DEPARTMENT OF ECONOMICS
OxCarre (Oxford Centre for the Analysis of Resource Rich Economies)

Manor Road Building, Manor Road, Oxford OX1 3UQ
Tel: +44(0)1865 281281 Fax: +44(0)1865 281163
reception@economics.ox.ac.uk www.economics.ox.ac.uk

UNIVERSITY OF OXFORD

OxCarre Research Paper 38

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GOVERNANCE AND OIL REVENUES IN CAMEROON

Bernard Gauthier
(Institute of Applied Economics, HEC Montreal)
&
Albert Zeufack
(Khazanah National Berhad, Malaysia)

Direct tel: +44(0) 1865 281281 E-mail: celia.kingham@economics.ox.ac.uk

GOVERNANCE AND OIL REVENUES IN CAMEROON

Bernard Gauthier[1]
Albert Zeufack[2]

Revenue Watch Project, OxCARRE,
Oxford University

October 7, 2009

Abstract

Oil has been a curse for Cameroon, one of the potentially richest countries in Sub-Saharan Africa. While the discovery of oil in 1977 and initial prudent management accentuated hopes, Cameroon has become an example of growth collapse. GDP contracted by 5% on average per year, a combined 27% over the 8-year period, dropping per capita income in 1993 to half of its 1986 level. In 2007, Cameroon was still poorer than in 1985. Using recently available datasets on oil production, the World Bank's Adjusted Savings data, and building on recent literature (Cossé 2006), this paper estimates the oil rent effectively captured by Cameroon since 1977 and analyzes factors explaining the aggregate savings and spending decisions from the oil rent that led to such poor development outcomes. The paper finds that Cameroon may have captured a sizeable portion of its oil rent – around 67%. However, only about 46% of total oil revenues accruing to the government between 1977 and 2006 may have been transferred to the budget. The remaining 54% are not properly accounted for. The paper argues that poor governance is the culprit. The decision to "save" Cameroon's oil revenues abroad proves to have been sub-optimal given the lack of a transparent and accountable framework to manage them and the poor governance record of the country.The lack of transparency and accountability in oil revenues management has translated into a failure to engage in medium to long term development planning for the country. Donors have been pushing for improved governance and transparency in the oil sector for the past 20 years without significant success. The EITI, while a good initiative, is also in high risk of capture. The paper suggests changes in the incentives structure to reduce collusion and improve governance.

[1] Professor, Institute of Applied Economics, HEC Montréal, Canada (bernard.gauthier@hec.ca)
[2] Director of Research, Khazanah National Berhad, Malaysia (albert.zeufack@khazanah.com.my)
Acknowledgements: This paper was written as part of a project funded by the Revenue Watch Institute, which acknowledges the support of the Bill and Melinda Gates Foundation. We thank participants at seminars and conferences at the Oxford Center for Analysis of Resources Rich Economies, the Global Development Network (Kuwait City, February 2009), the Centre d'économie de la Sorbonne (Paris) and in CERDI (Clermont-Ferrand, France) for their comments. We are particularly grateful to Paul Collier, Rick Van Der Ploeg, and Anthony Venables from Oxford University for valuable comments. We thank Luc Désiré Omgba for research assistance and numerous staff from the World Bank for helpful discussions. We are indebted to the numerous people from the civil society for sharing their invaluable insights during the field visits in Cameroon. All errors remain ours.

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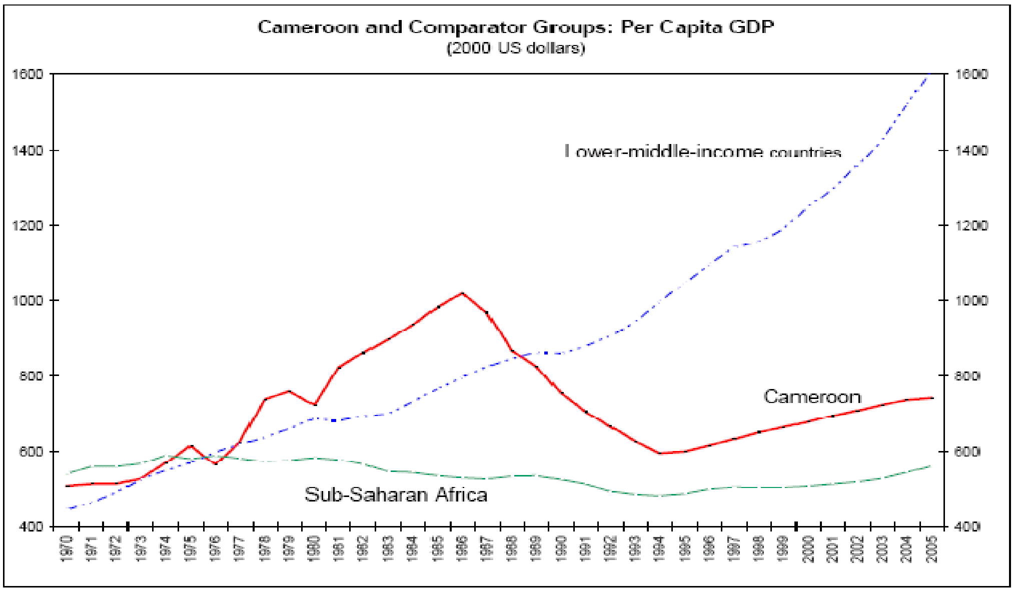
1. INTRODUCTION

Cameroon, with its abundant natural resource base, varied climate and diversified population, is one of the potentially richest countries in Sub-Saharan Africa. It is a coastal economy with an important port, large and dynamic cities, a very strong agricultural base and abundant natural resources. However, Cameroon's growth performance since independence has been very mixed and the country has become one of the best examples of the resources curse.

Despite all its riches, Cameroon's growth performance has been dismal and volatile. The annual average growth rate was around 3.5% over the past four decades, which is less than half of the average of lower-middle-income countries. GDP growth averaged 5.7% between 1972 and 1979, driven by the cocoa and coffee boom. Oil discovery and production starting in 1977 (just before the second oil choc of 1979) led to a shift in growth trajectory with the country growing at around 9.4% between 1977 and 1986. However, this high growth episode was short lived. A combined drop in the prices of commodities and oil, coupled with mismanagement plunged the country in a severe economic crisis. Between 1986 and 1993, GDP contracted by 5% on average, a combined 27% over the 8-year period, dropping per capita income in 1993 to half of its 1986 level (Figure 1.1). This growth collapse happened despite the country's reluctant engagement with the IMF in September 1988 for a series of Structural adjustment Programs later supported by the World Bank.

Figure 1.1: GDP per capita: Cameroon vs. Sub-Saharan Africa and Lower-middle income countries 1970-2005



Source: IMF (2007)

The spell of negative growth culminated with the 50% devaluation of the CFA Franc in 1994. A set of accompanying measures were implemented, aimed at reforming public finances and the macroeconomic environment, including tax and commercial policies. Since 1995, the country has resumed with positive growth rates but has been struggling to grow above 5%. This slight rebound observed after the devaluation, mostly driven by a surge in timber exports and forestry depletion, has not lived up to expectations. Growth between 2001 and 2007 was one percentage point lower than the 4.5% achieved between 1995 and 2000 and Cameroon was poorer in 2007 than it was in 1985.

Most importantly, analysis of development outcomes reveals a very bleak picture and suggests that Cameroon did not harness its oil resources for sustained growth and development. Since the mid-eighties, the already poor physical, social and human capital indicators have deteriorated dramatically. Development outcomes have continued to free fall. Life expectancy has decreased from 56 to 50 years between 1996 and 2005. Over the same period, infant mortality increased from 61 to 78 per thousand and child malnutrition increased from 14 to 22 %. The education system once one of the best in Africa has collapsed. Primary school enrolment decreased from 101 % to 91% between 1996 and 2005. Secondary education gross enrolment rates declined to 25% in 2000 from 28% in 1990 and poverty has increased. The question, therefore, is not if oil has contributed or not to growth, but what factors explained aggregate savings and spending decisions from the oil rent that led to such poor development outcomes.

Using recently available datasets on oil production, the World Bank's Adjusted Savings data, and building on recent literature (Cossé 2006), this paper estimates the oil rent effectively captured by Cameroon since 1977, analyzes aggregate investment and savings decisions from the oil rent and factors explaining the country's poor development outcomes. Using production sharing rules and production data from independent sources, the paper estimates the net revenue that should have accrued yearly to the country since 1977 and assesses the revenue gaps. We argue that the government behaved as if the boom was permanent, more so after 1982, and misjudged the severity of the 1986 crisis. The lack of transparency and accountability, fueled by internal political pressures from a bumpy Presidential transition, led to sub-optimal spending policies.

We find that contracting arrangements between Cameroon and the International Oil Companies are relatively favorable to the country. As a consequence, Cameroon might have captured a sizeable portion of its oil rent –around 67%. However, only about 46% of total oil revenues accruing to the government between 1977 and 2006 might have been transferred to the budget. The remaining 54% are not properly accounted for and may have been looted. The paper argues that poor governance is the culprit. The lack of transparency and accountability in oil revenues management has translated into a failure to engage in medium to long term development planning for the country. The initial boom in investment between 1982 and 1984 quickly left place to lavish consumption.

The decision to "save" Cameroon's oil revenues abroad proves to have been sub-optimal given the lack of a transparent and accountable framework to manage them and the poor governance record of the country. Furthermore, because developing countries are capital scarce, their natural resources revenues should be used to accumulate assets within the country rather than in foreign assets that, on average, will yield lower returns (see Collier, Ploeg and Venables, 2009).

Donors, who should share the blame for inconsistent advice and weak monitoring, have been pushing for improved governance and transparency in the oil sector for the past 20 years without significant success. Efforts to increase transparency in the sector seemed to have stalled if not backtracked. The Extractive Industries Transparency Initiative (EITI), while a good initiative, is also in risk of losing credibility. The paper suggests ways to change the incentives and reduce collusion including the creation of an energy regulatory agency, the strengthening of Donor's monitoring capacity and willingness to push the hard reforms in the oil sector and overall governance structure.

The remainder of the paper is organized as follows. Section 2 describes the oil sector in Cameroon and institutional arrangements governing the sector. Section 3 presents a measure of the potential oil rent that has accrued to Cameroon in the last three decades, as well as the gap between the rent and what has been officially recorded in the government budget. Section 4 examines savings and spending decisions to uncover the extent to which the rent was used to promote sustained growth. Section 5 examines the level of corruption, overall governance and transparency in the oil sector and suggests measures to improve transparency and oil revenue management in Cameroon. Section 6 concludes the paper.

2. THE OIL SECTOR IN CAMEROON

This section describes the oil sector in Cameroon, in terms of size, scope and the institutional arrangements that characterize the sector. The first part describes the oil sector and its importance in the economy. The second part presents the institutional and fiscal arrangements governing the sector. As we will see, the institutional arrangements are quite unique and complex. An Oil Code has been adopted in the last decade but oil extracting companies continue to operate within a hybrid fiscal system. At the core of the sector is a public corporation directly controlled by the presidency: the National Hydrocarbons Company (*Société Nationale des Hydrocarbures*, SNH). The public corporation is the main joint venture associate in oil production, the transit of the overall government oil take, as well as the sector regulator.

2.1 The Oil Sector

Cameroon is characterized by a rich geographic, ethnic, cultural diversity. Its population, predominantly rural, is estimated at 18.5 million (2007) and is composed of more than 250 ethnic groups and 200 languages. The primary sector accounts for about 21% of GDP, with about 70% of the population depending on agriculture, livestock rearing and fishing for their livelihood (World Bank, 2006). The secondary sector represents about 32% of GDP and the service sector 46.4% (EIU, 2008).[3]

The country is endowed with important natural resources including various mineral and forest resources, with dense forest covering about 40% of the land area, as well as oil and gas resources.

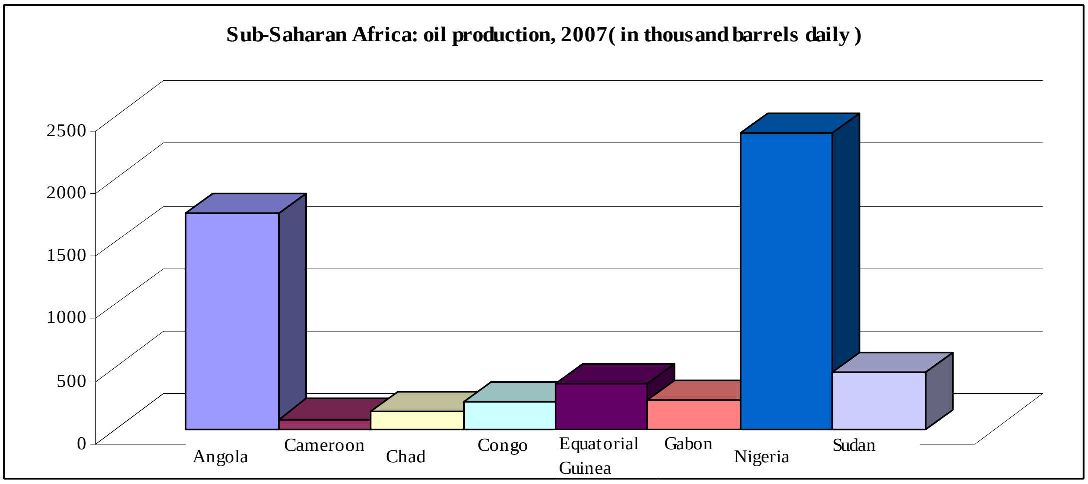
Oil exploration in Cameroon, which began in 1947 during the colonial period, led to the discovery of the first commercial deposits in 1972. Commercial production started in 1977 in the Rio del Rey basin on the west coast of Cameroon, run by the French oil company Elf-Aquitaine

Cameroon is a small oil producer on the world scene. Its daily crude oil production is about 87,000 barrels a day (2007) down from its peak of 186,000 barrels a day in 1985. It is the smallest producer in Africa, far behind Nigeria, Africa's largest oil producer, with about 4% of its northern neighbor's oil output (See Figure 2.1).

Cameroon's proven oil reserves are also relatively small, estimated at about 540 million barrels, with an additional 960 million barrels of probable oil reserves (IMF, 2007, selected issues, p. 16). However, with the retrocession of the potentially oil and gas rich peninsula of Bakassi by Nigeria in August 2008, new explorations have been registered and discoveries are expected to boost the country's reserves considerably (EIU, 2008).[4]

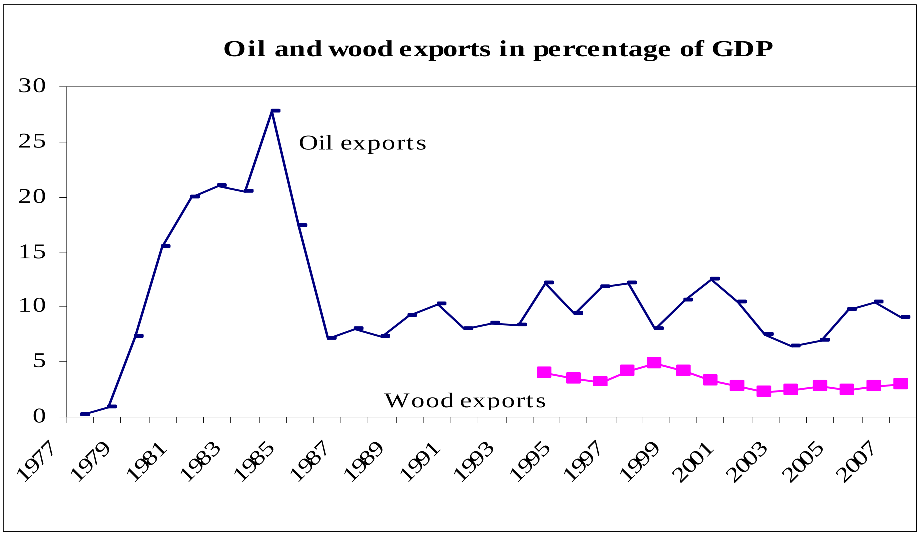
[3] Furthermore, it is estimated that 35% of the GDP is generated by the informal sector, which employs 75% of the urban population (EIU, 2007, p. 21)
[4] The Douala basin also offers potential for major discoveries within the next decade (Tamfu, 2008).

Figure 2.1: Cameroon Oil production relative to other African producers



Despite being a small player by world standards, the oil sector plays a major role in production, exports and government revenues in Cameroon. In 2007, oil share of total GDP is 9%, down from close to 30% at the peak of the oil boom in 1985 (See Figure 2.2).

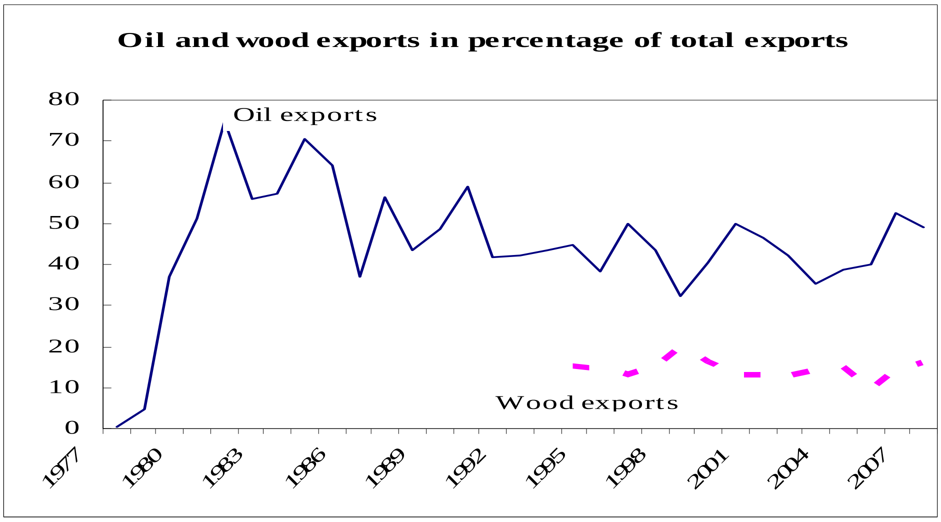
Figure 2.2: Oil and Wood in Cameroon as a Percentage of GDP



The significance of the oil sector is even more visible regarding its contribution to the country's foreign exchange earnings and government revenues. Crude oil products are the country main export, representing more than 55% of export revenues in 2007 (down from close to 80% in 1985), far beyond timber and wooden constructions, at about 15% of revenues, and cocoa beans, at 0.2%.[5]

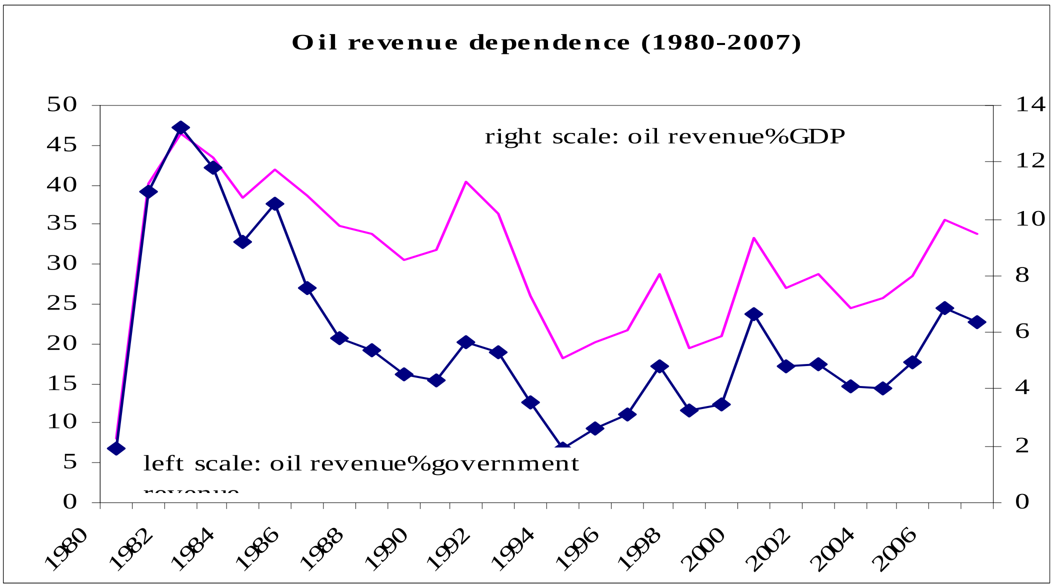
[5] Cameroonian exports are made up of around 10 products, including primary aluminum, cotton, coffee, and bananas (World Bank, 2006, p. 6)

Figure 2.3: Oil and Wood as a Percentage of Total Exports



The government's revenue base is dominated by oil, which represents 33% of government revenues in 2007, down from almost 48% in 1985. In percentage of GDP, oil revenues represent about 6% of total GDP in 2007, versus nearly 14% in 1985 (Figure 2.4).

