

## MASTER DEGREE PROJECT

The Impact of Foreign Aid on  
Economic Growth and  
Economic Development in  
Cameroon

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## **ABSTRACT**

The role of foreign aid in promoting economic growth and improving the social welfare of people has been the subject of much debate among development specialists, researchers, aid donors as well as recipients in general and Cameroon in particular. In spite of this, there are only few empirical studies that investigate the contributions of foreign aid to economic growth and development in Cameroon. This study explores the impact of foreign aid to economic growth and development in Cameroon using descriptive statistics for data that spans from 1997 to 2006. The results show that foreign aid significantly contributes to the current level of economic growth but has no significant contribution to economic development. The findings imply that Cameroon could enhance its economic development by effectively managing funds from aid and by strategically strengthening anti-corruption measures.

The rest of the work is organized as follows: Chapter one consist of an introduction, chapter two is the literature review, chapter three constitute the research methodology, chapter four is the data presentation and analyses, chapter five summary of findings and recommendations and lastly chapter six conclusions,

## **ACKNOWLEDGEMENTS**

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## CHAPTER ONE

### 1.0 Introduction

Foreign Aid, Economic Growth and Economic Development are burning issues confronting development economists and researchers today. This is simply because some of the researchers support the view that foreign aid lead to growth while others argue that aid does not contribute to economic growth and thus have a negative impact on economic development in the recipient country. Since the 1960s, the amount of Foreign Aid to Cameroon has been increasing, but there are controversial arguments on whether the major aim for its institution has been achieved.

Foreign aid in terms of Official Development Assistance (ODA) is very important to developing countries in general and Cameroon in Particular because it contributes to economic growth. Economic growth leads to economic development where there is equitable distribution of income. This research discusses in a straightforward manner the impact of aid on economic growth and economic development in Cameroon

### 1.1 The statement of the problem

Development Aid, usually known as Official Development Assistance (ODA), is given to Cameroon by governments of developed nations, international aid agencies and through multilateral institutions such as the World Bank, and by individuals through development charities such as Action Aid, Caritas, Care International or Oxfam, aimed at creating long-term sustainable economic growth. The past two decades have witnessed an era of economic crisis in the country, leading to a drastic drop in living standards.

On the advent of the 3<sup>rd</sup> millennium with its Millennium Development Goals (MDGs) of health for all, education and an increase in life expectancy, more aid has flowed in to

Cameroon. During the past eight years the country has witnessed a gradual increase in growth, but unfortunately the increase in economic growth is coinciding with skyrocketed prices of basic commodities. There are no jobs, the average Cameroonians lives on half a dollar a day, no good drinking water in some parts of the country, less access to education, widespread poverty and worse of all thousands are AIDS infected. This research therefore aims at answering the following research questions:

- Is there a significant relationship between Foreign Aid and Economic Growth?
- Is there a relationship between foreign aid and economic development?

## **1.2 The purpose of the study**

The principal purpose of the study is to determine the impact of foreign aid on economic growth and development in Cameroon. The study also makes Recommendations based on the findings, on how foreign aid could be effectively managed to bring about improvements in living standards.

## **1.3 The significance of the study**

It is hopeful that the findings of this study will raise international awareness and will make the donor community know the real situation in Cameroon. This will make them follow the suggestions and examples of other donor nations like China, Japan and Germany, who are already aware of the situation and have embarked on hospital constructions and rehabilitation, school and road constructions respectively, rather than donating fiscal cash assistance which often stand the risk of being swindled or embezzled into private bank accounts This will go a long way to drive Cameroonians out of the doldrums and to improve on their living standards.

## 1.4 Hypothesis of the study

The hypotheses that guide this study are:

Hypothesis 1: Ho: There is no relationship between foreign aid and economic growth.

H1: There is a relationship between foreign aid and economic growth

Hypothesis 2: Ho: Foreign aid does not contribute to economic development

H1: Foreign aid contributes to economic development.

## 1.5 Definition of terms

**Impact:** The outcome, result, or consequence of.

**Foreign Aid:** Also referred to as international aid or overseas aid, (especially in the United States) is the help, mostly economic, which may be provided to communities or countries in the event of a humanitarian crisis or to achieve a socioeconomic objective. Humanitarian aid is therefore primarily used for emergency relief, while development aid also known as Official Development Assistance (ODA) aims to create long-term sustainable economic growth.

