ordered several bank deposits to be seized in the course of litigation.

Cameroon's infrastructure was quite poor when *Camrail* was privatised in 1999. The railway had very

little traffic and was badly managed. Roads are also in a very bad way, especially in Douala where virtually all the country's industry is located. The inadequacy of the road network is made worse in towns by lack of public transport and by population pressure (47 per cent of Cameroonians lived in towns in 1998 and the number was growing by 5 per cent a year). These facilities are to be rehabilitated however as part of the HIPC programme.

SCCF, a South African-French joint venture, took over the railway in 1999 with the intention of restoring the track and rolling stock. The service has definitely improved despite investment delays. A number of major road programmes are under way, including repair of the Nsimalen-Ebolowa-Amdam section and the resurfacing of several roads in the north. Other projects, funded by the European Union, will improve links with the rest of the sub-region. One such road, between Bertoua, Garoua and Boulai (248 km) has just been completed.

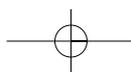
A project to increase the freight capacity of the port of Douala, which handles 95 per cent of the country's foreign trade, is in progress and substantial work has already been done. Privatisation of the shipping side at the end of 1997 led to a major drop in freight charges while in August 2000 administrative reforms at the port speeded up handling of goods. Privatisation of its commercial activity is being considered and the customs accounting system is being made watertight.

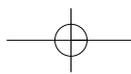
After various snags⁴, construction of the Chad-Cameroon oil pipeline officially began in October 2000.

The Political and Social Context

Public finances have been stabilised and structural reforms started, but Cameroon's clear weakness is governance. A national consultation in March-April 2000 showed this to be the people's major concern. Unlike some West African countries, business people do not see taxes as the main obstacle to their activities

4. Among them the withdrawal of Elf and Shell from the project as well as disputes concerning the effect on the environment. For more details, see the section on Chad.





but administrative red tape and the risks of investment. This view is also based on blunders by a rickety legal system that they see more as a threat to freedom than a defender of it. The civil service has also been bled of its managers and resources since the 1980s and is plagued with corruption.

Corruption is endemic in Cameroon and has been aggravated by the loss of purchasing power that followed the 1994 devaluation (between 1992 and 1995, the real wage of government workers dropped by 75-80 per cent). To compensate, many civil servants take a second job or top up their wages by taking bribes. All this has given Cameroon a very bad image and in 1998 and 1999, Transparency International named it as the most corrupt of respectively 85 and 99 countries, based on a survey of people's attitudes. A slight improvement was observed in 2000 and it moved up from the bottom of the list to seventh from bottom.

Institutional failings combine with very poor organisation of civil society and concentration of power at the centre. Despite the 10 000 or so officially acknowledged NGOs in Cameroon, there is no body that represents them. This is partly because of the nominal nature of many of them, which are therefore not very active⁵. Civil society is not encouraged to be a significant partner of the state because the authorities fear their power will be watered down. At the same time, decentralisation, which officially started with the January 1996 local elections, is being obstructed by problems with transferring funds and by lack of trained people. The central authorities have also retained substantial power to intervene and have replaced mayors elected by government representatives and even postponed for a year the local elections due in January 2001.

The authorities and the international funding agencies are aware of the gravity of the problem and have focused their programmes on governance. A committee to fight corruption, chaired by the Prime

Minister, has been set up. Several reforms have improved transparency, including one involving the system of handling state procurement contracts.

Politically, Cameroon is an island of stability in an especially turbulent region. The country has officially been a democracy since 1990, when the national assembly endorsed freedom of association and creation of political parties. But it was not until 1991/92, after strikes that paralysed the economy for six months, that President Paul Biya restored the post of Prime Minister and announced elections and constitutional reform. The first parliamentary and presidential elections were contested by the opposition and led to rioting in coastal areas. Another series of elections five years later strengthened Biya's position as president and that of his *Rassemblement Démocratique du Peuple Camerounais* (RDPC) party in parliament.

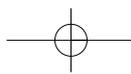
Cameroon has sought international credibility and made efforts to integrate itself more fully in the globalisation process. It is a member of the franc zone and the Commonwealth but is also very active in regional affairs as a member of the economic and monetary grouping CEMAC. However, relations with Nigeria are complicated by a persistent border dispute over the oil-rich Bakassi Peninsula, details of which are being considered by the International Court of Justice at The Hague.

Socially, Cameroon has better health and educational indicators than the rest of sub-Saharan Africa. Infant mortality is 79.3 per thousand, lower than in Côte d'Ivoire. Gross primary school enrolment is about 90 per cent, with a resulting fairly high literacy rate of around 77 per cent, but the long crisis that began in 1985 has markedly eroded these social performances. Government shortcomings⁶ have caused a major deterioration in social services (and an increase in their cost), which has also stimulated the growth of the informal sector.

5. Handling the HIPC money requires a tripartite committee of international funding agencies, NGOs and the government, so an appeal was made to find representatives of civil society. Of the 10 000 NGOs, 63 applied but only 22 provided a complete application. Two representatives were finally chosen.

6. More than half the social services are to be provided by the private sector as the government offloads them.





Health services have been broadly affected by the drop in the real value of wages. To make up for this, doctors have been obliged to conduct private practices to the detriment of public clinics. The gross primary school attendance rate is thought to have dropped by 25 percentage points between 1985 and 1995 and the quality of education has fallen sharply too.

About half the population lives below the national poverty line, a 25 per cent increase over the 40 per cent figure of 1983. Some 87 per cent of poverty was once to be found in the countryside, but this fell to 72 per cent in 1996 as the towns became poorer. In 1983, less than one per cent of the inhabitants of Douala and Yaounde were living below the poverty line. This figure had risen by 1996 to 21.4 per cent for Douala and 29.6 per cent for Yaounde.

Decline in economic performance is not the only cause of the weaker social indicators. Meagre social investment has also been a key factor in the deterioration of infrastructures, along with small returns on the investments made. Cameroon has a very low absorption capacity (though it is fast improving) because only a tiny proportion of credit lines are used. Also, the funds that are disbursed sometimes disappear because of lax government handling.

The HIPC Initiative has brought about some changes however. An anti-HIV/AIDS programme has been started (though the first information campaign was not launched until December 2000) to reduce the already-high infection rate of 7.7 per cent in 1999 among people between 15 and 49. A focus on improving infrastructure will also increase access to basic social services.