Figure 2.4: Oil Revenues as a Percentage of Government Revenues and GDP



Data sources: World Bank CEM 1987 (1980-1984), Cameroonian authorities (1985-2005)
IMF and Cameroon authorities (2006, 2007)

2.2. Main Actors

Oil exploration and production in Cameroon are carried out by International Oil Companies (IOC), in a joint venture agreement (A*ccord d'association*) with the State, represented by SNH

Created in 1980 as an autonomous public corporation, SNH acts as the Government's holding company for participation in joint ventures. It has overall responsibility for management of the sector. Its mandate includes: (i) the management of state interests in the oil sector, (ii) the promotion, development and monitoring of oil activities throughout the national territory and (iii) the commercialization of Cameroon's share of crude oil production (SNH, 2008). Direct control over SNH is exercised by the President of the Republic, who appoints the director of the public corporation, while the Secretary General of the presidency acts as the president of SNH Executive Board.

The main IOCs currently active in oil production in Cameroon include Total E&P Cameroon (a subsidiary of French Total), Pecten Cameroon (a subsidiary of Royal Dutch Shell) and Perenco Cameroon (a subsidiary of French Perenco), the first two representing over 90% of oil production.[6] In addition, 11 companies are involved in exploration activities.[7] Oil production is mainly off shore and most of the country's oil is exported.

In addition to SNH joint ventures' equity stakes in Total, Pecten and Perenco, the public corporation, holds shares in other companies involved in downstream oil sector activities, notably the country's refinery SONARA (*Société Nationale de Raffinage*). SNH portfolio also includes shares in 12 other domestic companies (World Bank, 2006)

Table 2.1: Main Oil Fields, Operators and Joint Venture Associates (2007)

Oil Fields	IOC Operators	Joint Venture Associates
Rio del Rey	Total	Pecten, SNH
Lokélé	Pecten/Shell	SNH
Moudi	Perenco	ExxonMobil, SNH
Ebomè	Perenco	SNH

Source: Le secteur pétrolier au Cameroun, 2007

While SNH plays a vital role in the oil sector, as regulator and joint venture associate in all oil activities, two line ministries share some responsibilities over the sector: the Ministry of Energy and Water (MINEE) and the Ministry of Industry, Mines and Technological Development (MINIMIDT), which is responsible for the issuance of mining titles for the extraction of oil. There are overlapping responsibilities and conflicts of attribution among the different line ministries and public agencies in the oil sector (World Bank, 2006, p. 68).[8]

[6] The respective share of oil production in Cameroon in 2006 of Total, Pecten and Perenco is 68%, 23% and 9%.
[7] As of June 30 2008,11 permits and exploration authorizations for areas of 14 522,28 km²; and 14 concessions and authorization of extraction for areas of 2 248,84 km² were active (Tamfu, 2008).
[8] Notably, there is an insignificant delimitation between the SNH as a regulatory agency and as the party to an oil contract (World Bank, 2006).

2.3 Institutional Arrangements

Prior to the adoption of the Oil Code in 1999, there was no specific legislation regulating the sector. Instead, activities in the sector were governed by the 1964 mining law (Loi 64-LF-3) supplemented by the 1978 Law (Loi 78-14).

Under that regime, oil taxation in Cameroon was based on a complex system in many respects unique in the world. While most countries use one of the two main forms of petroleum taxation prevalent today, either production sharing agreements or tax and royalties, Cameroon uses a hybrid system combining production sharing and taxation as well as a guaranteed mining rent (World Bank, 1990, p. 92). Under the system, State involvement in the oil sector takes the form of a compulsory 20% SNH equity participation in the operating IOCs and a 50% share in a joint venture arrangement with the same operators. This results in a 60% SNH equity share in all oil activities.[9]

IOC and SNH sell their respective shares of crude oil production on the international markets. A joint commission comprising SNH and oil companies determine the official sale prices of oil, which are then used to establish tax obligations.[10]

In addition to the obligation to conclude a Production Sharing Arrangements (PSA) in accordance with the 1978 law, each IOC must conclude a Convention of Establishment ("convention d'établissement"), part of the Investment Code, in accordance with the 1964 mining law. The agreement covers the company's country-wide interests, while conditions specific to each permit are set in a separate decree. The agreement defines the rights and obligations of the two parties, including fiscal provisions.

The main elements of the special fiscal regime applying to the oil sector include: (i) A higher corporate income tax (IS) rate of 57.5% on net profits,[11] (ii) Production royalties levied at a rate of 12.5%. These are coupled with a minimum mining rent of 13% guaranteed to the operator.[12] (iii) Other corporate taxes include land royalties and flat fees.[13]

The adoption of an Oil Code in 1999 (Loi 99/013) sought at simplifying the legislative and fiscal environment for IOCs, improving the incentive environment for exploration and extraction and attracting new investments in the sector (EITI, 2007). The code defines two

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[9] SNH equity shares include participation in the Operating Committee of joint ventures and on the Board of directors of the IOC (World Bank, 1990).

[10] A differential is established for the different types of crude oil and takes into account the selling price of each operator. These official prices are then promulgated by the President of the Republic

[11] This rate is specified in the 1978 law but IOCs could also be subjected to a more advantageous rate of 48.6475% which is the dividend tax inclusive rate of the general tax code. Compared to the general tax code, rules regarding the determination of taxable income are more advantageous for IOCs as the limits placed on certain deductions (interest, technical assistance) are eliminated and accelerated depreciation is allowed. Also, IOCs revenues are calculated on the basis of official prices posted by the government instead of the actual market selling prices (World Bank, 1990, p 92-93).

[12] IOCs are indeed entitled to a fixed net rent of 13% of the gross rent after taxes and all other fiscal obligations. This means that the production royalties are variable and could be negative if necessary (i.e. transfer to the IOC) to ensure the minimum mining rent. The minimum rent is calculated for each exploration permit (EITI Cameroon, 2007, p.15 provides examples of calculation).

[13] In certain occasions specified in their CE, the tax on dividends and the tax on royalties may be suspended.(see footnote 10). Furthermore, IOCs are exempted from the Turnover tax (ICAI), and custom duties and goods destined for exploration are exempt from import duties.Export duties are also suspended. (World Bank, 1990, p. 92)

types of contracts, from among which firms are free to choose: the concession contract and the production-sharing contract (Cameroon National Assembly, 1999).[14] While in the former system, IOCs were required to sign both a Convention of Establishment and a Contract of Association, under the new Oil code, only one oil contract is signed between the State and IOCs [15]

Despite that several contracts have been signed under the new Oil Code, the two systems still coexist. Currently, only exploration activities are carried out under the new regime, and all extraction activities are still governed by the former system[16] (EITI, 2007). The new code includes various incentives for IOCs.[17] The correspondence between the two regimes is presented in Table 2.2.

Table 2.2: Correspondence between Pre- and Post-1999 systems

	Pre-1999 system	**Post-1999 system: New Oil Code**
Mining certificates	- Research/exploration license (PH) - Mining concession	- Associated or non-associated authorization - Development authorization
Contractual system	- Establishment Convention - Association contract/agreement	- Concession contract - Production sharing contract

Source: EITI Cameroun, 2007, p. 17.

In addition to the share of physical production, IOCs transfer to the SNH dividends as well as a series of taxes including taxes on profits, the proportional mining royalties, flat fees, land royalties and royalties proportionate to production (EITI, 2007, p. 26). In turn, SNH is expected to remit to the treasury these payments as well as its benefits from oil sales and its own required fiscal contributions.[18]

[14] The concession contract gives IOCs the right to dispose of hydrocarbons extracted from a specified perimeter (article 14). The contract establishes the rights and obligations of the State and the holder during the period of validity of research permits and, in case of discovery of commercially developable oil deposits, during the period of validity of the operating concession. The holder of the concession contract finances oil operations and collects hydrocarbons during the period of validity of the contract, subject to the rights of the state to collect royalty in "kind"
The production-sharing contract offers exclusive operating license to its holder, for a specified area. Production is shared between the owner and the State in accordance with the terms of the contract. Permission duration is 30 years for liquid hydrocarbons (25 years for solid), and is renewable once for a period of ten years (Cameroon National Assembly, 1999).

[15] Contracts are relatively inclusive and comprise various elements expected in such contracts such as environmental protection, decommissioning and site restoration.

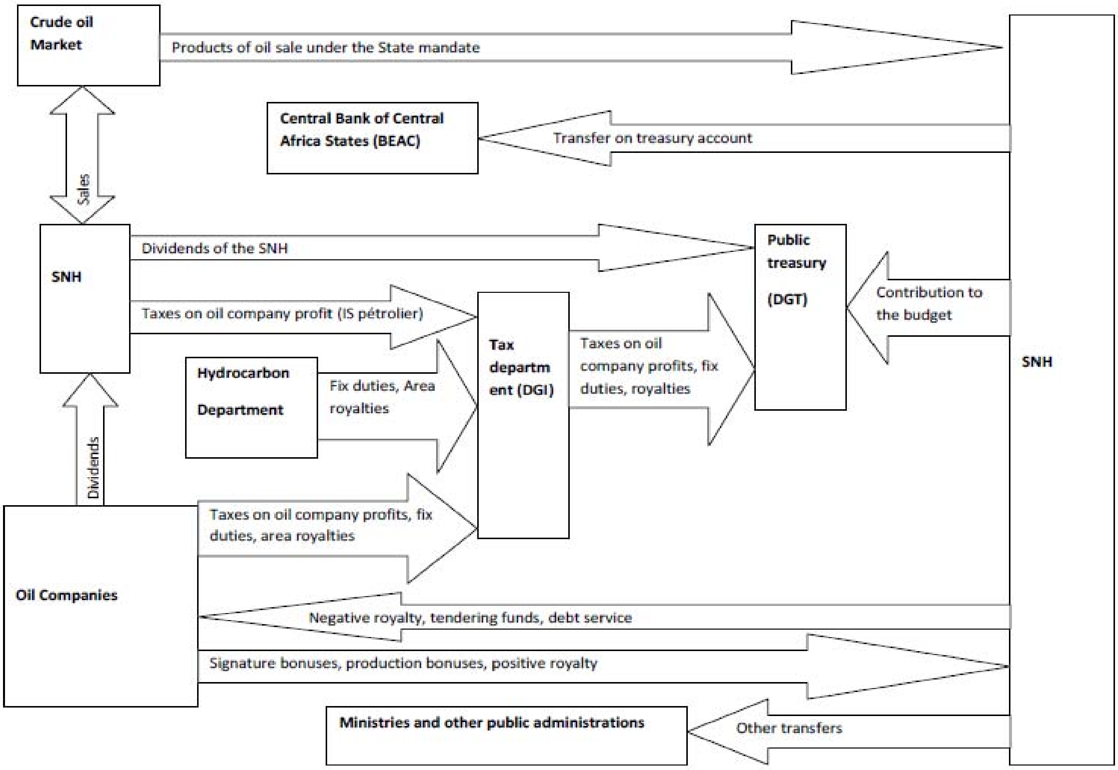
[16] Since the adoption of the Oil Code in 1999, 10 oil contracts have been signed and 4 were in negotiation at the end of 2008. Some oil companies are offering to abandon the old regime and operate within the framework of the Petroleum Code. (Tamfu, 2008)

[17] In particular, from a fixed rate of 57.5% a reduced negotiable income tax rate between 38.5% and 50% has been introduced as well as tax exemption on profits and dividends. Furthermore, special fiscal conditions are offered for exploration in frontier areas (special petroleum operation zones). Furthermore, imports of goods and services needed for oil operations are exempted from all duties and taxes. Oil companies are subject to tax on net profits made in Cameroon at a negotiated rate. They are exempted on profit tax during the exploration period (OMC, 2007).

[18] Before revenue transfers to the public treasury, SNH is entitled to cover two categories of expenditures: (i) Expenditures under the mandate. These expenses consist of expenses incurred for the commercialization of oil on behalf of the State; (ii) Association spending: SNH's share of production costs and debt service. They are charged by operators. Exploration expenses are divided equally between SNH and the foreign partners, as are new investment costs. (EITI, 2006)

Figure 2.5 below presents financial flows between the IOCs, SNH, the State and Central Bank.

Figure 2.5: Financial flows between the IOCs, SNH and the State



Sources: EITI 2007; SNH 2007

The level of government revenue from oil production depends on the specific conditions agreed between the SNH and the private IOCs, as defined in the PSAs. The oil take depends also on production and transport cost. In Cameroon, a large share of the fixed cost is now amortized while transportation costs from off-shore platforms are low. As mentioned above, under the PSAs, SNH is entitled to a share of IOC physical production. The share varies depending on the level of cumulative production from a given exploration permit. They were initially set at 60% when the production level falls below 15 million tons, 65% between 15 and 30 million tons, and 70% once they exceed 30 million tons (World Bank, 1990, p. 93). The production has gradually been increased and is now reported to be 70% (EITI Cameroon, 2007, p.15). The oil revenues accruing to the government are hence quite high relative to other oil producing countries and amount roughly between 67% and 70% of the value of oil exports (EITI Cameroon, 2007; World Bank, 2006, p.69).

3. ESTIMATIONS OF THE OIL RENT

Section 2 of this paper described the oil sector in Cameroon, namely its size, scope and the institutional arrangements that characterize the sector. This section assesses the oil revenues that accrued to the country as a result of concession agreements with oil companies. In particular, we try to establish the extent of the revenues related to oil extraction that have not been used for public purposes. That is, we assess how much rent that accrued to Cameroon as a nation that has not been disclosed or transferred to the budget.

This section is made of two parts. The first describes the data sources and the strategy for measuring the oil rent. We then measure the rent using official oil production figures recently released, government budgetary data as well as independent estimates of oil production in the country. We show that the oil rent in Cameroon during the last three decades was substantial. We also measure the gaps between the rent measured using independent estimates and official government figures. We show that the gap is substantial. Furthermore, we measure the gap between the government oil revenues measured using independent estimates and what is appearing in the budget. We show that the gap between the estimated government oil revenues and what is appearing in the government budget is significant and tends to increase over the period. Accordingly, a large part of government oil revenues in Cameroon is unaccounted for and seems to have been expropriated.

3.1 Data Sources and Strategy to Estimate the Oil Rent

The oil sector in Cameroon has been surrounded by official secrecy for most of the last 30 years. During that period, the level of transparency in oil revenues has improved slightly under the influence of donors, as we will see in section 5. Still, very little is known about the level of revenues accruing to the country and the use of these resources.

To estimate the oil revenues accruing to the country since the beginning of oil production, we make use of production data recently released by SNH as part of the recent EITI initiative in Cameroon (see section 5 for details). These data comprise yearly physical production levels for the last 3 decades (Tamfu, 2008). The official data also comprise the country's official budgetary data, part of the Finance laws that present official oil revenues for most years during the period.

In addition to these official data, we make use of independent oil production figures recently produced as part of a World Bank project that has estimated rents of various mineral resources over time including oil. The World Bank's Adjusted Saving Project (WBASP) has estimated rent for a number of countries, including Cameroon. The data set includes production data, prices and cost over time. WBASP production data are obtained from different independent sources, in particular British Petroleum (BP) Statistical Review of World Energy; International Energy Agency (IEA); International Petroleum Encyclopaedia; International Petroleum Encyclopaedia, 2001 and United Nations Monthly Bulletin of Statistics. This relatively recent data set has been used in recent empirical studies of the effects of natural resources revenues (e.g. Collier and Hoeffler, 2005).

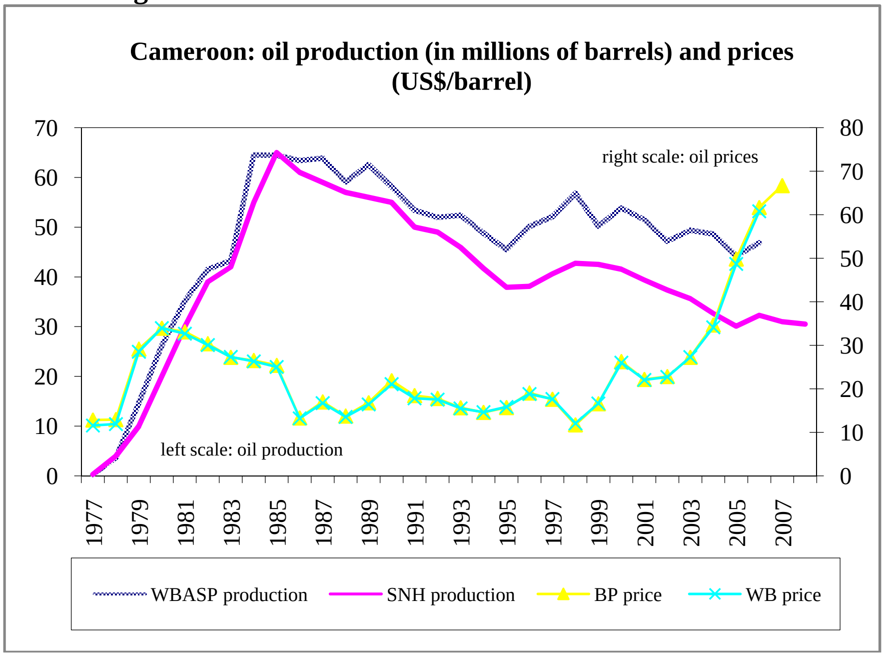
Our strategy is to estimate the oil revenues and oil rent (oil revenues minus costs) accruing to the country over the last 30 years using these various data sources. In particular, we assess the difference between the estimated government oil revenues accruing to the country and the oil revenues appearing in the budget. We first measure the oil revenues and oil rent and then the discrepancy between the estimated rent and official figures.