This research considers aid as Official development assistance (ODA), defined as government aid to developing countries designed to promote the economic development and welfare of recipient countries. Loans and credits for military purposes are excluded. The aid may be provided bilaterally, from donor to recipient, or it may be channelled through a multilateral development agency such as the United Nations or the World Bank.

Aid includes grants, "soft" loans, and the provision of technical assistance. Soft loans are those where the grant element is at least 25%. ODA is usually measured on a net basis, that is, after subtracting loan repayments from the gross aid flows.

**Economic Growth:** This is the increase in value of the goods and services produced by an economy. It is conventionally measured as the percent rate of increase in real gross domestic product (GDP).

Gross domestic product is the value of all market and some non-market goods and services produced within a country. As such, it is the most comprehensive measure of a country's economic output that is generally estimated by statistical agencies.

The GDP per capita (GDP pc) is defined as the GDP of a country divided by its total population that is the average standard of living especially when expressed in purchasing power parity (PPP). It is therefore viewed as a rough indicator of a nation's prosperity. The GDP per employed person is the average labour productivity. It provides a general picture of a country's productivity and international competitiveness. The growth rate of real GDP is the percentage change in real GDP from one year to the next. For purposes of evaluating how economic growth can feed into economic development, focus is put on the growth rate of GDP per capita—that is, output per person—rather than simply on overall output.

Robert Solow (1957) argued that output could be generated according to a "production function," which is a mathematical relation between various inputs and the level of output. The output of an economy is expressed as a function of flows from all the different types of capital that make production possible. In his model, he assumed that an economy-wide production function could be written in the simple form:

$$Y = A K^{0.3} L^{0.7}$$

Where Y is aggregate output, A is a number based on the current state of technology, K is a quantitative measure of the size of the stock of manufactured capital, and L the quantity of labour used during the period of time. K and L are the only factors of production explicitly

included in the model. Both capital and labour are needed for the production of output, with the exponents in the equation reflecting their relative contributions.

After some mathematical manipulations, the production function above can be converted to an equation for the growth rate of output per worker as a function of “total factor productivity” and the growth rate of manufactured capital per worker:

Growth rate of output per worker = growth rate of total factor productivity + 0.3 (growth rate of manufactured capital per worker)

Thus, this model implies that the way to raise income per capita—to achieve economic growth—is to increase the amount of capital that each person works with (the second term) and improves technology (the first term).

***Economic development:*** It is the development of the economic wealth of countries or regions for the well being of their inhabitants.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter reviews the literature related to the study in three main parts;

- Foreign aid and its impact on economic growth
- Foreign aid and its impact on economic development
- Economic development and its impact on economic growth.

#### **2.1 Foreign aid and its impacts on economic growth**

There are diverse views regarding the impact of foreign aid on economic growth by various researchers. While others hold the view that aid has a positive impact on growth, others see aid as having a negative impact and the last group of researchers argue that the effects could be positive or negative depending on several factors

The Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) defines foreign aid in terms of Official Development Assistance (ODA), as government aid to developing countries designed to promote the economic development and welfare of recipient countries. Loans and credits for military purposes are excluded. The aid may be provided bilaterally, from donor to recipient, or it may be channelled through a multilateral development agency such as the United Nations or the World Bank.

Aid includes grants, "soft" loans, and the provision of technical assistance. Soft loans are those where the grant element is at least 25%. ODA is usually measured on a net basis, that is, after subtracting loan repayments from the gross aid flows.

Papanek (1973), in a cross-country regression analysis of 34 countries, treating foreign aid, foreign investment, other flows and domestic savings as explanatory variables, finds that foreign aid has a greater effect on growth than the other variables. He explains that “aid is supposed to be specifically designed to foster growth and, more importantly, is biased toward countries with a balance-of-payment constraint”. He also finds a strong negative correlation between foreign aid and domestic savings, which he believes co-contributed to the growth performance.

Chenery and Carter (1973), following the previous two-gap derived model of Chenery and Strout (1966) and using data from 50 countries over the period 1960-1970, show that the effects of Official Development Assistance (ODA) on the development performance of countries under study are different among certain groups of countries. In five countries, namely Taiwan, Korea, Iran, Thailand and Kenya, foreign assistance accelerated economic growth whereas in six cases it retarded growth, that is, India, Colombia, Ghana, Tunisia, Ceylon and Chile.

In a related study, (Singh, 1985) also finds that foreign aid has a strong positive impact on economic growth in less developed countries for the periods 1960-1970 and 1970-1980. He concludes that this is very possible when state intervention is not taken into account. When the state intervention variable is included in the regression, the effect of foreign aid gets statistically weak.