3.2. Estimations of the Oil Rent and Oil Revenue Gap

Figure 3.1 presents oil production in Cameroon in millions of barrels per year (left axis) according to the WBASP and SNH data from the beginning of oil production in 1977. The evolution of oil prices during the period is also presented using WBASP and BP price data (right axis).

We observe that oil production in Cameroon peaks at about 65 million barrels per year around 1985-1986 and then declines until about 1995, when another increase in production is observed. For the entire period, we note that the independent production estimates of WBASP are almost consistently above SNH official production figures.

Figure 3.1: Cameroon Oil Production and Price



Note: As Cameroonian crude oil is of significantly lower quality than the standard Brent, a discount is applied on Cameroon oil exports of about 3%. WB prices already accounts for this discount while BP prices have been adjusted to the average selling price of Cameroon oil.

The beginning of oil production in Cameroon coincides with the threefold increase in oil prices following the first OPEC oil embargo in 1979. Oil prices peaked at about US$34 in 1980 then dropped by half between 1985 and 1986. Between 1988 and 1990 prices again soared. Since 1999, oil prices have risen tremendously, especially since 2002.

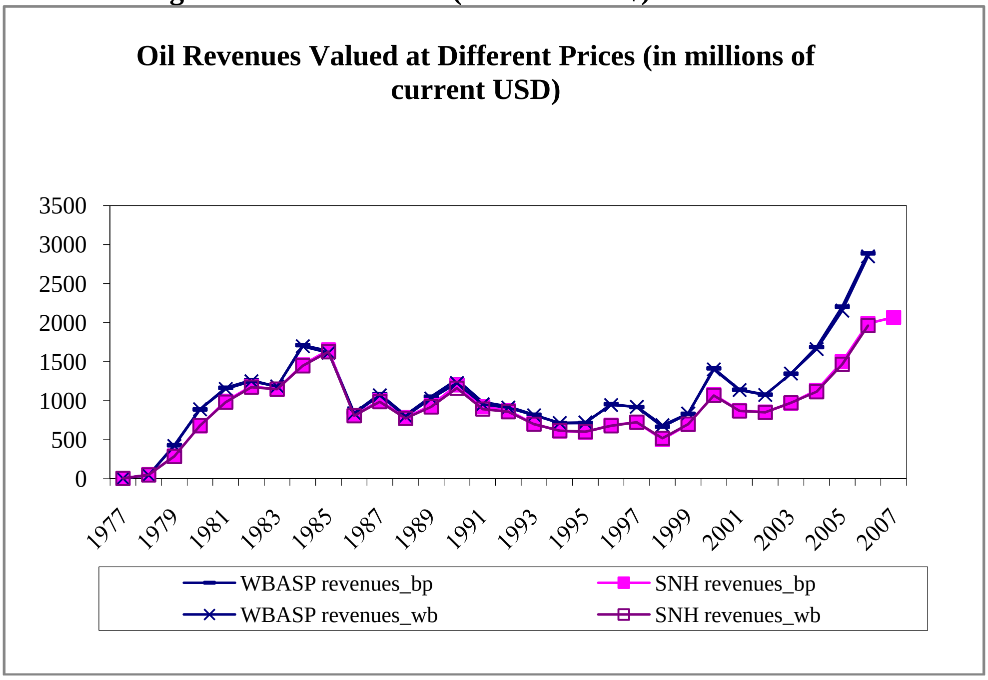
Cameroonian oil sector took advantage of the boom in oil prices in 1979. Figure 3.2 presents Cameroon oil revenues -- that is, the yearly value of oil production -- measured using WBASP and SNH production estimates valued at World Bank and BP prices.

We observe in Figure 3.2 that there are two periods of high level oil revenues in Cameroon. The first one is observed during the 1979-85 price hike period, which corresponds to the oil boom in Cameroon. The second is observed since 2002 with the tremendous increase in oil price, which corresponds to a second oil boom.

Indeed, Cameroon's gross oil revenues grew exponentially during the first few years of oil production. Cameroon tapped into the oil bonanza created by the oil embargo and gross revenues jumped to about US$1.7 billion in 1985.

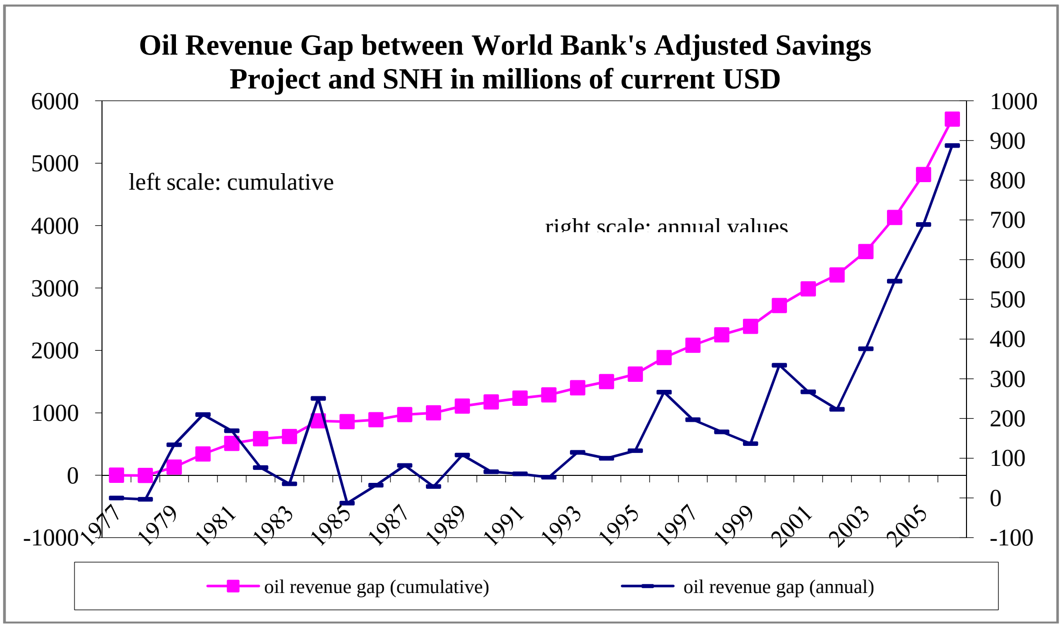
With the subsequent drop in oil prices, which reached a low of US$13.6 in 1988, the decrease in gross oil revenues was substantial between 1985 and 1988.The decrease in oil production combined with the important decline in prices and of the US dollar brought a steep decline in revenues. Afterward, the increase in oil prices led to a second peak of oil revenues of about US$1.2 billion in 1990. Oil revenues then fell by one half until 1998. With the important price increase since 1999, revenues have grown almost exponentially, reaching close to US$3 billion in 2006

Figure 3.2: Oil revenues (in million US$)



It is interesting to estimate the difference in oil revenues as measured using the independent estimates and the official government figures. Using the gross revenues measured with WBASP estimates and those measured using SNH figures, we measure the gap in oil revenues yearly, as well as cumulatively over the entire oil production period. We observe in Figure 3.3 that the yearly gap in oil revenues is very significant and tends to increase over time. The gap between the estimated revenues and the figures reached about US$250 million in 1985 and US$300 million in 1997. Since 2002, the yearly gap in oil revenues has increased tremendously and reached about US$900 million in 2006.

Figure 3.3: Yearly and Cumulative Oil Revenue Gap (1997-2008)

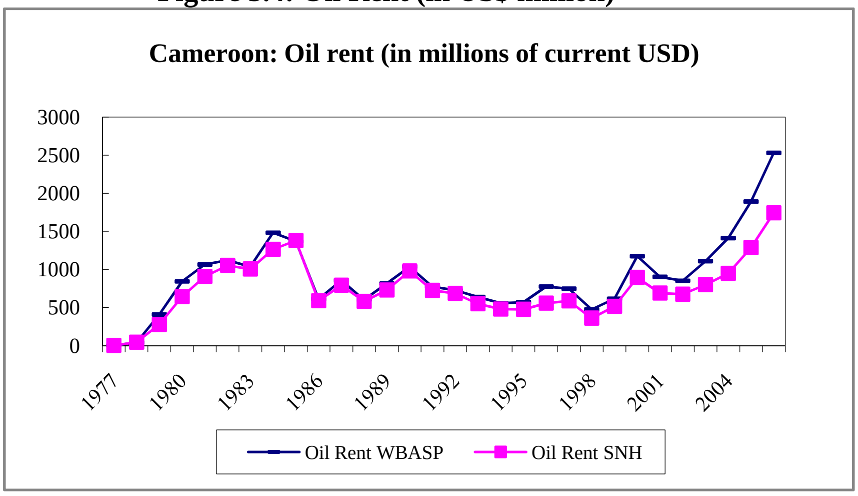


The cumulative oil revenue gap between the independent and official figures are also presented (right axis). We observe that the cumulative gap in gross revenues has continuously grown over the last 30 years, reaching a total of close to US$6 billion.

From these figures, we deduce the yearly production costs to obtain the oil rent. Table A5 in the Appendix presents estimates of unitary production costs in Cameroon during the period.

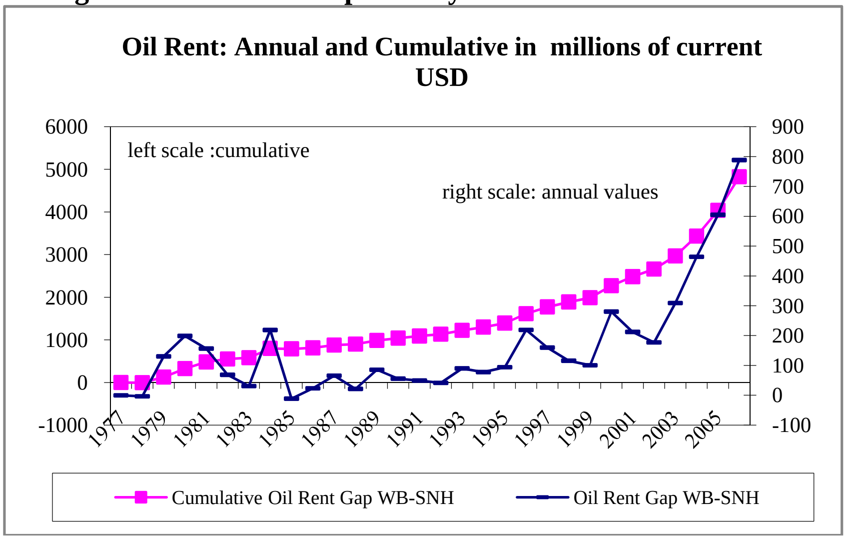
Figure 3.4 shows the oil rent during the period using World Bank and SNH oil production estimates. We observe that, similar to the oil revenues, the evolution of oil rent shows two peaks, one during the oil boom of 1979-1985 and the second during the current oil price boom. Over the 30-year period, the cumulative net oil rent that has accrued to Cameroon is about US$27 billion (not shown).

Figure 3.4: Oil Rent (in US$ million)



We then measure the gap between the oil rent as measured using independent estimates and official government figures. Figure 3.5 present the yearly and cumulative oil rent gap. We observe in particular that over the period, the cumulative net oil rent gap has been more than US$5 billion.

Figure 3.5: Oil Rent Gap: Yearly and Cumulative

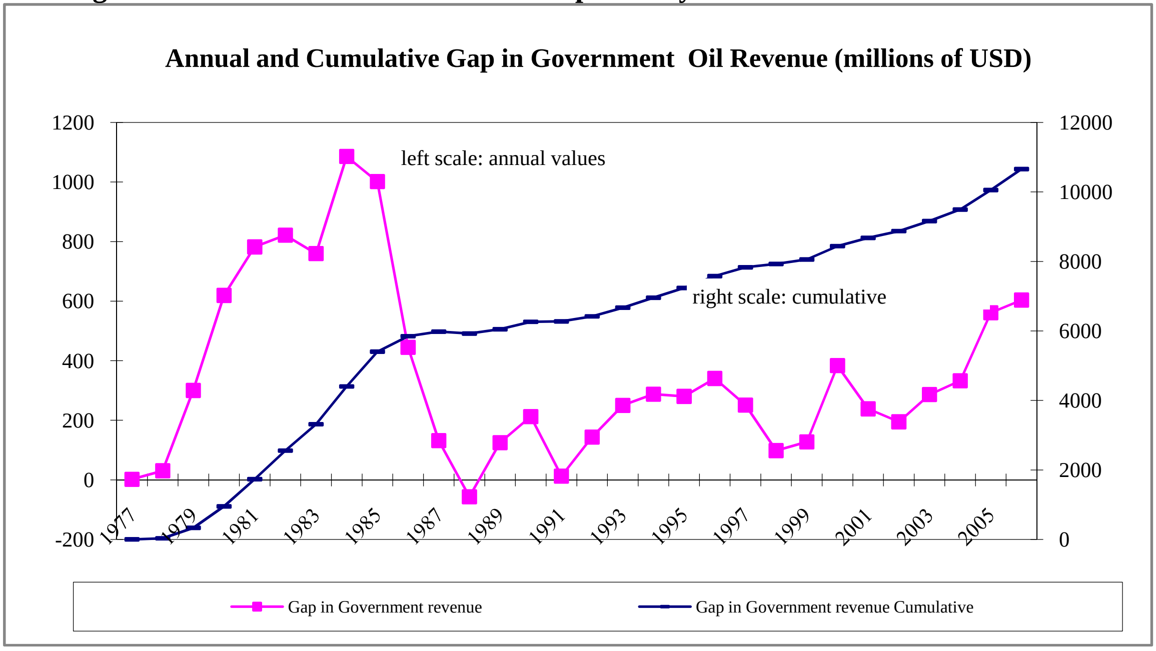


Finally, we estimate the government oil revenues during the period. We do so by measuring the share of the oil rent accruing to the State. There are two main categories of transfers made to the State by IOCs in Cameroon as discussed in Section 2: production sharing agreement and taxes and royalties. On average, the "oil take" or share accruing to the country is about 65% (EITI, 2008). In addition, we also consider the costs supported by SNH in its management role of the oil sector. These costs represent about 3.5% of SNH oil sales or oil revenues as estimated based on the average of SNH reported costs for the last five years. These administrative costs are then subtracted from the SNH share of net rent.

Using this information, we estimate the net revenues that should have accrued yearly to the State during the period using the independent production estimates. We then measure the difference between these estimates and the oil revenues reported in the country's budget. The yearly and cumulative gaps in government oil revenues are presented in Figure 3.6.

We observe that the gap is substantial. For instance, the yearly gap between the estimated revenues and those appearing in the Budget laws amount to US$ 400 million in 1980 as well as in 1984, far above the estimated "secret accounts" estimated by the World Bank during that period. The gap reached about US$600 million in 2006.

Figure 3.6: Government Oil Revenue Gap: Yearly and Cumulative



Interestingly, the gap in government oil revenues for 1985, 1986 and 1988 is negative. For those three years, the estimated yearly government oil revenues from oil production sharing agreements and oil tax revenues are below the oil revenues reported in the country's budget during the same period. This negative gap could suggest that in the first few years of the economic crisis that hit Cameroon starting in 1985, the government used the secret oil accounts to try to buffer the crisis. Indeed, the Government declared in 1987 that Cameroon will manage through the crisis without borrowing from the IMF. We estimate that during the 1985-1988 period, about US$900 million of the extra budgetary account accumulated during the 1977-1985 period was injected in the budget.[19] It is therefore plausible that the Government first used resources from the secret accounts and only changed course to sign a stand-by agreement with the IMF in September 1988 when it realized the solution may not be sustainable.

Finally, examining the cumulative difference between the estimated government oil revenues and the official budgetary figures, we observe that the gap is very substantial. Since 1988, the first year when oil revenues started appearing in the budget, the Cameroonian government has reported oil revenues amounting to US$9.1 billion (as of 2006). Given that the estimated total oil revenues accruing to the government between **1977 and 2006** is around US$19.8 billion, this would imply that around **US$10.7 billion or fifty-four percent of oil rent have not been disclosed or transferred to the budget**.[20] ***This amount may have been privately appropriated although it is not clear which part was appropriated by oil companies and government officials.***

[19] It should be noted that the extra budgetary account is estimated to have represented about US$5.24 billion in 1985. If we subtract the oil revenues traced by the World Bank during the period, the net gap of unaccounted revenues during that period was about US$1.5 billion.

[20] Even if we assume that the World Bank estimates of the non-budgetary oil account for the 1980-1985 period and the TOFE figures for 1986, were somewhat transferred to the budget, but not reported, which is unlikely, **the amount of net oil revenues unaccounted for would still be around US$ 5.9 billion, equivalent to one third of the total rent (see table 5.5)**.

4. OIL REVENUES SAVINGS REVISITED

Section 3 of this paper has established that although Cameroon captured a sizeable portion of the oil rent between 1977 and 2007, only a third was included in the budget, and the remaining portion not properly accounted for, as it was "saved" abroad. In this section, we investigate why this decision to "save", first hailed by most experts including in the Bretton-Woods Institutions as an example of good management of oil resources, turned out to be disastrous for the country.

4.1 Oil and Development Outcomes

Until the mid-eighties, Cameroon was portrayed as an example of good management of oil resources and a likely candidate to escape the Dutch disease. Benjamin and Devarajan (1986) for instance, write: "The track record of some of the other oil exporters has not been exemplary. But the distinctive feature of Cameroon oil sector and the cautious approach of its policy makers give one cause for optimism." (p. 188). The 1988 World Development report, in a background paper on Cameroon, noted that "Largely through prudent fiscal policy, it avoided many of the adverse consequences of boom experienced by other commodity-exporting countries." (World Bank, 1988b, p. 33).[21]

By 1989, however, it has become clearer that Cameroon was facing Dutch Disease symptoms. De Melo and Devarajan, (1989), and Benjamin and Devarajan (1989) found, using a CGE model, that the oil boom has been followed by a contraction in other commodities' exports. Indeed, when oil revenue jumped from 0 to 46% of export revenue between 1978 and 1982, representing 13% of GDP, large inflow of foreign exchange led to a soaring domestic absorption. Public spending increased from 17% of GDP in 1978 to 26% in 1986. The spending spree led to inflationary pressures, real exchange rate appreciation and rapidly increasing wages hindering the competitiveness of the non-commodity traded sectors (export as well as import substitutes). This resulted in a sharp decline in non-oil exports (agriculture and manufactured goods). Interestingly, in 2006, the World Bank Development Policy Review on Cameroon reads: "*It is important to note that Cameroonian officials were warned at the time of the problems of sustainability of such pro-cyclical budget policy and the potential onset of Dutch disease. Unfortunately they chose to ignore this warning and failed to make the necessary adjustments* (World Bank, 2006). It is important to recognize, beyond the blame game, that policy blunders were made at a time when neither the World Bank nor the Government could claim they knew exactly what the right policy to manage natural resources revenues was.

The policy failure and the subsequent growth collapse have led to disastrous development outcomes. Between 1996 and 2005, life expectancy decreased from 56 to 50 years, reflecting the decrease in access to health services, the dramatic increase in malnutrition and the spread of HIV/AIDS whose prevalence rate rose from 2% in 1991 to 7.2% in 1998. The mortality rate for children less than five rose from 144 to 155 per 1,000 live births between 1991 and 1998 and has only returned to its 1991 level in 2004. Infant mortality rate steadily increased from 65 per 1,000 live births in 1991 to 77 in 1998 and to 74 in 2004.

[21] DeLancey (1989) and other experts also spoke favorably of Cameroon's good management of the oil revenues.

During the same period, the chronic child malnutrition rate increased from 23% to 30%. Chronic malnutrition was evidenced by drastic changes in the three indicators stunting (a measure of inadequate food intake over time), *wasting* (a measure of acute malnutrition due to short-term food deprivation or infection) and *underweight* (a composite indicator of stunting and wasting). The relatively high maternal mortality rate (669 per 100,000 live births) also carries a rural /poor bias. In 1998, less than one-third of women from the poorest quintile (29%) had deliveries attended by a medically trained person compared to 90% of women from the richest quintile. Also, roughly 60% of women from the poorest 20% of the population received antenatal care from a trained person compared to close to 100% of women from the richest 20%.

Table 4.1: Public Health Indicators

Health Indicators	1991	1998	2004
Infant mortality rate (per 1000)	65	77	74
Chronic malnutrition rate (%)	23	29	30
Rate of low birth weight (%)	16	22	..
Maternal mortality rate (per 100	430	430	669
Assisted childbirth rate (%)	63.8	58.2	61.8
Vaccination rate (DTP3 in %)	34	48	48.2
Utilization rate of public health	30	..	..
HIV/AIDS prevalence rate (%)	2	7.2	5.5

Source**:** World Bank (2006)

The education system, once one of the best in Africa, has also collapsed. Primary school enrolment decreased from 101 % to 91% between 1996 and 2005, secondary education gross enrolment rates declined to 25% in 2000 from 28% in 1990. While real government spending per student has increased overtime and is comparable to countries at similar level of development, the outcomes are much lower. There is low primary school completion rate, a very low transition rate from primary school to secondary school, around 60 percent, and a low retention rate within the secondary school system.

Most importantly, access to public services in Cameroon has become more unequal. There are growing disparities among regions as well as between poor and non-poor. The primary school enrolment rate is significantly lower for the poor as compared to the non-poor (74% vs. 82% in 2001), as well as for rural relative to urban areas (73.5% vs. 90.5% in 2001). Between 1996 and 2001, while enrolment rates increased for non-poor (from 75% to 83%) and for urban areas (from 81% to 90.5%), it decreased significantly for the poor (from 77.2% to 74.1%) while remaining stagnant for the rural areas (from 74.5% to 73.5%).[22] These trends are indicative of increasing rather than narrowing gaps between social groups as well as regions. (World Bank, 2006, p. 21).

[22] World Bank (2006)

4.2 Explaining the Poor Outcomes: A Story of Consumption Smoothing Gone Wrong

4.2.1. To Save or not to Save?

At the start of oil production in 1977, the President of Cameroon decided to create an extra-budgetary account ("Compte Hors-Budget" CHB) abroad to manage oil revenues (see Box). Cameroon's decision to "save" its oil reserves abroad[23] it was argued, was sound for at least two reasons. First, it would help avoiding oil dependence and the Dutch disease, second, the boom was allegedly temporary as the rate of depletion of oil was believed to be very high. Benjamin and Devarajan (1986) wrote: "Cameroon is traditionally not an oil producer, nor will it be one in about ten years or so" (p. 186). World Bank reports during the period conveyed the same message about oil revenues' limited and transitory nature: "Proven oil reserves are expected to be exhausted within the next ten years, if not sooner …" (World Bank, 1986, p. i). Another World Bank report stated: "…the authorities rightly considered oil revenues as temporary resources." (World Bank, 1987, p. 26).

Cameroon's "Compte Hors-Budget"

Instead of depositing 65% of its reserves in the "Compte d'Opérations" in the French treasury, as per the CFA zone rules, President Ahidjo decided to keep a portion of oil revenues in US Dollars, in "escrow accounts" in foreign banks. The motivation announced then was to "avoid oil dependence" but also to have a "War Chest" (trésor de guerre), a fund for special projects.
The account was provisioned by sales of the share of oil production attributed to the National Hydrocarbon Corporation (SNH) and by taxes paid to Cameroon by oil companies operating largely offshore, namely Efl-Serepca and Pecten. Also, oil production was purposely underestimated and only the 2/3 attributed to SNH were considered for official exports statistics, creating a fictitious negative trade balance. This balance was supposed to be placed in the extra-budgetary account.
While there is evidence that the country's investment budget was funded mostly by resources from the "extra budgetary account" between 1980 and 1986, serious mismanagement occurred. Building on the opacity and secrecy around the account and oil production in Cameroon in general, Presidents Ahidjo and, starting in November 1982, Biya, might have used the resources to serve their respective political clienteles. In 1986, with the brutal drop in oil prices forced the government to draw more on the secret account. In 1988, the signing of the first stand-by-agreement with the IMF forced the Government to repatriate more and more resources from the account to the budget (see section 5).

Until the end of the eighties, Cameroon was still seen as a good example in oil resources management (see Devarajan & de Melo, 1987; World Bank, 1988b). The 1988 World Development report, in a background paper on Cameroon's case, noted that *"Largely through prudent fiscal policy, it avoided many of the adverse consequences of boom experienced by other commodity-exporting countries."* (p.33). Looking back at how erratic oil gross oil rents turned out to be, see figure 3.2 in section 3, due to fluctuations in prices, production and US dollar, saving oil revenues to smooth out inter-temporal consumption and investment would have been a wise decision *"… to smooth out intertemporal consumption and investment would have been a wise decision."* (see Van der Ploeg and Venables, 2008).

However, judging by the development outcomes as seen above, and learning from the recent literature, "saving" Cameroon's oil revenues abroad was not an optimal decision. However, understanding Cameroon's fast transition from best in class to one of the worst cases of

[23] The World Bank conjectured that up to three-fourths of Cameroon's oil revenues were "saved" abroad between 1978 and 1982. The country recorded sizable current account surpluses during that period.

resources curse requires looking beyond the pure economic analysis of savings behavior to address political economy considerations.

4.2.2. The political Economy of Oil Revenues Management in Cameroon

The political economy dimension is crucial in explaining oil revenues spending decisions in Cameroon. The first issue to consider is the decision to establish the CHB. Given the autocratic nature of the political regime at the time of oil discovery, it is useful to question the President's incentives for creating the CHB. Was this the fact of a benevolent and enlightened dictator following the Hartwick's rule[24], or was this just a trick to divert the public's attention away from oil revenues, with the clear intention of misappropriating the rent? Jua (1993) and Zeufack (2001) argue that the creation of the CHB was clearly ill-intended. In support of this thesis is the secrecy that surrounded the CHB. There was no attempt to assess or publish the size of the "extra-budgetary account". Until now there is virtually no information whatsoever on the transactions on the account between 1977 and 1980 and information on contribution of this account to the budget between 1980 and 1985 has only been approximated by the World Bank. Basic information such as the currency in which the resources where placed is a State secret. Discussion of its management was taboo and could lead to imprisonment if not worse[25]. Therefore the Cameroonian CHB was not comparable to a sovereign wealth fund (SWF) or an oil fund. The same lack of transparency[26] continued even after Mr. Biya took over from Mr. Ahidjo.

The bumpy transition between President Ahidjo and President Biya in 1982 is indeed the second issue that deserves consideration as it had lasting impact on savings and spending policies. On November 6, 1982, Ahmadou Ahidjo, the first President of Cameroon, after 25 years of autocratic rule, resigned in a surprise move and handed over peacefully the power to Paul Biya, his then Prime Minister. However, he stayed in control behind the scene, keeping the Presidency of the CNU[27], the single political party. Very soon the dualism at the top of the state resulted in clashes. In August 1983 the fall-out between Ahidjo and Biya was officialized and Ahidjo was accused of attempting to overthrow the new President. Ahidjo, who called it a "truly false coup d'état", was forced into exile and most of his partisans mostly from his ethnic group (Fulbe) who formed the Presidential guard and kept key cabinet positions were purged, creating some ethnic tensions.

On April 6, 1984, there was a missed Coup d'état, claimed by Ahidjo from his exile. The coup reinforced ethnic tensions, especially between the north and the south. The youth, very loyal to the incoming President, opposed the coup and fought the junta on the streets of Yaoundé, the capital city. After the 1984 missed coup, the Presidency seemed to be under siege. The President engaged in populist policies to consolidate his power with the youth and reward the ethnic-based pressure groups that had supported him during the coup. Generous programs for university scholarships and construction of students' dormitories and amphitheaters were launched. In parallel, the lack of transparency was reinforced in a context characterized by increasing cronyism and military and security spending. These political pressures may have led to sub-optimal savings and spending policies, for example in prolonging the government's consumption spree well beyond the start of the 1986 crisis.

[24] The Hartwick's rule suggests that the marginal "Hotelling rents" on natural resources should be fully saved and re-invested in physical capital, infrastructure or education, see Hartwick (1977).

[25] A Cameroonian journalist, Puis Njawe, was imprisoned in 1976 for daring to ask the question what should the country do with the upcoming oil revenues.

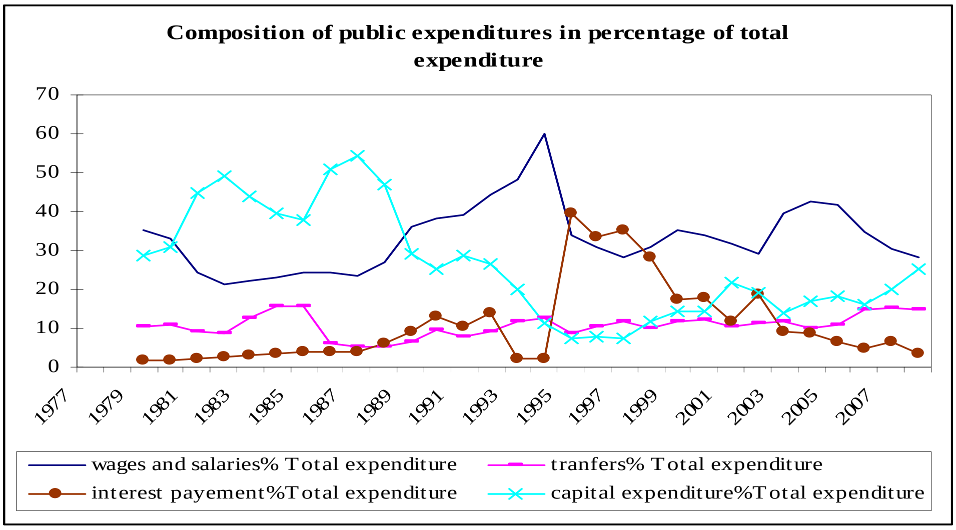
[26] Section 5 will elaborate more on transparency issues and highlight the role of international institutions.

[27] Cameroonian National Union (Union Nationale Camerounaise).

4.2.3. Un-Smooth Consumption

There was an increase in investment in the early years of the oil boom (see figure 4.1). For example government's capital expenditures tripled in one year, from CFAF 73.2 billion in 1980 to CFAF 226.2 billion in 1981. However, from 1982, and even more so after 1984, the government behaved as if the boom was permanent. Consumption and transfers increased significantly and, as the country misjudged the severity of the 1986 crisis, the consumption spree continued until the signing of stand-by agreements with the IMF in September 1988. Typically, the country followed a variant of the permanent income hypothesis, as described in Van Der Ploeg and Venables (2008).

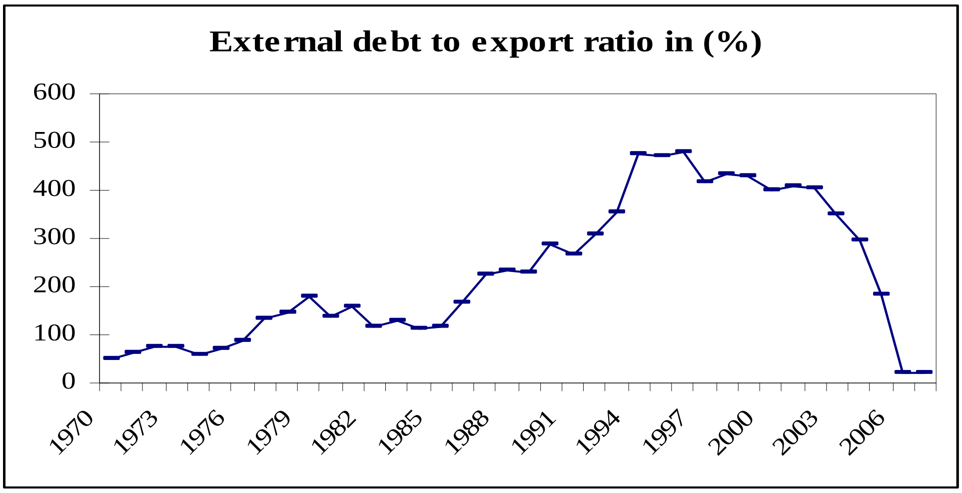
Figure 4.1: Composition of Public Expenditures



Public Debt

While the government may have used oil revenues to service part of its foreign debt between 1978 and 1982, there was an explosion of foreign borrowing after 1984. The country borrowed massively including in non-concessional terms and ran current account deficits, anticipating higher windfall revenues (see figure 4.2). This was helped by the fact that the country had relatively low levels on debt before 1982 and had good sovereign ratings. External debt increased exponentially in percentage of exports as if the government was anticipating a permanent boom.

Figure 4.2: External Debt Evolution

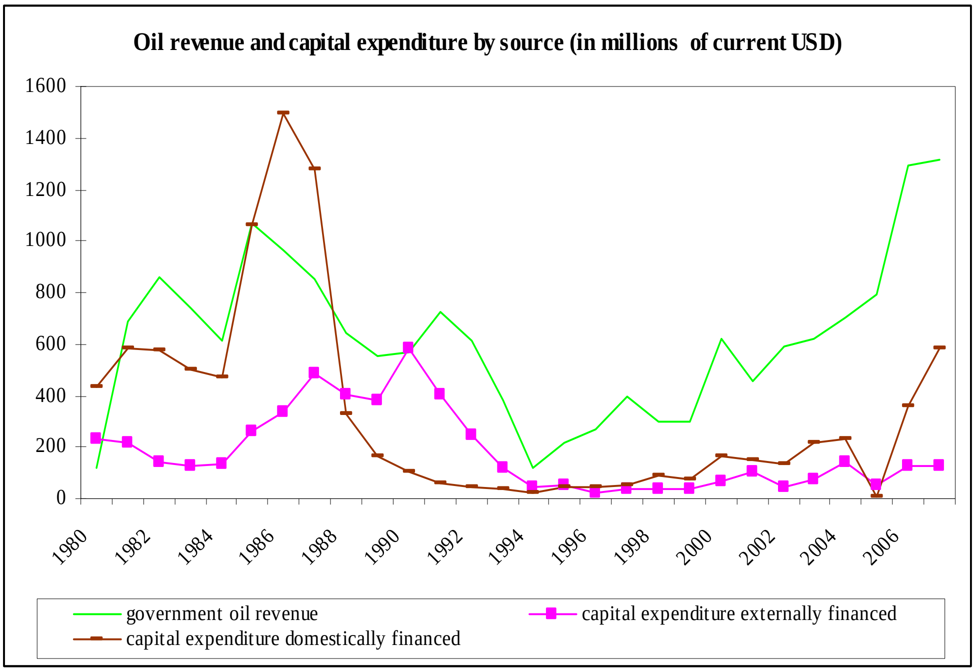


According to the IMF, by end-June 1999, Cameroon's public and publicly guaranteed external debt was estimated at US$7,679 million of which 70 percent was owed to bilateral creditors, 21 percent to multilateral creditors, and 9 percent to commercial creditors.[28] In NPV terms, the debt before rescheduling was estimated at US$7,178 million, equivalent to 78 percent of GDP, or 314 percent of exports of goods and services. Even after the Paris Club rescheduling arrangements, debt service paid was equivalent to approximately one-third of total government revenues and about 20 percent of exports of goods and nonfactor services. The unsustainable indebtedness reduced government savings and contracted public investment.

Investment collapse

Starting in 1988, Structural Adjustment Policies implemented by the IMF and the World Bank led to an abrupt end to consumption and transfers stopping policies, but also to investment. Capital expenditures were dramatically cut, falling sharply from 12.4% in 1986 to 3.5% of GDP by 1993. This coupled with the decline in income and thus private savings led to a collapse of the overall investment rate from 25% in the early 1980s to 14% by 1993. The drop in capital investment is more dramatic when we only consider capital expenditures financed from domestic sources (Figure 4.3).

Figure 4.3: Oil Revenue and Capital Expenditure



From 1988 onwards, there is virtually no correlation between capital expenditures and oil revenues. The lack of transparency and accountability in oil revenues management in Cameroon has translated into a failure to engage in medium to long term development planning for the country. Cameroon's oil revenues were not invested in physical, social or

[28] France was the largest creditor with claims amounting to US$1,804 million, or 37 percent of debt in NPV terms, followed by the World Bank Group, with total credits amounting to US$659 million in NPV terms, equivalent to 14 percent of the overall NPV of debt.

human infrastructure, but lavishly consumed. Indeed, disbursements from the CHB to the budget and to finance any infrastructure in the country were at the sole discretion of the President and even relevant Ministers did not know in advance how much the amount would be.

Permanent Rise in Public Spending

Recurrent expenditures grew by nearly 15 percent a year between 1981 and 1985 in real terms, some six percentage points higher than the pre-oil era. Of this, wages and salaries and materials and supplies grew by little over 11 percent a year, while subsidies and other current transfers grew by nearly 25 percent a year in real terms. As shown on the figure 4.1, total spending (especially wages and transfers increased dramatically between 1984 and 1986. Civil servants received consistent pay raises and university students received raises in their scholarships and the programs coverage was expanded.

The consumption spree continued after 1986 as the Government may have misjudged the severity of the crisis and thought it was a temporary choc. The President declared that “The crisis was just passing through Cameroon and the Country was not in crisis.” Just as in the permanent income hypothesis, he thought, at the end of the windfall in 1986, that he had enough foreign reserves to finance the permanent increase in public spending without having to apply for IMF funding. This decision was most convenient given IMF record of interference and requirements for transparency. By 1993, the country was running a fiscal deficit of 8% of GDP.