Snyder (1993), taking country size into account, finds a positive and significant relationship between aid and economic growth. He emphasizes that, “Previous econometric analysis has not made allowance for the fact that larger countries grow faster, but receive less aid”. He also claims that donors favour small countries for a number of reasons. Based on the model developed by Papanek (1972, 1973) and then extended by Mosley (1980) and Mosley et al. (1987), Snyder analyzes the relation between foreign aid inflow and the growth rate of gross

domestic product in 69 developing countries over three periods (the 1960s, 1970s and 1980-1987), incorporating country size (measured by gross domestic product) in the model. He argues that when country size is not included, the effects of aid are small and insignificant but when this factor is taken into account, the coefficient of aid becomes positive and significant. Fayissa and El-Kaissy (1999), came out with the same conclusion as (Chenery and Strout, 1966), that overseas development assistance accelerates economic growth by supplementing domestic capital formation (economic theory of foreign aid). They conducted a study of 77 countries over sub-periods 1971-1980, 1981-1990 and 1971-1990. The results showed that that foreign aid positively affects economic growth in developing countries. Using modern economic growth theories, they pointed out that foreign aid; domestic savings, human capital and export are positively correlated with economic growth in the studied countries.

In general, aid is found to have a positive impact on economic growth because it increases investment, increases the capacity to import capital goods or technology, aid does not have an adverse impact on investment and savings and lastly because aid increases the capital productivity and promotes endogenous technical change (Morrissey, 2001).

Although foreign aid is found to have a positive impact on economic growth,

Pedersen (1996) in a related study asserted that it is still not possible to conclude that aid affects growth positively. He used the game theory, to demonstrate that the problems lie in the built-in incentive of the aid system itself. The aid conditionality is not sufficient and the penalties are not hard enough when recipient countries deviate from their commitments. In fact, there are incentives for aid donating agencies to disburse as much aid as possible. This hinders the motivation of recipient countries and raises the aid dependency, which in turn distorts their development.

Knack (2000), in a cross-country analysis, presented contrasting results also, indicating that higher aid levels erode the quality of governance indexes, that is, bureaucracy, corruption and

the rule of law. He argues “aid dependence can potentially undermine institutional quality, encouraging rent seeking and corruption, fomenting conflict over control of aid funds, siphoning off scarce talent from bureaucracy, and alleviating pressures to reform inefficient policies and institutions”.

Svensson (1998) argues that large aid inflows do not necessarily result in general welfare gains and high expectation of aid may increase rent seeking and reduce the expected public goods quality. Moreover, there is no evidence that donors take corruption into account seriously while providing aid.

In another study by, Gong and Zou (2001), they find that a permanent rise in foreign aid reduces long-run labour supply and capital accumulation, increases long-run consumption and has no impact on long-run foreign borrowing. They used the optimal growth model with foreign aid, foreign borrowing and endogenous leisure-and-consumption choices to show that foreign aid depresses domestic saving, mostly channels into consumption and has no relationship with investment and growth in developing countries.

According to (Burnside and Dollar, 1997), the impact of foreign aid on growth is subject to certain factors. In their work “Aid, Policies, and Growth”, they find that aid has a positive impact on growth in developing countries with good fiscal, monetary and trade policies but has little impact on countries where such policies are poor. They use data from 56 countries for six four-year periods from 1970-1973 until 1990-1993 and construct a growth convergence model to illustrate. They explain that “aid can affect output only through its effect on the stock of capital, that is, to the extent that it is used for investment rather than consumption”. They argue that aid itself has small and insignificant impact but aid interacting with good policy has a significant positive impact on growth. In fact, policy seems more important for aid effectiveness in lower income countries. Another finding is that there is no

tendency for total aid or bilateral aid to favour good policy, while multilateral aid is allocated in favour of good policy.

Aid works well in a good policy environment and a poor country with good policy should get more aid, which is not always the case in reality. A well-designed aid plan can support effective institutions and governance by providing more knowledge and transferring technology and skills. It is recommended to decentralize the aid flows in recipient countries. Money aid is important but idea aid is even more important. Aid can be the midwife of good policy in recipient countries. In poor-policy countries, idea aid is especially more essential than money aid. This implies that in a good-policy environment, aid increases growth via the investment channel whereas in a poor-policy environment, it nurtures the reforms through policymakers training or knowledge and technology transfer. These non-money effects are believed even more important and viable than the money value of aid. Aid works much better where the reform is initiated or internalized by local government rather than when outsiders impose it. Therefore, aid is normally more effective when it facilitates efficiently and timely reforms triggered by the local authority (World Bank, 1998).