5. GOVERNANCE, CORRUPTION AND TRANSPARENCY IN THE OIL SECTOR

Section 4 of this study has shown that oil revenues in Cameroon were not used to ensure sustained growth. Policy choices were dismal and public investments were not sufficient to maintain public capital stock. Experience has shown that especially in countries that did not develop a sufficient governance quality level before the natural resources windfall, natural resource rent leads to rent-seeking and corruption (Sala-i-Martin and Subraamnian, 2003; Karl, 2007). Cameroon, as we will see, is no exception. This section analyzes the environment of poor governance and corruption in which policy choices were made during the last three decades, in particular the lack of transparency in the management of oil revenues. It examines the role played by donors such as the World Bank and the IMF in trying to reform institutional arrangements in the country over the last few decades, notably in the oil sector.

The first part of this section examines the poor level of governance and high corruption level in Cameroon. The second part reviews the evolution of oil sector transparency and juxtaposes it with donors' activities in the country. The context is one of weak monitoring and incomplete reform implementation. While donors have been the main advocates for greater transparency, the fundamental institutional reforms that could have led to improvements in accountability and transparency—notably the creation of a regulatory agency in charge of the oil sector--were not pushed to the forefront and await to be implemented.

5.1. Governance and Corruption

Cameroon is one of the most corrupt and poorly governed countries in the world. In the last 10 years, Cameroon was ranked the most corrupt country in the world twice according to the Transparency International (TI) corruption perception index (CPI).[29]

The overall state of governance in the country is considered poor according to most indexes of governance quality. Various measures of governance have been devised in the last decade to assess governance quality, i.e. the institutional structure and decision making environment at the political and economic level. Most of these measures emphasize three main characteristics: (i) efficient and capable state, (ii) accountable to its citizens and which (iii) operates under the rule of law (Kaufmann and Kraay, 2008). One of the main sets of governance indicators is the World Bank World Governance Indicators (WGI). The index presents the views of a large number of enterprises, citizens and experts on the quality of governance relate to six dimensions of governance: i) control of corruption, ii) rule of law, iii) voice and accountability, iv) government effectiveness, v) regulatory quality and vi) political stability. The percentile rank of Cameroon on each of these six governance indicators is presented in Table 5.1 along with the average values for African and middle income countries. As shown, the quality of governance in Cameroon is very low. Cameroon ranks in the bottom quintile of countries overall for all dimensions of governance, except political stability, where it is in the bottom third, and is below that of other middle income and other African countries on all dimensions.

[29] Cameroon ranked 85 out of 85 countries in the CPI index in 1998, and 98 out of 98 countries in 1999. It currently ranks 141 out of 180 countries in the CPI 2008 (www.transparency.org).

Table 5.1: Governance Indicators: Cameroon, African and middle income countries (World Governance Indicators 2007)

	Percentile Rank (0-100)		
Governance Indicators	**Cameroon**	**Sub-Saharan African countries**	**Middle income countries**
Control of Corruption	15.9	30.7	37.4
Rule of Law	12.9	28.3	37.7
Voice and Accountability	21.2	33.2	38.4
Government Effectiveness	17.1	26.8	37.2
Regulatory Quality	24.3	27.8	36.9
Political Stability	31.3	34.2	39.4

Source: Kaufmann D., A. Kraay, and M. Mastruzzi 2008. Note: Percentile rank indicates the percentage of countries worldwide that rate below Cameroon, African countries and middle income countries. Higher values indicate better governance ratings.

According to various other measures of governance, institutional quality, in particular the level of corruption, is very problematic in the country. According to Transparency International Global Corruption Barometer 2007, 79% of citizens in Cameroon report having paid bribes to government officials during the past 12 months --the highest rate of bribe payments among African countries surveyed. Businesses operating in the country also cite corruption as one of their main problems, being reported as the second most important constraint for doing business according to the World Economic Forum's Global Competitive Index, just after access to financing (World Economic Forum, 2007).

Various other governance quality indicators also point to a very low governance level in the country. For instance, according to the World Economic Forum's 2007 Global Competiveness Index, Cameroon is the third worst country overall in the international index in terms of diversion of public funds (126th out of 128 countries). The country also ranks very near the bottom with regard to strength of auditing and accounting standards and public trust of politicians (respectively 122nd and 120th). Overall, it ranks 120th out of 128 countries for its institutional environment as measured by the independence of its judiciary, the efficacy of government and the level of corruption (World Economic Forum, 2007).

Civil liberties and political rights, two fundamental components of democratic life and good governance, are also perceived as severely deficient in the country. According to the Freedom House index, which evaluates the state of civil liberties and political rights around the world since 1973, Cameroon ranks very near the bottom. The overall ranking of countries along this index classifies countries as "Free," "Partly free" and "Non-free." Whereas before 1977

Cameroon was classified as "Partly free," the first year of oil production is characterized as having been marked by a worsening of civil liberties and political rights. Since that year, the country has been classified as "Non-Free," a non-enviable status it has kept for the last 30 years (Freedom House, 2008).

Table 5.2 presents the overall Freedom House indexes for Cameroon and middle income countries in 2008 as well as nine subcategories of political rights and civil liberties. As shown, Cameroon ranks much lower than other middle income countries on all dimensions of political rights and civil liberties overall, as well as compared with other middle income countries.

Table 5.2: Political Rights and Civil Liberties: Cameroon and Middle Income Countries' scores on Various Dimensions (Freedom House indexes 2008)

Index	Cameroon	Middle income countries*
Overall Ranking: Status	*Not Free*	*Partially Free*
Political Rights (1-7)	2	4
Civil Liberties (1-7)	2	4
Political Rights		
Electoral Process (0-12)	2	7
Political Pluralism and Participation (0-16)	4	9
Functioning of Government (0-12)	3	5
Civil Liberties		
Freedom of Expression and Belief (0-16)	7	11
Associational and Organizational Rights (0-12)	3	7
Rule of Law (0-16)	2	7
Personal Autonomy and Individual Rights (0-16)	4	9

Source: Freedom House (www.freedomhouse.org). Note: Political right and civil right index are reported on a progressive instead of a regressive scale as in the standard Freedom House index * Authors' estimations according to World Bank middle income countries criteria (see World Development Indicators 2007).

Another index of democracy, the Polity IV index of civil liberties and democratic governments (Marshall and Jaggers, 2006) also emphasizes the very poor level of governance in Cameroon. According to this index, Cameroon has been classified as an "Autocratic regime" since its independence in 1960. While the late 1980s and early '90s marked the beginning of a democratic era for several African countries, this process did not take place in Cameroon. The change of regime associated with the withdrawal of President Ahidjo in 1982 did not provide much improvement in the level of democracy: from 1977 to 1992 Cameroon continuously registered a score of 0 in the democracy index, the lowest score of the index.[30]

An often emphasized explanation for the persistence of autocratic regimes in oil states is associated with the mechanisms of a "rentier State" created by oil revenues and the associated coercion and/or corruption (Jensen and Wantchekon, 2004). Indeed, at the core of the autocratic regime in place in Cameroon is the existence of an oil revenue rent and, more significantly, the secrecy surrounding its size and use. We saw in Section 3 that a very important share of the country's oil take was unaccounted for. We now turn to this specific question of lack of accountability and transparency in the petroleum sector in Cameroon and in particular the role played by donors in influencing oil revenue transparency.[31]

5.2. Oil Revenue Transparency and Donors' Role and Relationships

Secrecy has been the norm in the oil sector in Cameroon since the beginning of oil production. While the Government of Cameroon has agreed to gradually provide more transparency over the period, mainly in response to donor pressure, the situation, as we will see, is still very far from full transparency and accountability.

Periods of Transparency in Oil revenues

The level of transparency in the oil sector during the last three decades could be divided into five main periods. Table 5.3 presents these periods and their main characterizing events.

Table 5.3: Stages of Oil revenue transparency in Cameroon

Years	*Period*	*Main Event*
1977-1979	*1. Opaque*	*Beginning of Oil production*
1980-1987	*2. Secret Accounts*	*Creation of SNH*
1988-1990	*3. Off-Budget*	*First IMF Stand-by Agreement*
1991-1999	*4. Partial SNH Audits*	*Second SA program*
2000-today	*5. Partial Audits*	*HIPC-EITI*

First period: 1977-1979 "Opaque"

At the time of the discovery of oil off the west coast of Cameroon and its subsequent commercial production in 1977, there was no specific state structure in existence to regulate the sector or the relations with IOCs. Responsibilities regarding the management of the sector, relationships with oil companies and the use of oil revenues were directly assumed by the country's president. Full secrecy surrounded contractual arrangements with IOCs, and public

[30] See Marshall and Jaggers' (2006) database of political indicators.

[31] By donors we mean international financial institutions such as the IMF, the World Bank and the African Development Bank (ADB), together with bilateral donors. The most important bilateral donors in Cameroon are France, Germany and the European Community.

oil revenues were deposited in secret accounts (Delancey, 1994, p. 14). Various authors have speculated about the destination of the oil revenues. Benjamin and Devarajan (1986) support the view that they were deposited outside the Cameroonian banking system. In particular, despite Cameroon's obligation by membership in the Central African Currency Union (Banque des Etats de l'Afrique Centrale) to keep its official reserves in the Bank of France, the Government of Cameroon was reportedly accumulating sizable foreign exchange outside the Bank of France, probably in US banks. This secrecy surrounding oil revenues during this initial period has not been lifted since then. This period could hence be seen as one of total opacity in the management of oil resources, the negotiation of oil contacts and the management of oil revenues by the President. How much revenues accrued to these secret foreign accounts, and their use, has never been established.

Second period: 1980-1986 "Secret Accounts"

In 1980, the SNH was created to assume the responsibility of the oil sector, in particular to oversee the relationships with oil companies and manage oil revenues. Despite the creation of the public corporation, the President of the Republic did not abandon control over the oil sector. The SNH was placed under its direct authority with the SNH Administrative Board's president headed by the General Secretary of the Presidency and the SNH president appointed by the country's President. To date, these fundamental institutional arrangements defining presidential control over SNH have not been modified. Furthermore, the creation of the SNH did not modify the level of secrecy surrounding oil revenues. As during the first period, oil revenues transferred by IOC or derived from SNH direct oil sales were deposited in secret bank accounts.

Citizens had virtually no information on the level or usage of oil revenues. Indeed, during the economic boom period that accompanied the oil boom, very little information openly circulated in the country about oil sector activities. Oil revenues were not an openly discussed issue and citizens had very little means of getting information about the sector. The Government of Cameroon is highly centralized and secretive. At this time in particular, no dissidence is tolerated, a policy enforced at times through violent measures (French National Assembly, 1999).

With no official information about oil revenues available, the population had to rely on vague statements made by high level officials during the period. In the early '80s, for instance, President Ahidjo tried to reassure the population about the sound management of oil resources by his administration:

> "The oil of Cameroon is operated by joint ventures, the majority of whose shares are held by foreign companies, roughly 50% accrues to the State of Cameroon. We created a national hydrocarbons company selling the share back to Cameroon [….] a part of oil revenues is to be transferred in the budget. When those revenues are higher than those initially allocated to the budget, the excess is allocated in the extra-budget' accounts."

The population was also repeatedly told that the country's oil reserves were very limited and would, at best, last a decade. These beliefs that oil revenues were modest and transitory helped reduce expectations in the importance of the oil manna, along with the need for public scrutiny.

Third period: 1987-1990 "Off-budget"
When the external shocks hit the country starting in 1985, the government had just adopted its sixth five-year plan (1986-1990). The authorities first chose to push ahead with their state-led development strategy, and eventually tried to reduce spending as discussed in Section 4. However, investments and wage bills of the boom period were hard to roll back, and large deficits and domestic arrears appeared. Discussions were initiated with the IMF and the World Bank in 1987, leading to the signing of an IMF Stand-by-Agreement in 1988. It would be the first in a series of 8 IMF agreements to date and an equal number with the World Bank. Table A2 in the Appendix presents the various agreements signed by the GOC with the IMF and the World Bank since 1988, and associated levels of credit.

A year after the first IMF agreement, a first Structural Adjustment Loan (SAL) was completed with the World Bank with the support of various bilateral and multilateral donors such as the African Development Bank. The SAL sought to reduce the role of the state in the economy and liberalize and reform several sectors, especially banking, insurance and labor laws.

Two breakthroughs with regard to oil revenue transparency are directly associated with these first agreements with Breton-Woods (BW) organizations. The first was immediately visible during the negotiations of the Stand-by-Agreement, as oil revenues appeared for the first time in the State's finance law. Indeed, oil revenue transfers under the heading *Redevance pétrolières* were reported as an off-budget account in the budget for the first time in 1987.[32]

The second breakthrough in revenue transparency during that period was the first World Bank and IMF scrutiny of Cameroonian oil revenues. In a confidential 1987 Country Economic Memorandum, the World Bank presents, for the first time, estimates of oil revenues transferred from the secret accounts to the budget for the period 1980-85. These estimates were, however, speculative given the Cameroonian authorities' refusal to provide official oil revenues figures to the BW organizations.33 Estimates were hence constructed by the World Bank using various independent data sources (e.g. major commercial banks, BEAC accounts).

While estimating revenues was an important first step toward increasing transparency in the sector, the BW organizations did not sanction the authorities regarding the secret contractual arrangements with the IOCs, nor the use of secret bank accounts or the overall "secrecy surrounding critical oil-sector data" (World Bank, 1987, p. ii).

Indeed, transparency in the management of oil resources was not seen as paramount during that period. While the World Bank perceived the lack of transparency as presenting shortcomings,[34] it simultaneously considered the practice to favor good public resources management, in particular by preventing undue expectations from the public.[35]

[32] Jua (1993, p. 141) also believes that the IMF placed pressure on Cameroon to include oil revenues in the budget.
[33] "Detailed public finance accounts are not available, nor are data on the execution of the extra-budgetary accounts" (World Bank 1987, p.2). "Official information on oil reserves, production and revenues is not available" (idem, p.6). The report states further: "Overseas earnings from (oil) production are generally held in overseas account […] Overseas holdings are generally a closely-held secret" (World Bank 1987, p. 32).
[34] The only potential negative effect of the lack of transparency is not viewed by the World Bank in terms of lack of public accountability, but instead from a technical point of view with regard to difficulties in public budgeting associated with the uncertainty surrounding government revenues: "It is difficult however, for the Ministry of Finance and technical ministries to perform their planning and budgeting functions if they do not know with sufficient advance notice the resources made available to them, as it is for the planners of the

The first doubts about the potential negative effect on accountability of secrecy in the sector are raised in a 1988 World Bank report. However, the report sides again with the Cameroonian authorities' approach, emphasizing the advantages that secrecy presents for reducing public expectations:

> "While this secrecy has potentially dubious effects on the responsibility and accountability for public revenues, it does presumably have the benefit of reducing various pressures to increase government spending, which emerge once it becomes clear that the government is flush with funds." (World Bank, 1988b, p.36).

Overall, BW organizations' reports during that period lauded the GOC for the management of the budget and the secrecy surrounding oil revenues: "The policy of using discreetly the revenues from oil-production sharing to finance additional investments and various expenditures through the extra-budgetary accounts … permitted the Government to avoid excessive public expectations and was probably the key to its prudent management of oil resources and external borrowing." (World Bank, 1987, p. 26)

Various other authors also spoke favorably of the Ahidjo government regime's good management of the oil revenues (e.g. Benjamin and Devaranjan, 1986; DeLancey, 1989). Benjamin and Devarajan (1986) for instance, write:

> "The track record of some of the other oil exporters has not been exemplary. But the distinctive feature of Cameroon oil sector and the cautious approach of its policy makers give one cause for optimism." (p. 188)

However, around 1989, when it was becoming clear that Cameroon was facing Dutch Disease symptoms, opinions of analyst and the BW organizations about the "prudent management" of the Cameroonian authorities started to change (e.g. Benjamin et al.,1989).

Furthermore, authors such as Jua (1993) believed that the secrecy was a scam by the authorities to hide misappropriation of funds. Also, despite official appearance of oil revenues transfers in the finance laws starting in 1988, van de Walle (1994, p. 141) posited the existence of important secret oil accounts controlled by the President.

Fourth period: 1991-1999 "Partial SNH Audits"

Another milestone in terms of oil revenue transparency was reached in 1991, the year of the second adjustment program with the IMF. For the first time that year, some components of SNH activities were partially audited. That same year, the first warnings about the lack of transparency in GOC activities were issued by the World Bank.[36]

Ministry of Planning to do their planning work if they do not have access to data on expected oil production and exports, nor the means to analyze the impact these variables have on the economy" (World Bank, 1987, p. 26)

[35] "To prevent the oil receipts giving rise to undue expectations on the part of the population, the Government has managed them with discretion. The share of these receipts that the Presidency decides to allocate to the extra-budget accounts each year is not known in advance, even by the technical ministries concerned." (World Bank, 1987, p.iii).

[36] In a 1991 Financial Sector Report, the World Bank warns that the oil sector institutional arrangements do not allow adequate governance and accountability. The authors propose in particular the elaboration of an oil sector

A year later, the World Bank issued its most severe criticisms (probably to date) about the Cameroonian authorities' mismanagement of funds and lack of accountability. The confidential 1992 *Country Strategy Paper,* which would never even be officially released internally, states:

> "…Cameroon strong potential is not being realized mostly as a consequence of pervasive mismanagement and lack of accountability in Government (p.1).[…] Repeated difficulties have been experienced with procurement, audits and the use of special accounts. (p. 4) […] The government's capacity is handicapped by an over-centralized, over staff and inefficient administration and a widespread lack of transparency and accountability." (p. 5).

For the first time, the World Bank specifically raises the problems of corruption in Cameroon. It calls for deep governance reforms and forecasts problems in future lending operations if no remedial is found.

> "In a tribalized and often corrupt administration, public policy is subverted to serve private interests and resources are wasted or diverted to private use. The administration is overly centralized and decision making authority too highly concentrated. .. There is widespread lack of transparency and accountability. […] further lending operations are unlikely to achieve their objectives in the absence of reforms in governance and institutional capacity." (World Bank, 1992, pp. 9-10).

While the 1992 *Country Strategy Paper* clearly identified governance problems and called for explicit institutional reforms regarding transparency and the role of the SNH, most of these reforms have yet to be implemented.[37] As we will see, these issues will haunt the World Bank and IMF to this day.

Still, despite the non-implementation of these fundamental governance reforms and the slow pace of other less fundamental reforms, BW organizations and bilateral donors' lending activities went forward.[38] Indeed, following the CFAF devaluation in 1994, given

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regulation and fiscal code distinct from the mining law, the simplification of contractual and legal arrangements in the sector and a redefinition of the role of SNH (World Bank, 1991, p.115). The report also specifically recommends the elimination of inconsistency between the general fiscal code and the special contractual arrangement negotiated with oil companies. It also recommends the replacement of the hybrid system of sharing arrangements and guaranteed rent by a simple system clear and simple (World Bank, 1991, p.115).