Ouattara (2003) concludes that different types of aid have different impacts on growth. In a country analysis of Cote d'Ivoire from 1975 to 1999, he categorizes foreign aid into project aid, program aid, technical assistance and food aid. Using a disaggregation approach with auto regressive techniques, he finds that project aid displaces public savings. The impact of program aid is almost neutral while technical assistance and food aid increase public savings. Project aid and to a lesser extent, program aid, worsen the foreign dependence of Cote d'Ivoire while technical assistance and food aid reduce the gap.

John Mbaku (1993), in his work "The impact of Foreign aid on economic growth in Cameroon", uses an econometric model, based on the neoclassical production function, to test the relationship between foreign aid and economic growth. The model is tested using time-

series data on the country from 1971 to 1990. The results show that domestic resources have a stronger impact on economic growth in Cameroon than foreign resources.

Giles (1994), applying a Granger causality test between foreign aid and economic growth and other diagnostic tests, finds a causal relationship between foreign aid loans, but not foreign aid grants, with economic growth in Cameroon, which contradicts the previous work of John Mbaku (1993).

Easterly, Levine and Roodman (2003) conduct a new test on the previous work of Burnside and Dollar (1997). With a larger sample size (1970 to 1997 compared to BD's 1970-1993), they find that the result is not as robust as before and therefore claim that the question of aid effectiveness is still inconclusive.

The above literature on the impact of aid on growth reveals the fact that the relationship between the variables varies, depending upon the models, data and countries of analysis.

## **2.2 Foreign aid and its impacts on economic growth**

Economic development is the development of the economic wealth of countries or regions for the well-being of their inhabitants. It can also be viewed as efforts that seek to improve the economic well-being and quality of life for a community by creating and retaining jobs and supporting incomes and the tax base.

In a recent study, Le and winters, (2001) investigates the impact of foreign aid policies on poverty for a single country. They argue that growth is commonly cited as the primary driver of poverty reduction. However, the poor may not necessarily reap any of the benefits from growth and this is especially true in countries with high levels of income inequality. Moreover, growth does not ensure access to health, education and a clean water supply or a better standards of living for those living in some, usually remote, areas. Aid can contribute to poverty reduction by targeting the poorest regions and projects in the social sector. In

addition, safety nets should be provided to protect the most vulnerable from external shocks. “An effective anti-poverty aid policy is likely to simultaneously utilise each of these three strategies: promoting growth, direct targeting and safety nets”.

Studies carried out by (Kosack, 2003); reveal that aid can directly increase welfare but only in democracies.

Mosley and Hudson, (2001); Verschoor and Kalwili,( 2002); Gomaneeand Morrissey,( 2002); and Gomanee et al,( 2003); in related studies, find that there is strong evidence that foreign aid has an indirect impact on poverty reduction vand well-being of recipient countries. These studies use cross-country data with the headcount index, the Human Development Index (HDI) and the infant mortality as measures of poverty and well-being.

Streeten and Burki (1978) investigate the impact of foreign aid on poverty and well-being by assessing how aid programmes have addressed basic needs in Cameroon. They classify essential basic needs into six areas: nutrition; basic education; health; sanitation; water supply; and housing. These needs may be achieved by various combinations of growth, redistribution of assets, income, and restructuring of production”, (Hicks and Streeten, 1979). The analytical framework adopted by this paper follows Le and Winters (2001). They assert that the effective use of foreign aid to reduce poverty requires optimally allocating among the following three components: promotion of economic growth; direct targeting of the poor; and the provision of safety nets and direct transfers. The optimal mix of the above components will depend upon the characteristics of the recipient in question.

In related studies, (Bell and Rich, (1994); Ravallion and Datt, (1994); Ravallion and Chen, (1997); Dollar and Kraay, 2000); find that there is a widely recognised positive correlation between sustained economic growth and poverty reduction. They argue that increases in economic growth are expected to benefit the poor due to their participation in economic activities, and this leads to larger tax revenues and higher government expenditures, which

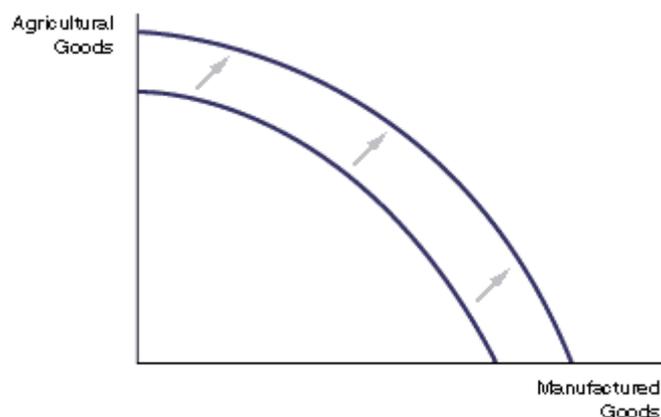
might include transfers to the least well off as well as increasing access to services such as health and education.

Ravallion and Datt, (1996); Bourguignon and Morrison, (1998); find that there is some evidence that agricultural growth is more effective at reducing poverty than manufacturing growth in agriculturally dependent countries. They argue that if agriculture is the primary occupation of the population, agricultural growth is likely to lead to higher output, greater employment opportunities and increases in incomes. The role of aid in such a strategy is to improve the productivity of the rural labour force through investments in health, education and the improvement of skills. The poorest people in Papua New Guinea obtain a large part of their income from the export of tree crops, coffee, cocoa and palm oil. Improving rural infrastructure and in particular the construction and maintenance of Papua New Guinea's rural roads is likely to be effective at improving agricultural growth and boosting rural incomes.

### **2.3 The impact of economic growth on development**

According to Fisher and Clark, cited by James Tobin (1985) Economic growth is the increase in the real GDP per capita over a period of time. It can be shown by an outward shift of the production possibility curve. The production possibility curve shows the combination of two goods that a country can produce using all of its resources in the most efficient way. Economic growth will increase the amount of goods and services that a country can potentially produce. To do this, the quantity or quality of factors of production must be increased.

*Figure 1: Economic Growth and the Production Possibility Curve*



Source: Economic Growth Models, Fisher and Clark

Fisher and Clark argued that development is a broader process that includes raising living standards and poverty reduction. Economic growth may result in an improvement in the standard of living of a relatively small proportion of the population whilst the majority of the population remains poor. It is how the economic growth is distributed amongst the population that determines the level of development.

Robert Mundell, Arthur Laffer and Reaganomics or supply side economics (1981), argued that economic growth would eventually lead to a general improvement of peoples' living standards as trickle down occurs. Trickle down as its name suggests is the process whereby part of the population experiencing an increase in their income spends money on the domestic economy thus setting in motion multiplier effect, which generates income for the poorer sections of the population.

## 2.4 General summary of literature review

*Table 2.1 Showing names of author and findings*

Name	Findings
Papanek (1973)	Foreign Aid had a greater impact on economic growth.
Chenery and Carter (1973)	ODA accelerated economic growth in some countries but retarded it in some
Singh (1985)	Foreign aid had a strong positive impact on economic growth.
Fayissa and El-Kaissy (1999)	ODA accelerated economic growth
Morrissey (2001)	Foreign aid had positive impact on economic growth because it increases investment.
Pedersen (1996)	Used game theory to show that foreign aid distorts development.
Knack (2000)	Too much dependence on aid undermines institutional quality and encourages corruption.
Svensson (1998)	Aid inflows do not result in welfare gains.
Gong and Zou (2001)	A permanent rise in foreign aid reduces long run labour supply and capital accumulation.
Burnside and Dollar (1997)	Aid had a positive impact on growth in countries with good governance.
Quattera (2003)	Different types of aid had different impact on growth.
John Mbaku (1993)	Domestic resources had a greater impact than foreign resources.
Snyder (1993)	Foreign aid had a strong and positive relationship with economic growth.
Bell and Rich, (1994), Ravellion and Datt, (1994), Dollar and Kraay, (2000).	Positive correlation between sustained economic growth and poverty reduction
Ravallion and Datt (1996) Bourguignon and Morrison, (1998)	Agricultural growth is more effective at reducing poverty than manufacturing growth in agricultural based economies.
Le and Winter,(2001)	Growth as the primary driver of poverty reduction
Mosley and Hudson,(2001)	Foreign aid has an indirect impact on poverty and the well-being of recipient countries.
Kosack,(2003)	Aid directly increases welfare but only in democracies.
Streeten and Burki,(1978)	Effective use of foreign aid to reduce poverty requires optimal allocation of resources

	between economic growth, direct targeting of the poor and provision of safety nets.
Fisher and Carter cited by James Tobin (1985)	Development is a border process that includes raising living standards and poverty reduction.
Robert Mundell, Arthur Laffer (1981),	Economic growth will eventually lead to a general improvement of peoples' living standards as trickle down occurs.