[37] The report presents an agenda of institutional reforms emphasizing transparency in public expenditure and investment and systematic use of audits, notably in the oil sector: "Lasting improvement in governance and institutional capacity will require reforms of the entire system of public administration. This will be a lengthy and involved process… Immediately needed will be effective and transparent expenditure programming and control, especially for public investment; efficient and honest revenue collection, effective capacity to divest and reform public enterprises; and transparency in the oil sector…Accountability should be enhanced through strict enforcement of clear guidelines for public procurement and management of public funds, systematic use of audits…" (World Bank, 1992, p. 10)

[38] While there were sometimes delays in credit disbursement, overall SAL lending activities went forward. For instance, with regard to World Bank activities, the GOC failure to implement reforms led to delays in the disbursement of the SAL-I third tranche. It also slowed down World Bank projects in the country in the early 1990s as only one new commitment was made during the 1992-1994 period--a IBRD agricultural loan (World Bank, 1994, Annex, p. 24)

Cameroon's loss of creditworthiness for IBRD lending, a second Structural Adjustment Credit was developed by the International Development Association (IDA), the World Bank concessional window.[39] The World Bank 1994 adjustment program once again underlined the need to improve accountability and transparency in the oil sector.[40]

As part of the aid package, a series of reforms were to be implemented by the GOC, including audits of SNH operations, consolidated statements of its operations and partial privatization.[41]

Various other World Bank reports during the period also emphasized the weak level of governance in the country. For instance, a 1996 report underlines the high level of corruption affecting all components of society, and questions the legitimacy of the government.

> "The legitimacy of the present administration is broadly challenged among civil society, not just among fringe secessionist elements. Falling living standards and collapsing social services, since the oil boom started to wane, have sapped taxpayer discipline, just as flagrant corruption and rent-seeking activities feeding on the declining State have undermined social solidarity...[…]… and led to a governance gap" (World Bank, 1996, p 2).

Despite these bleak diagnoses and various recommendations for reforms included in the World Bank and IMF aid packages, very little progresses on the governance and oil transparency front were made during this period. Nevertheless, in August 1997, a new three-year Economic and Financial Program supported by the IMF's Poverty and Growth Alleviation Facility (PAGF) as well as the third Structural Adjustment Credit (SAC III) of the World Bank were signed.

Hence, a decade after the first adjustment program was launched, a new generation of reforms was put forward. Both BW organizations programs included a reform agenda dealing with governance and corruption issues, in particular: i) improvement of public finances and expenditure management, ii) greater transparency in the management of public affairs, iii) anticorruption efforts.

[39] Central to this second structural adjustment program was a public enterprise reform agenda . Cameroon had created a large portfolio of public enterprises during the oil boom, several of which were very inefficient and survived only through SNH's oil revenue transfers (World Bank, 1994, Appendix, p 24).39 The public enterprise reform agenda included the partial privatization of SNH (which would never take place): "The Government has set out its new public enterprise (PE) sector reform policy along with an action plan in a Sector Policy Declaration, adopted in June 1994 as a condition for Board presentation of the proposed ERC…The full list of PEs to be privatized and/or liquidated will be published before the effectiveness of the proposed ERC. The Government has already conveyed its intention to gradually bring private equity participation into the state oil monopoly, SNH.". (World Bank, 1994, p.9)

[40] "In the hydro-carbon sector, IDA's assistance strategy aims at (i) increasing transparency in the management of the sector, including partial privatization of some of the key enterprises in the oil sector and (ii) supporting government effort to improve the incentives framework for further exploration and development of new oil and gas fields" (World Bank, 1994, ERC, p.21).

[41] The report states: "The Government intends to implement a number of measures aiming at improving the efficiency and transparency of the petroleum sector. Along with the other public enterprises, SNH, SONARA and SCDP will be required to prepare annually certified accounts within six months of the close of their financial year and will be subject to annual audits carried out by qualified auditing firms. Moreover, given the importance of oil revenue to government finance, the SNH is, as of January 1994, required to produce consolidated quarterly statements of all financial operations carried out in its own name and in the name of the Government." (World Bank, 1994, p.12)

In June 2000, the IMF considered that the GOC was achieving sufficient progress in its reform agenda and declared that the 1997-2000 program had reached a satisfactory conclusion. According to the IMF, the reform program had led to a series of economic and structural reforms that have contributed to improving governance in the country, in particular in the oil sector.[42]

> "There have been major advances in transparency in the use of oil revenues…SNH is subject since 1997 to annual audits by an international reputed firm" (IMF, 2000, p. 16).[43]

Interestingly enough, during that period, while Cameroonian authorities were receiving praise from donors, the country also received, two years in a row, the dubious distinction of being declared the most corrupt country in the world according to the TI corruption index.

Fifth period: 2000-present. "Partial Verification HIPC/EITI"

The year 2000 could be seen as the beginning of a new stage of oil revenue transparency. The satisfactory completion of the 1997-2000 IMF lending program led to a potentially huge reward for the Government of Cameroon, the establishment of an IMF and World Bank supported Heavily Indebted Poor Countries (HIPC) facility, which would ultimately erase most of Cameroon's external public debt.[44]

The debt reduction package put forward as part of the HIPC initiative was substantial. Including the "traditional" reduction given by the Paris and London clubs, the debt reduction was about US$4.9 billion (in 1999 NPV terms) (World Bank, 2006).

In theory, the HIPC ex-ante conditionality approach would constitute an increase in incentive for the country to reform.[45] This was indeed the hope of HIPC designers. The IMF states in this regard:

> "The alleviation of debt… would provide an important incentive for Cameroon to accelerate and broaden its reforms…" (IMF, 2000, p. 6).[46]

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[42] The IMF notes for instance: "The government economic program of the past three years has aimed at addressing some governance issues by reducing incentives and opportunities for rent seeking mainly through improved public expenditure management, …(and) regular transfers of oil revenues to the budget" (IMF, 2000, p 15)

[43] The IMF reports that audits of SNH activities were performed during the 1997-2000 period by independent accounting firms, and the SNH accounting and data systems were modified to bring them in line with international standards (IMF, 2000, Annex, p. 51). However, these reports do not provide information about the specific nature of these reforms, and audit reports were never made public.

[44] During the oil boom and subsequent years, Cameroon had accumulated very important public external debt, which amounted in 1999 to US$7.8 billion (85% of GDP), and absorbed 23% of government revenues (see Section 4). Cameroon's large public external debt led the country to face five rescheduling agreements with the Paris Club between 1989 and 1997 and the debt stock was considered unsustainable (World Bank, 2006, p. 71). Most of the debt was due to bilateral donors (69%, including France 25% and Germany 18%) and international organizations

[45] The HIPC program is designed in such a way that it requires changes in policy before disbursements are made. At a decision point at the beginning of the process, a country commits to implement a series of reforms and a set of identified targets. Once these various targets are satisfactorily reached, the completion point is declared and debt alleviation is put forward. It is worth noting, furthermore, that this approach of requiring reform implementation before disbursement in the HIPC program follows the IMF ex-ante commitment approach to lending. The World Bank, however, while following in principle the same approach in the 1970s to late 1990s, has since moved toward an ex-post results approach (as many bilateral donors have), which entails requiring reforms at the end of the disbursement. (See Collier, 2006, for a discussion of these commitment approaches).

The HIPC program was designed with a series of specific policy targets attached to conventional IMF operations in the country during the period. In exchange for debt alleviation, the country was asked to commit to a new round of reforms and implement a series of specific measures. The IMF recognized the high level of corruption and poor governance in the country and again called for new reforms: [47]

> "the quality of public services is poor, and corruption widespread. This reflects the very poor state of governance with respect to public resource mobilization and management, service delivery, and oversight functions" (IMF, 2000. p. 23) […] "to assess the government commitment to reforms, the government is asked to demonstrate its willingness to implement a new generation of reforms" (idem, p.25).

Again, as was the case in previous reform programs initiated by the BW organizations, specific emphasis was placed on improving accountability in public management and transparency, particularly in the oil sector.[48]

> "…efforts will focus on improving transparency and revenue collection in the oil, forestry, and external trade sectors, as well as ensuring timely transfers of central government revenues to localities. In the oil sector, the focus will be on improving the monitoring of oil sector operations to ensure the transparency and automatic transfer of oil revenue to the treasury." (IMF, 2000, p. 21).

However, instead of carrying out fundamental institutional reforms in the oil sector called for in the decision point documents, the Government of Cameroon chose to demonstrate its commitment by adopting a five year National Governance Program ("Programme National de Gouvernance", PNG I) in 2000.[49] The program aimed at fighting corruption, strengthening public financial management, transparency, accountability and participation in public affairs, and improving justice and human rights. In itself, the adoption of the PNG was seen as a milestone for the GOC by the BW organizations.[50]

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[46] The IMF further states: "…the enhanced HIPC Initiative has given substantial motivation to this process by offering a more concrete operational vehicle (the PRSP), the prospect of a reduced debt burden and the possibility of freeing up additional resources for poverty programs" (IMF, 2000, p. 18).

[47] These reforms were euphemistically called second generation reforms following the 1997-2000 reforms, but were in fact the third or fourth generation reforms since 1988. In practice, though, very little had been implemented in the area of governance reforms.

[48] Echoing the institutional reforms proposed a decade earlier in the 1991 and 1992 World Bank country reports, various reform are proposed to improve oil revenue transparency and SNH activities. To this day, however, these fundamental institutional reforms with regard to the role of SNH and oversight mechanisms in the oil sector have not been implemented. "Improved reporting on hydrocarbon activities, particularly by the SNH, strict adherence and full transparency, as well as a clearer and more streamlined delineation of the roles and responsibilities of each party in the petroleum sector need also to be implemented. In particular, SNH's activities should be streamlined and limited strictly to that of liaison with the foreign oil companies operating in the country, and its staff reduced accordingly." (IMF, 2000, p. 31)

[49] The program had been in discussion for four years with the UNDP.

[50] According to the World Bank, the PNG: "resulted in tangible gains in governance….For example, the government has initiated a number of important reforms in the procurement, budget management, and forestry sectors [….]"(World Bank, 2006, p. 149). The HIPC completion point triggers included the implementation of governance and anticorruption measures, in particular in the areas of judicial and procurement reforms, budget execution, and the creation of regulatory agencies (World Bank, 2006, p 6)

"The adoption of the GoC's comprehensive National Governance Program (Programme National de Gouvernance, PNG I) in June 2000 constituted a watershed because it heightened the importance of good governance to economic and social development in Cameroon and signalled the determination of the GoC to resolutely deal with this issue (World Bank, 2006, p.148).

The HIPC's completion point was to be reached in 2004. However, the deadline was missed because of various delays and difficulties in implementing reforms. To prove its commitment anew, the Government of Cameroon adopted a second PNG in 2005. Furthermore, in March 2005 it announced its intention to join the Extractive Industries Transparency Initiative (EITI) to signal its determination to improve governance in the oil sector.[51] We will discuss this initiative in detail below.

Following these last minute commitments, the HIPC completion point was declared in 2006 which represented a windfall of about US$5 billion for the Government of Cameroon.[52] The HIPC completion point documents proudly report that the action plan for improving governance and combating corruption has been satisfactorily implemented by the Government of Cameroon.[53] The report was highly optimistic about the progress accomplished during the HIPC period:

"The progress on governance reforms since the Decision Point, and especially in the past two years, provides the basis for belief that the government will sustain the pace of implementation of these reforms, with continued improvements in governance trends" (World Bank, 2006, p. 28).

However, another World Bank document released the same year presents an opposite view on the pace of reforms in Cameroon.

"…after Cameroon reached HIPC completion point in April 2006, the drive seems to have lost momentum and is now stalled [….] Obviously, a rekindled effort is needed from the GoC if its well-publicized anticorruption campaign is to remain credible to the populations, gain steam and help improve governance, the business climate and the effectiveness of the administration." (World Bank, 2006, p. 163).

[51] The PNG II covered democratic, administrative and economic governance, notably a specific subcomponent on corruption. Two main institutional reforms were part of the program: (i) establishing an independent anti-corruption agency; and (ii) presenting a draft bill to the 2006 parliamentary session requiring asset declaration by public officials (including the President, the Prime Minister, other ministers, high officials in government and public enterprises and members of the National Assembly) (World Bank, 2006, p. 27)

[52] Indeed, in addition to close to $2 billion in debt alleviation provided by HIPC, the completion point decision was associated with additional relief under the Multilateral Debt Relief Initiative (MDRI) of almost $3 billion. Overall, the result has been a decrease in the stock of external debt and debt service, reducing the external debt over export and GDP ratio from 153% at end-2005 to 13% at end-2006, and from 33% to 3% percent in 2006 (World Bank, 2006, p. 71).

[53] In addition to the PNG II and recent adhesion to EITI, in particular: (i) the creation of an independent agency to spearhead the anti-corruption campaign (CONAC); (ii) the adoption of a bill during the March 2006 parliamentary session that requires public officials to publicly disclose their wealth, including the President, the Prime Minister, ministers, high officials in government and public enterprises as well as members of the National Assembly, and (iii) creation of a *Cour des Comptes* (Audit Court).

Extractive Industries Transparency Initiative (EITI)

As mentioned above, another step put forward by the Cameroonian authorities before the HIPC completion point was the adherence to the EITI initiative.[54] The initiative put forward by EITI international, an NGO based in Oslo, seeks to strengthen governance in developing countries by improving transparency and accountability in the resource sectors. It is based on a voluntary approach where developing country governments and companies involved in the extractive sectors are encouraged to disclose the amounts paid to or received by them. The information is then presented to an independent third party for verification and subsequently disclosed to the population. The purpose of the initiative is as follows.

> "Implementing EITI can send a clear signal to all stakeholders that a government is serious about the transparent and accountable payment and receipt of extractive industry revenues…. Because EITI is an international standard, a country that is listed as being "EITI compliant" is meeting a series of internationally agreed upon criteria on improving transparency with performance independently monitored via validation" (EITI, 2008, p. 7).

The World Bank perceived the same benefits from the initiative:

> "Cameroon's recent decision to adhere to the Extractive Industries Transparency Initiative (EITI) and swift actions by the GoC to comply with EITI guidance constitute important signals to improve governance in oil and is likely to boost transparency and credibility, and hence effectiveness." (World Bank, 2006, p. 69)

In September 2008, twenty-one countries were listed as candidates, including 14 African countries. None has yet achieved the "compliant" status, which requires going through a validation process within two years of becoming a candidate.[55]

In Cameroon, two EITI committees were established, which comprise representatives of the State, parastatals, private oil companies and civil society.[56] To implement the disclosure process part of the initiative, starting in 2006 an independent conciliator collected and reconciled data on petroleum production, payments made by the oil companies to the government and the corresponding receipts by the government for the period 2001-2005. Two EITI reconciliation reports for Cameroon have been published,[57] which have been praised by the IMF and World Bank (IMF, 2007, Article IV, p. 69). However, the EITI reports and process in Cameroon could be criticized on a number of fronts, in particular the following:

[54] Launched at the World Summit for Sustainable Development in Johannesburg in October 2002 at the initiative of Tony Blair, EITI receives financial support from the World Bank, IMF, ADB, EBRD and various donor countries (Norway, UK, Germany, France, Canada, Australia, Italy, Russia and USA).

[55] The validation process is carried out by an independent party using a validation grid and various indicators. The EITI Board, through its secretariat, oversees the process (EITI, 2008).

[56] The EITI Follow-up Committee created in June 2005 by the Ministry of Economy and Finance (MEF) is the body in charge of decisions and management of the initiative in Cameroon. The Technical Secretariat is the coordination body of the Follow up committee and is also attached to the MEF. The Follow-up committee was initially supposed to be composed of 15 members, but later grew to 25 (10 from NGOs); it is presided over by the Ministry of MEF.

[57] The first report covers the period 2001-2004 and the second the year 2005. The EITI reports of Cameroon are available at: www.eitransparency.org

i) Compensation and Financing of EITI Committees

There are important problems linked to the source of financing of EITI committees and potential conflict of interest associated with abnormal levels of compensation for committee members (van Hulten, 2008). While the World Bank had established a Trust Fund in collaboration with the EITI partners to support EITI implementation, in Cameroon the Ministry of Economy and Finance (MEF) became partly responsible for financially supporting the committees, and the Minister of Finance has discretion over the compensation of committee members. Members' compensation was initially set at 100,000 CFAF by meeting, but was then raised to 300,000 CFA in 2008 and up to 500,000 CFAF (about US$1000) for some (which is more than twice the regular monthly salary of a university professor and more than the country's annual GDP per capita.)

In addition, there has been a multiplication of subcommittees which meet several times a month. Every committee member sits on more than one sub-committee, raising their compensation by a multiple. The EITI process has hence become a very lucrative business, especially in relative terms for NGOs and other civil society members.[58] This raises the problem of conflict of interest as committee members become, in practice, paid employees of the MEF and see their incentives to support decisions that go against government interest weakened considerably.

ii) Reconciliation vs. Audit

Another shortcoming in the EITI process is associated with the initiative's rules themselves. Despite a unique labelling system, the EITI process allows countries to use discretion in the application of its so called "international standard." Countries in particular could choose whether to use a simple reconciliation process of declared payments and revenues of government and firms, or whether to go further and allow payment and revenue data to be audited under accepted international auditing standards (World Bank, 2008, pp. 23-24). Countries could thus adapt the process and make key decisions on the scope of EITI divulgation process which lead to very different types of EITI programs.

In Cameroon, the government decided not to allow audits of oil revenues and only to implement a reconciliation process. The EITI process is hence weakened considerably by the use of unaudited revenue and payment data. Indeed, the consultant report states:

> "The audit and certification of data are not included in our scope of work… It is not our task to review the completeness of the sources of the considered incomes and of the oil companies…our intervention does not aim at discovering errors, illegal acts or other irregularities, nor at verifying whether the sources of the oil companies incomes and the state and its organs are actually comprehensive" (EITI Cameroon, 2006; p. 13). [59]

[58] Van Hulten (2008) calls it "silence money" Furthermore, the CHOC director expressed disbelief at the request and submitted a formal complaint to the World Bank and IMF representatives, to no avail. He further writes: "There is potentially an important role for NGOs in eradicating corruption and safeguarding integrity. "But how to do this with weak NGOs whose main purpose is to earn though the collection of DSAs?"

[59] In its reconciliation exercise, the EITI consultant (selected by the follow-up committee) used data transmitted by oil companies on a requested template instead of making use of audited financial statements by oil companies and SNH, The consultant hence did not perform an audit or even a limited examination of oil of financial transfers or physical flows from the oil sector as well as flows to and from the government.

iii*) Inadequacy of the reconciliation reports*
Another shortcoming lies in the poor quality of the information provided in the official public documents published as part of the EITI process in Cameroon, because fundamental information is missing. In particular, only aggregated figures of the country's total oil production is presented, with no details provided on each of the companies' production and payments to SNH and the Treasury.[60] These aggregated figures lose even more relevance given that the list of IOCs having provided financial statements is incomplete.[61] Furthermore, only a limited number of financial transfers between IOC and SNH were examined and some categories of taxes and royalties were excluded.

Further, while the process should have included the analysis of the declared transfers by oil companies to the tax authorities, the treasury and SNH, in practice only a subset of oil companies operating in Cameroon were analyzed by the consultant.[62]

iv) Technical Capacity of Committee Members
Another important problem associated with the EITI process is related to the lack of technical capacity of the EITI follow-up committee in Cameroon, especially among NGO representatives. As reported by the *Declare What You Pay Coalition* in Cameroon, very few NGO committee members had the necessary training to understand the content of EITI reports, which greatly weakens the capacity of the committee to act as a watchdog of the transparency process. [63]

v) Validation process
Finally, as mentioned above, Cameroon hopes to become an EITI "compliant" member before 2010. A two-day pre-validation seminar was held in Yaoundé in September 2008, which was attended by key players in the oil sector.[64] Although the World Bank and the EITI international representative expressed support for a positive review of the Cameroon candidacy at that meeting, the pre-validation exercise and the overall EITI process in Cameroon seems very weak and flawed. Indeed, the participants at this pre-validation process were mainly interested in how to publicize and develop a positive image of the oil sector, rather than in the content of the transparency initiative process. Furthermore, as discussed above, the reconciliation exercise in Cameroon has a very limited scope and fundamental information is missing.

The EITI validation process does not provide sufficient rigor to the exercise to ensure real transparency of the sector and the release and verification of the production and financial

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[60] While the consultant officially produced two reports, one with detailed figures of disaggregated forms for each of the companies' declared payments and income flows received by the state, and the other with only aggregate figures, only the latter report was made public.
[61] Oil companies officially covered in the 2001-2004 reconciliation exercise are the following: Total (E&P) Cameroon, Pecten Cameroon, Perenco Cameroon and Exxon Mobil Cameroon. Oil companies operating in Cameroon excluded from the reconciliation exercise are Euroil Ltd, Amerada Hess; Addax Petroleum; Noble; Grynberg; Philips Petroleum and Turnberry. Furthermore, Exxon Mobil did not transmit financial information (EITI Cameroon, 2007).
[62] See Footnote 65.
[63] "Très peu de représentants de cette société civile avaient cependant reçu une formation préalable leur permettant de s'acquitter au mieux de leurs missions et en conséquence, seuls quelques experts, membres du Comité de Suivi de l'Initiative au Cameroun, pouvaient comprendre le contenu des documents techniques produits par ce même Comité" (Rapport de la coalition PWYP, 2008).
[64] These included SNH top management, representatives of the Prime Minister's Office, Ministry of Finance, and Ministries in charge of natural resources, leading NGOs, members of the EITI follow-up committee, EITI head office and the World Bank.

information provided by IOCs and the government. These information and reconciliation processes should be compulsory, and be done through formal audits of the sector. They should also be inclusive of all activities and players.

Given its overall lack of rigor in Cameroon, the EITI process risks becoming just another rubber stamping mechanism to ensure additional funding for the country with no guarantee of proper usage. Hastily validating this process could prove harmful to Cameroon as it will relieve the pressure on the country to implement much needed reforms to improve accountability and transparency in managing public resources. It would also certainly damage the reputation of the EITI as a transparency certification process on the international scene.

5.3 Cameroon's Commitments versus Actual Governance Reforms

The bottom line is that the government has been very keen to make commitments to donors to carry out governance reforms over the last 20 years, with few results. In practice, very few institutional reforms have been truly implemented. When institutional reforms have taken place, they have been very slowly enacted and, when put in practice, were mainly symbolic and inefficient at promoting better governance.

For instance, the creation of an audit chamber (*Cour des Comptes*) was announced in January 1996 (Law No. 96-06 – January 18, 1996) to oversee external audits of government activities. The law creating the chamber, however, was only passed seven years later in 2003 (World Bank, 2006, p. 154) and the chamber became partly operational only in 2006 with some staff hiring. As of 2008, it is not yet operational. Furthermore, the office has not yet completed a review of government accounts and it is not expected to do so before 2012.[65]

Moreover, a government plan to fight corruption was put forward in 1999 with the creation of a National Observatory. It later became the National Anti-Corruption Commission (Commission Nationale Anti-Corruption, CONAC) in 2006. While donors labelled the commission as independent and praised its establishment, CONAC is not yet operational (as of November 2008) and is not independent. Indeed, currently, CONAC's president and members, budget, work plan and the follow-up of its reports are all determined by the country's President (Van Hulten 2008b, p. 17)

Another example of hollow institutions: in 2006, a law was adopted prescribing that all high level government officials, from the President down to the director level, must declare their possessions at the beginning and end of terms of office. However the Commission that was expected to enforce the law has never been created.

The inefficiency of institutional reforms in Cameroon could probably best be exemplified by SNH's oil accounts and cash transfers. As seen above, since its creation, SNH has engaged in transferring oil revenues toward discretionary activities under the guidance of the country's President. During what we called the second transparency period (1980-1988), the revenues were directed toward secret accounts. These revenues were partly officially transferred to the budget starting in 1988 and later transparency periods. Over the years, however, SNH retained a fraction of the revenues for discretionary activities outside of the budget process. Table 5.4 presents an estimation of these transfers for the 2003-2007 period.

[65] EITI pre-validation process discussions, Yaoundé, September 2008.

Table 5.4: Cameroon Cash Advance by SNH (in percent)

	2003	2004	2005*	2006	2007
Presidency	21.7	37.5	24.8	n.a.	n.a.
Defense	34.1	32.8	63.5	n.a.	n.a.
Cameroon Airlines	32.0	15.0	5.7	n.a.	n.a.
Other	12.2	14.6	6.0	n.a.	n.a.
Total	100.0	100.0	100.0	n.a.	n.a.
				n.a.	n.a.
As a percentage of SNH's revenue	24.6	23.0	19.3	2..9	5.1
As a percentage of total gouvernment revenue	5.1	4. 9	5.0	1.1	1..9
As a percentage of budget expenditures	13.1	10.8	14.4	1.4	2..3
As a percentage of GDP	1.1	1.1	1. 0	0. 2	0.4
Memo					
In percentage of budgetary allocation					
Presidency	44.5	71.1	70.2	84.7	40.0
Defense	59.7	54.0	92.6	26.8	13.9

Sources: Cossé. 2006 table2 P.15 (2003-2005); article IV IMF 2007 p.40 (2006); SNH's data 2007 and discussion with WB Cameroon Representant; Presidency and defene data in " Budget 2008: l'espérance du point d'achèvement n'est-elle qu'un mirage? Dynamique Citoyenne "page 23 for the years 2006-2007. n.a. : Non available
**jan-july estimation ;*

Donors' documents frequently mention these problems of direct SNH transfers, and calls for the closing of this tap became a recurring theme over the years. From as early as 1991, this objective is put forward in World Bank and IMF documents as a required reform in the oil sector. Nearly ten years later, the HIPC decision point document announced that these transfers have basically stopped due to the efficiency of the reforms put in place.

> "There has been major advances in transparency in the use of oil revenues: SNH is subject since 1997 to annual audits by an international reputed firm…(and) …*Virtually all the oil revenues are now transferred from the National Oil company (SNH) to the budget*" (IMF, 2000, p. 16) (our emphasis)

However, during the following years, SNH transfers continued while subsequent donor reports again claim that the transfers have been discontinued.

> "In recent years, the GoC has intensified efforts to enhance transparency in budget execution and therefore reduce the use of special procedures (procédure dérogatoire) which permit to bypass the expenditure chain. As part of this process, *the GoC has discontinued all cash advances* ("intervention directe") since January 2006 (*our emphasis*), which were made outside the Treasury by the oil company (SNH) and did not follow normal budgetary spending procedures." (World Bank, 2006, pp. 52-53)[66]

[66] In subsequent reports, the same requests are made to stop these extra budgetary transfers: "The authorities should refrain from undertaking any extra-budgetary spending and continue efforts to strengthen public expenditure management and transparency, notably by better monitoring budget and tracking expenditures. Improved transparency in the use of budget resources, including oil and debt relief remain a priority"(IMF, 2007, Executive board completes III review under the PRGF, p. 2). The same objective is again stated in a 2008 IMF

The latest step in the attempt by the IMF to stop the discretionary transfers has been to create a compulsory performance criterion in the IMF program.[67] The objective was to: "convert the quantitative benchmark on cash spending by SNH to a performance criterion, reflecting the authorities' commitment to refrain from extra-budgetary spending" (IMF, 2007, Article IV, p. 27).[68] The future will tell if the IMF will be able to hold the country to its commitment in this regard.

Gap in Revenues and Stages of Transparency

An even clearer demonstration of the symbolic nature of the country's commitment to reform is to look at the evolution of oil revenues not transferred to the budget during the last two decades of donor supported adjustment programs.

In Section 3, we estimated the oil revenues accruing to the nation over the period using independent estimates of oil production and compared it with the official figures transferred to the budget. It is interesting to examine the evolution of the oil revenue gaps during the five periods of oil revenue transparency identified to see if the reforms put forward over the years have been more symbolic than effective at reducing unaccounted oil revenues.

Table 5.5 presents the breakdown of the gap in oil revenues measured in Section 3 according to the five periods of transparency.

Table 5.5: Breakdown of Cumulative Gap in Government Oil Revenues (in million US $)

Period	Opaque	Secret Accounts	Off-Budget	Partial SNH Audit	Partial Audit/ HIPC, EITI	Cumulative gap
Years Period	1977-1979	1980-86	1987-90	1991-1999	2000-2006	1977-2006
Cumulative gap	333.5	5516.0	414.0	1794.3	2602.7	10660.4
Yearly average of the period	111.2	788.0	103.5	199.4	371.8	
Total CHB amount (1980-86)		4726.0				

document: "Spending advances by SNH (interventions directes) are defined as advance payments by SNH on behalf of the government. […] There will be no interventions directes in 2006 or thereafter. "(IMF 2008, Fifth Review, p. 39)

[67] In 2007, in order to try to stop these discretionary transfers, the IMF introduced a "quantitative benchmark" in the IMF programs. However, the country subsequently broke the criterion, but a waiver was requested and obtained "The implementation of the program supported by the PRGF for the period July-December 2006 was broadly satisfactory…However, following the resurgence of extra-budgetary spending directly financed by the SNH (0.2 percent of GDP), the criterion on net bank credit to the central government could not be met." (IMF, 2007, Article IV p. 41) "My Cameroonian authorities have however committed that such extra-budgetary expenditure does not occur again. They requested a waiver for the non-observance of this criterion…" (IMF, June 18 2007, p. 2). The Executive Directors supported the waiver for the completion of the third review, which "urged the authorities to follow budgetary procedures and refrain from undertaking extra-budgetary spending" (IMF, June 29 2007, p. 3)

[68] The official justification was spending in the disputed Bakassi peninsula with Nigeria: "This spending was mostly related to sovereign expenditure executed at the end of the fiscal year 2006, either to rehabilitate restituted areas under the Greentree Accord, or to address security problems in border areas." (IMF, 2007)

We observe in Table 5.5 that during the opaque period of 1977-1979, the level of unaccounted oil revenue amounts to about US$334 million. This is a relatively small amount compared to the forthcoming years, but these were the beginning years of oil production in Cameroon and the production levels were quite limited during these first three years.[69]

During the oil boom period of 1980-1987, oil revenues were still being placed in secret accounts and were not included in reporting procedures. Our estimate of the unaccounted oil revenues is about 5.5 billion.

During the years after the collapse of the economy, the government tried to maintain the same state-led development strategy as discussed in Section 4. Interestingly enough, the official oil revenues appearing in the budget during that period are almost equivalent to the estimated oil revenues. The estimated unaccounted revenues for the period are only about US$ 76 million.[70] As previously mentioned (see section 4), it appears that during the crisis years, before the establishment of donor-supported assistance programs, the government adequately transferred oil revenues in the budget and the oil gap is minimal.

In 1991, as part of donor negotiations, the first audit of the SNH was officially realized and the management of oil revenues should have improved. However, the reverse situation is observed. With the donor-supported economy, the level of unaccounted oil revenues increased to US$ 1.8 billion during the 1991-1999 period.

The same paradoxical situation is observed for the subsequent period. With the introduction of the HIPC program with its various performance criteria and the launching of the EITI initiative in 2005, the situation was expected to improve. Unfortunately, the opposite situation is observed. The estimated level of unaccounted revenues has never been higher: an estimated US$ 2.6 billion for the 2000-2006 period.

It hence appears that, despite all their good intentions and all the commitments they were able to obtain from the country, donors were not able to bring about effective governance reforms in the country. The situation of oil revenue management does not seem to have improved, on the contrary. The SNH discretionary transfers have continued, but even more importantly, the level of unaccounted oil revenues actually appears to have increased over the years.

CHOC (Change Habits Oppose Corruption) Program

The obvious very slow pace of anti-corruption and governance reform progress in the country has been noted by some donors. A group of six bilateral donors supported by UNDP hence decided to put together a special anti-corruption program, CHOC, to investigate the situation on the ground, including the inefficiency of the official anti-corruption commission, CONAC and propose improvements.

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[69] It is interesting to note that our estimates constructed using independent production figures are very similar to those put forward by the World Bank. Indeed, a 1994 report arrived at the same amount of about US$350 million of undisclosed funds for the period. The report states: "Accumulated (unrepatriated) earnings of SNH are strictly confidential and for the most part appear to be held as foreign assets; as such, they do not enter into Cameroon's banking system or its formally reported foreign exchange reserves…Assuming no transfers from SNH to the CHB in 1980 and 1981 (for which no data are available) total accumulations of unrepatriated oil revenues were probably somewhat less than CFAF 150 billion, or roughly $350 million." (World Bank, 1994)

[70] 1987-88 period

In its first main report in June 2008, CHOC, headed by a former deputy from the Netherlands, presented very negative conclusions. Essentially, it argues that the assumptions on which all the programs put forward by donors are based--that the Cameroonian authorities had the intention to reform, to pursue the good of the population and reduce corruption--were wrong. The commission report states:

> "The most important basic assumption of the donors funding project CHOC and this is not different in other documents, strategies, plans, reviews, etc regarding Cameroon, is that those in economic and political power in Cameroon want to end corruption [….] Should we not ask the question whether it is reasonable to expect that those in power stop the rich flow of means that they enjoy at the moment? (van Hulten, 2008, p.1)

The CHOC commission also declined to collaborate with the anticorruption agency, CONAC, which was considered unfit to pursue its mission as long as it has not gained independence from the Presidency.

> "…such collaboration, given the present state of CONAC, is impossible as CONAC is unfit for the fight against corruption in Cameroon. […] Essential is that CONAC becomes independent and operational" (van Hulten, 2008, p.9)

The report sees the direct link between the Presidency and CONAC perceiving the official anti-corruption activities in a political perspective: "the official fight against corruption is used for political purposes by the President" (van Hulten, 2008b, p.17).[71]

Furthermore, the report attributes a direct role to oil and forestry companies in exacerbating corruption and further mentions that "…national and expatriate companies fuel the corruption to maintain their position in the world markets (petrol, wood)…" (van Hulten, 2008, p.1). He concludes that "methodology and tactics of the fight against corruption have to be re-invented acknowledging that the political will does not exist" (van Hulten, 2008, p.2)

5.4. Conclusion

Cameroon has a long history of poor governance and corruption, and a similarly lengthy donor history. The country has been evolving under donor-supported adjustment programs for the last 20 years. During that period, the level of transparency in oil revenues has improved slightly, yet the impact on the level of estimated corruption has been slight. Donors have been actively trying to move the country along the path to reforms, including those related to governance issues. In several official donor documents, institutional reform objectives specify anti-corruption and governance initiatives.

[71] The report states: "The arrest of ministers is best understood as a realignment of political friends and foes by the President, not as a bold move forward in the fight against corruption. It is a handy tool to raise oversea expectations of desirable changes in Cameroon while, at home, they keep friends in line and enemies quiet." (van Hulten, 2008b, p.17) Furthermore, Otayek and Ngguini (2008, p 12) state: "la technique sélective des purges anti corruption […] est propice à la corruption et hostile à un sain développement et la lutte contre la corruption au Cameroun » (p12) (L'économie politique de la corruption et de la lutte anti corruption au Cameroun, World Bank, 2008, mimeo). A few former ministers were arrested in Cameroon. In particular Titus Edzoa (Health) and Pierre Desire Engo (Economics and planning) in 1997-2000 and Polycarpe Abah Abah (Economics and finance) and Urbain Olanguena (Health) in April 2008.

Ultimately, though, weak monitoring and incomplete reform implementation prevailed. Most institutional reforms carried out during the period were more symbolic than effective. The fundamental institutional reforms that could have led to improvements in accountability and transparency—notably the creation of an independent energy regulatory agency--were not pushed to the forefront and have yet to be implemented. The Audit Court and Anti-corruption Commission are still not functional, nor are they independent from the Presidency's direct influence. The SNH, under the control of the President, retains its multiple roles of joint venture associate of all oil activities, manager of the country's oil revenues and regulator of the oil sector. Furthermore, despite theoretical progress in transparency, the gap in oil revenues paradoxically appears to have increased over time, notably during the last stages of the implementation of HIPC and EITI.

Hence, after 20 years of adjustments and reforms, the oil sector remains at the center of rent extraction, regime maintenance and corruption. Although they have been the main advocate for governance reforms, donors have played a determining role in maintaining the autocratic regime in place over the years. They have provided the country with multi-billion dollar financial support since 1988 in the form of loans and grants. This funding has led to the accumulation of a huge external debt which ultimately has been forgiven by the same donors through multilateral and bilateral debt relief, rewarding the authorities for good macroeconomic performance and policies. However, governance has clearly suffered despite being officially on the agenda since the early 1990s.

Cameroon's case is interesting as it is symptomatic of much larger problems in the donor-recipient country relationships and in particular of the difficulties in dealing with autocratic regimes. Donors largely assumed they were dealing with a well intentioned government, as most of the programs put forward rested on the assumption that the authorities truly intended to reform and act for the good of the population. Compounding this false assumption is the lack of institutional memory and misaligned incentives. Donor agencies' officers tend to have weak incentives to focus on governance and corruption issues and to monitor recipient governments. The incentive structure is designed to uphold a good working relationship with client countries rather than alienating them by pushing for difficult choices often required in governance reforms. Indeed, promotion and remuneration structures depend on the satisfaction of clients' objectives and staff capacity to implement projects and programs. Furthermore, there are currently no adequate micro-level indicators of governance, corruption and public service delivery, allowing proper recipient country monitoring and comparison over time and across countries.

The last step in this donor-recipient game is the EITI initiative, which, in itself, is a good potential first step toward opening up the sector to more scrutiny. However, the implementation of the initiative in Cameroon is deeply flawed. The oil data verification and reconciliation process is badly mishandled. Furthermore, IETI international seems itself to have an incentive to turn a blind eye to these shortcomings in the implementation process in Cameroon. Nonetheless, giving the "compliant" status to Cameroon without the proper level of data quality and verification would clearly jeopardize the initiative itself and the seal of quality it represents.

6. CONCLUSION

In this paper, we analyzed the oil sector in Cameroon and in particular the level and use of the oil rent. We argue that despite advantageous contracting arrangements and an "oil take" of about 67%, the autocratic nature of the political regime and political dynamics in Cameroon have led to very poor institutional arrangements for oil revenue management. While the country has captured a sizeable portion of the oil rent, only about 46% was transferred to the budget between 1977 and 2006, and the remaining 54% was not properly accounted for and may have been looted. As a consequence, oil revenues were not invested domestically in physical, social or human capital as a priority, but "saved" abroad and ultimately dilapidated. The government behaved as if the oil boom was permanent and the 1986 crisis temporary. The behavior they exhibited mirrored the permanent income hypothesis, as described in Van Der Ploeg and Venables (2008), with increasing borrowing and consumption, compounded by reduced investment, leading to disastrous development outcomes.

Autocracy and its corollary (lack of transparency and corruption), combined with a missed presidential transition, made these policy blunders possible. Indeed, Cameroon has been consistently classified as one of the most corrupt countries in the world by Transparency International in the last 10 years; donors have been pushing for improved governance and transparency for the past 20 years without significant success. Corruption and weak governance are at the heart of the problem, which is self-reinforced by oil revenues, and lengthens political tenure while impeding political freedom and human rights.

There is a need for reforms to reduce incentives for collusion, for example, creating an independent energy regulatory agency. Also, donors should develop and make use of better micro-level indicators of governance and corruption and of quality of service delivery to avoid capture. A case in point is the EITI process, which needs more tightening and more serious validation if it is to improve transparency in the oil industry and make a genuine difference.

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APPENDICES

Table A1: Relationships between the IMF and World Bank with the GoC, 1988-2008

Year	Program
1988	Stand-by Agreement Facility
1989	SAL I (WB)
1994	SAC II (WB)
1997-2000	PRGF
	SAC III (WB)
2000-2006	HIPC
2000-2004	PRGF
2005-2008	PRGF

Table A2 : Cameroon selected economic and financial indicators

(1977-1991)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
							Annual Growth (%)								
GDP growth	13.7	22.0	6.0	-2.0	17.1	7. 5	6. 9	7.5	8.1	6.8	-2.1	-7.8	-1.8	-6.1	-3.8
GDP per capita	10.4	18.4	3.0	-4.8	13.8	4.6	4.0	4.5	5.0	3.7	-5.0	-10.5	-4.7	-8.8	-6.5
Inflation.(consumer prices)	14.7	12.5	6.6	9.6	10.7	13.3	16.6	11.4	8.5	7.8	13.1	1.7	-1.7	1.1	0.1
							Percentage of GDP								
Government revenue		19.1	18.0	24.0	27.3	28.6	27.2	24.0	25.2	19.7	16.7	15.9	14.9	13.5	14.0
of which oil revenue				1.9	11.0	13.3	11.8	9.2	10.5	7.6	5.8	5.4	5.3	4.3	5.6
Government expenditure		17.2	16.4	23.7	26.1	25.3	25.3	24.0	25.6	26.5	25.6	21.1	17.8	19.2	17.9
of which current expenditure		12.3	11.3	13.1	13.3	14.3	15.4	14.9	12.6	12.1	13.6	15.0	13.7	13.9	13.9
of which capital expenditure		4.9	5.1	10.6	12.8	11.1	10.0	9.1	13.0	14.4	12.0	6.1	4.5	5.5	4.7
Current account balance	-2.7	-4.2	-2.2	-6.6	-6.3	-5.3	-5.6	-2.2	-6.9	-4.3	-7.3	-3.4	-2.6	-4.9	-2.7
Gross domestic savings	25.7	26.8	21.4	21.7	20.6	29.6	27.2	28.6	26.7	26.0	21.0	21.0	20.1	20.7	22.0
Gross fixed Capital formation	39.7	45.1	40.6	20.0	24.6	20.6	21.1	19.4	17.2	24.8	24.5	20.8	18.2	17.3	16.6
							Debt Ratios (in %)								
External debt to GDP ratio	33.1	34.8	37.5	38.3	34.7	38.3	39.2	37.1	38.7	38.8	37.3	37.5	47.1	57.7	53.4
External debt to exports ratio	131.9	147.2	177.9	137.2	158.5	115.3	129.1	110.8	115.7	166.9	223.6	234.2	227.3	285.7	267.0
Debt service to exports ratio	8.0	11.5	13.3	12.4	15.7	14.3	13.9	14.4	22.5	25.3	28.1	29.5	14.5	20.6	14.8
Debt service to GDP ratio	2.0	2.7	2.8	3.5	3.4	4.7	4.2	4.8	7.5	5.9	4.7	4.7	3.0	4.2	3.0
Concessional debt to total debt ratio	40.0	37.8	35.9	33.5	33.7	33.1	33.5	31.6	33.9	30.1	29.7	28.2	30.0	27.9	27.6

(1992-2007)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
							Annual Growth (%)									
GDP	-3.1	-3.2	-2.5	3.3	5.0	5.1	5.0	4.4	4.2	4.5	4.0	4.0	3.7	2.0	3.8	3. 3
GDP per capita	-5.7	-5.7	-5.0	0.8	2.5	2.7	2.8	2.2	2.1	2.4	2.0	2.1	1.8	0..3	1. 1	1. 3
Inflation(consumer prices)	0.0	-3.2	35.1	9.1	3.9	4.8	3.2	1.9	1.2	4.4	2.8	0.6	0. 2	2.0	5.1	0. 9
							Percentage of GDP									
Government revenue	14.5	13.7	10.3	12.9	14.3	16.8	16.5	16.5	19.9	17.7	16.9	16.7	15.7	17.3	19.2	18.9
of which oil revenue	5.3	3.5	1.9	2.6	3.1	4.8	3.2	3.5	6.6	4.8	4.9	4.1	4.1	4.9	6.8	6.4
Government expenditure	16.2	14.5	15.7	15.3	14.6	16.0	14.5	14.9	15.3	17.2	13.0	12.4	12.8	13.4	14.6	15.6
of which current expenditure	11.9	12.7	14.1	13.7	13.4	14.0	12.3	12.6	11.8	13.6	11.2	10.4	10.4	11.1	11.7	11.7
of which capital expenditure	3.3	1.6	1.1	1.2	1.1	1.9	2.1	2.1	3.3	3.3	1.8	2.1	2.3	2.1	2. 9	3. 9
Current account balance	-3.2	-4.3	-0.7	1.1	-3.1	-6.4	-1.7	n.a	-2.5	-3.9	-4.1	-5.0	n.a	n.a	n.a	-0. 6
Gross domestic savings	16.5	17.6	17.9	19.5	17.3	19.1	19.2	n.a	20.3	19.0	19.0	17.8	18.5	19.0	n.a	n.a
Gross fixed Capital formation	14.3	16.5	15.3	14.5	15.4	16.2	17.5	n.a	16.0	20.3	19.8	18.1	18.3	21.2	n.a	n.a
							Debt Ratios (in%)									
External debt to GDP ratio	63.0	60.3	105.0	121.3	107.9	105.2	114.7	111.3	92.9	89.7	80.5	71.0	57.5	42.4	6.0	5. 5
External debt to exports ratio	306.7	352.9	475.4	471.8	479.9	415.9	432.8	427.1	399.7	409.3	404.0	350.9	296.3	182..3	21. .2	20. 5
Debt service to exports ratio	12.8	19.0	20.2	18.7	23.1	19.6	19.3	20.9	19.9	14.2	14.8	15.3	n.a	8.6	5..2	4.1
Debt service to GDP ratio	2.6	3.2	4.5	4.8	5.2	5.0	5.1	5.4	4.6	3.1	2.9	3.1	n.a	n.a	1. 5	1. 1
Concessional debt to total debt ratio	32.3	34.5	42.3	43.7	43.4	45.3	46.9	46.5	47.3	51.2	53.6	55.8	60.5	59.6	n..a	n. a

Sources: world bank CEM 1987 (1978-1984 period). Cameroonian authorities (1985-2005 period). IMF and Cameroon authorities (2006 period) for revenue and expenditures data. GDF. WDI 2007 (1977-2005 period); IMF country report 2008 and World Bank Cameroon data at-glance 2008 (2006-2007 period) for the remaining variables.

Table A3 : Publics finances

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
In percentage of GDP																														
Total government revenue of which	19.1	18.0	24.0	27..3	28.6	27..2	24.0	25.2	19.7	16.7	15..9	14..9	13..5	14.0	14..5	13.7	10..3	12..9	14..3	16..8	16..5	16.5	19.9	17.7	16.9	16.7	15.7	17. 3	19.2	18..9
oil revenue			1.9	11.0	13.3	11.8	9.2	10.5	7.6	5.8	5.4	4.6	4..3	5.6	5..3	3..5	1.9	2.6	3.1	4.8	3.2	3. 5	6.6	4.8	4.9	4.1	4.1	4..9	6.8	6.4
Total expenditure	17.2	16.4	23.7	26.1	25..3	25..3	24.0	25.6	26.5	25.6	21.1	17.8	19.2	17.9	16.2	14.5	15.7	15. 3	14.6	16.0	14.5	14.9	15.3	17.2	13.0	12.4	12.8	13.4	14.6	15.6
Of which																														
Current expentiture	12.3	11.3	13.1	13..3	14..3	15.4	14.9	12.6	12.1	13.6	15.0	13.7	13.9	13.9	11.9	12.7	14.1	13.7	13.4	14.0	12.3	12.6	11.8	13.6	11.2	10.4	10.4	11.1	11.7	11.7
Capital expenditure	4.9	5.1	10.6	12.8	11.1	10.0	9.1	13.0	14.4	12.0	6.1	4.5	5.5	4.7	3.3	1.6	1.1	1.2	1.1	1.9	2.1	2.1	3.3	3.3	1.8	2.1	2.3	2.1	2.9	3.9
In percentage of government revenue																														
Oil revenue			8.0	40.1	46.4	43.4	38.5	41.9	38.6	34.8	33.8	30.5	31.9	40.3	36.4	25.9	18.2	20.1	21.8	28.7	19.6	21.0	33.4	27.0	28.8	24.5	25.8	28.5	35.5	33.8
In percentage of total expenditure																														
Current expenditure of which	71.3	69.0	55.2	51.0	56.3	60.7	62.1	49.2	45.7	53.0	71.0	77.1	72.7	77.5	73.6	87.7	90.1	89.4	91.7	87.6	85.2	84.6	77.3	79.1	86.2	83.2	81.7	82.4	80.0	74.8
Wages and salaries	35.1	33.2	24.4	21.3	22.0	23.2	24.6	24.2	23.4	27.1	36.2	38.3	39.2	44.2	48.1	60.1	33.8	30.7	28.3	31.0	35. 2	33. 8	31.9	28.9	39.5	42.6	41.6	34.7	30.5	28.2
Tranfers	10.5	11.0	9.1	8.6	12.5	15.6	15.5	6.2	5.4	5.2	6.7	9.7	7.8	9.0	11.9	12.8	8.6	10.3	11.8	9.9	11.7	12.2	10.3	11.3	11.5	10.0	11.0	14.6	15.4	14.9
Interest payement	1.9	1.5	2.1	2.8	3.1	3.5	3.9	4.1	3.8	5.9	9.1	12.9	10.6	13.7	2.0	2.3	39.7	33.3	35.2	28.4	17.6	17.8	11.9	18.5	9.3	8.6	6.3	5.0	6.3	3.3
Capital expenditure of which	28.7	31.0	44.8	49.0	43.7	39.3	37.9	50.8	54.3	47.0	29.0	25.4	28.7	26.3	20.1	11.2	7.2	7.8	7.6	11.7	14.2	14.2	21.7	19.2	13.8	16.8	18.3	15.9	20.0	25.2
Capital expenditure domestically finance			29.1	35.6	35.0	31.5	29.3	40.8	44.2	34.1	13.1	7.7	4.1	2.6	2.4	2.6	2.3	3.3	3.7	3.7	6.7	6.1	11.2	9.3	8.6	11.6	10.5	0.3	12.9	18.2
Capital expenditure externally finance			15.6	13.4	8.8	7.8	8.6	10.0	10.1	13.0	15.9	17.7	23.3	17.4	13.0	7.8	4.4	4.0	2.0	2.8	2.5	2.8	4.7	6.3	2.7	3.8	6.4	2.3	4.7	4.0
Memo (in billions of CFA francs)																														
government revenue	200.6	226.6	338.9	491.1	620.5	711.4	765.4	966.1	808.6	655.1	579.6	524.7	454.3	466.3	462.9	430.8	353.1	533.5	654.7	828.5	862.9	928.1	1313.4	1251.4	1282.2	1321.1	1311.3	1541.4	1808.9	1867.9
of which Oil revenue	n.a	n.a	27.1	197.1	288.0	308.7	294.3	404.9	311.8	227.7	195.7	160.0	145.0	187.9	168.7	111.5	64.3	107.4	142.8	238.0	168.9	194.5	438.3	337.5	368.9	324.1	337.8	439.2	643.0	631.0
Government expenditure	181.1	207.0	334.3	469.0	550.3	663.3	767.1	982.0	1089.8	1004.4	768.5	624.8	642.9	597.9	518.8	457.2	534.8	632.3	665.7	789.5	758.7	838.9	1011.9	1211.5	985.1	984.8	1063.6	1195.4	1372.0	1541.0

**Sources: World Bank CEM 1987 (1978-1984). Cameroonian authorities (1985-2005). IMF and Cameroon authorities (2006, 2007)*

Table A4: functional classification of government expenditures (in % of total expenditures)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
General government services	9.5	9.5	9	7.4	6.8	6.3	7.1	7.7	8	8.6	8.9	9..5	n.a	n.a	n.a	n.a.
Defense and security	8..5	8.6	10.6	12.6	12.9	13.2	13.5	12.1	8. 2	11.2	11.7	11.3	13.4	13.3	13.2	10.9
of which Defense	7..5	8	8.3	7. 5	7..5	8	8.4	6.6		n.a.	n.a.	n.a.	9..2	9. 8	9. 2	8. 1
of which Public order and justice	1	0..5	2.4	5	5.4	5..2	5.1	5.4		n.a.	n.a.	n.a.	4. 2	3. 5	4	2.8
Education	18.1	13.2	12.3	12.4	10.3	9.5	17.6	25.7	21.5	24.6	17.4	19.8	17.3	18.5	18.7	14.8
Health	4.6	4.1	3. 2	3..5	3. 2	2. 9	4.4	5. 9	5. 3	3.7	3. 3	5. 5	4.7	6. 2	6. 9	4.6
Social security	0.7	0. 5	0.4	0. 5	0.4	0.4	0.4	0. 5	0. 6	0.7	0.7	0. 5	n.a.	n.a.	n.a.	n.a.
Housing and community affairs	2. 8	2.1	1. 2	1. 2	1	0. 8	1	1. 3		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Recreation and culture	1. 2	0. 9	0. 8	0. 9	0. 8	0. 8	0. 9	1. 3	1. 5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Energy and mining	1. 8	1. 4	0. 3	0. 3	0. 2	0. 1	0. 1	0. 3		n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Agriculture forestry and fishing	7	6	3. 9	4. 6	3. 6	2. 4	2. 8	3. 2		n.a.	n.a.	n.a.	2.2	2.6	2.6	2.1
Public works. transport and communications	6.7	5. 6	5. 2	5. 6	4. 5	3. 4	4. 5	5. 2	6	7. 8	8	11. 8	n.a.	n.a.	n.a.	n.a.
Memo																
Total expenditure (in billion of cfa francs)	644.6	663.7	702	764.5	865	980	1018	1094	1167..5	1232	1285	1331	1195.4	1372.0	1541.0	1908

Sources: 1993-2004 IMF various "Cameroon article IV statistical appendix"; 2005-2008 " Budget 2008: l'espérance du point d'achèvement n'est-elle qu'un mirage? Dynamique Citoyenne "page 23

TABLE A5 : Oil Data

	production (in millions of barrels)		price (in current US$/barrel)		Extraction cost(in millions of current US$)		SNH State mandate cost (in millions of current US$)
	WBASP	SNH	BP	WB	WB	SNH	WB
1977	0.3	0.3	12.8	11.6	0.1	0.1	0.1
1978	3.7	4.0	12.9	11.9	2.1	2.3	1.0
1979	14.7	10.0	29.1	28.5	10.2	6.9	9.6
1980	26.2	20.0	33.9	34.0	45.4	34.7	20.3
1981	35.2	30.0	33.1	32.7	83.4	71.1	26.2
1982	41.5	39.0	30.4	30.1	128.3	120.4	28.5
1983	43.3	42.0	27.2	27.3	145.3	141.0	27.0
1984	64.5	55.0	26.5	26.3	214.9	183.1	38.7
1985	64.5	65.0	25.4	25.0	245.0	247.0	36.8
1986	63.4	61.0	13.3	13.2	226.1	217.5	19.1
1987	63.9	59.0	17.0	16.7	208.8	192.8	24.4
1988	59.1	57.0	13.7	13.6	198.7	191.6	18.3
1989	62.6	56.0	16.8	16.4	212.7	190.3	23.5
1990	58.1	55.0	21.9	21.1	189.7	179.4	27.9
1991	53.4	50.0	18.4	17.8	178.3	166.9	21.7
1992	52.0	49.0	17.8	17.5	183.3	172.9	20.8
1993	52.4	46.0	15.6	15.5	173.7	149.2	18.5
1994	48.8	41.7	14.6	14.6	157.1	135.2	16.3
1995	45.5	37.9	15.7	15.8	148.9	124.3	16.4
1996	50.2	38.1	19.0	18.8	167.0	119.8	21.5
1997	52.2	40.6	17.6	17.7	173.1	136.1	21.0
1998	56.8	42.8	11.7	12.0	207.0	156.7	15.6
1999	50.2	42.5	16.6	16.6	219.5	183.7	19.1
2000	53.8	41.6	26.2	26.0	224.9	171.3	31.9
2001	51.5	39.4	22.1	22.1	232.3	177.7	25.9
2002	47.2	37.4	22.8	22.7	220.7	174.8	24.5
2003	49.4	35.6	27.2	27.3	238.2	171.9	30.7
2004	48.6	32.7	34.7	34.1	248.1	166.6	37.9
2005	44.2	30.1	49.8	48.7	262.0	178.3	49.1
2006	46.9	32.3	61.6	60.8	317.7	218.8	65.0

Note : Extraction= WBASP unit cost*production according to data source
State mandate cost is estimated to represent 3.5% of oil SNH share of gross rent based on last 5 years average (2004-2008) of the SNH
Oil statistics available on : www.snh.cm