The above literature review reveals the fact that most of the researchers have used cross-country analyses. Some of the studies have concentrated on regions to assess the impact of aid on growth and consequently on development. Few have considered particular country cases studies, and even the few that have done so, have not gone into looking at the impact of aid on economic development. The novelty of this study therefore is to assess the impact of foreign aid on economic growth and development in particular country case study, Cameroon.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter presents the methodology employed in the study under the following sub topics:

- Background of study area
- Research design
- Research instrumentation
- Variables for data collection and procedure for data analyses

#### **3.1 Background of the study area**

According to the World Factbook, Cameroon is an African country located south of the Saharan desert with a total land surface area of 475,440sq km.geographically, her location is ambiguous, English speaking sector is located in West Africa while the French part is found in Central Africa It is boarded to the north by Chad, east by Central African Republic, west by Nigeria and in the south by The Republic of Congo, Gabon and Equatorial Guinea. Natural resources and crops in Cameroon include Timber, petroleum, bauxite, iron, cocoa, coffee, tobacco, cotton, bananas, rubber and more.

Cameroon is a unitary state with French and English as the two official languages and over 240 other major African language groups. Its political capital is Yaoundé and economic capital is Douala.

According to the 2006 estimates, the GDP/PPP stands at \$42.2 billion, per capita is \$2,400 and the GDP real growth rate 4.1%. The GDP composition by sector is as follows: agriculture: 45.2%, industry: 16.1%, services: 38.7% .The population below poverty line is 48%.(The poverty line, or poverty threshold, is the minimum level of income deemed necessary to achieve an adequate standard of living). The currency used in Cameroon is the

Communaute Financiere Africaine francs (XAF) and the current exchange rate vis-à-vis the American dollar is \$1 to 417.24 XAF.

The 2007 population estimates put the population figures at 18,060382, the literacy rate in Cameroon stands at 79% of adult population, birth rate is 35 per 1000, and infant mortality is 66 per 1000 live births and the life expectancy at 52.9 years. The labour force stands at 6.68 million distributed amongst the various occupations as follows: agriculture 70%, industry and commerce 13%, other 17%. The unemployment rate stands at 30%.

Cameroon is an aid recipient country, the main donor partners being The International Development Association (IDA), France, Austria, Germany, Canada, African Development Fund (AFDF), United Kingdom, Japan, Belgium, United States, The Netherlands, Spain, The European union (EU), The Food and Agricultural organisation (FAO), The International Monetary Bank (IMF), The United Nations (UN), The world Bank (WB), The World Health organisation (WHO).

Like most countries in Africa south of the Sahara, Cameroon is a colonial construct. It has its specificities and paradoxes, which can be quite mesmerizing. Cameroon is one place where logic does not always have its way, where outcomes are never predictable. In one country where the price of bread is raised by 33 cents the whole country is expected to go up in flames. But in Cameroon, the currency is devalued by 100% followed immediately by a 70% slash in civil service salaries and not a finger is raised. (Nkwi 1990).

The country tops the chart of the world corruption index one year and is sufficiently comfortable with that performance to repeat the feat the next year (Transparency International 1998 and 1999). The country is a vastly wealthy triangle, yet its entry into the Heavily Indebted Poor Countries Initiative (HIPC) is celebrated as a national achievement.

Cameroon is one of the fewest countries in Africa to have had three colonial masters- Germany, France and Britain, and has passed through Anglo-French Trusteeship, Federalism, and the unitary state, to what is today just the state.

Even natural cataclysms respect the strange ways of the country. Mount Cameroon, West Africa's highest peak erupted in 1999 but the lava flew down the slopes away from human settlements. The one-kilometre-wide blazing liquid flew downhill for close to fifteen kilometres, damaging all the vegetation but stopped a few meters from a hotel complex and within sight of the country's only oil refinery. At the end, not a single body was dead. (Nkwi 1990)

Cameroon has the poorest football pitches compared to pig sty anywhere in Africa but having the richest football fame in Africa, after winning the African Cup of Nations in 1984, 1988, 2000 and 2002. It has participated in the World Cup Finals five times and the first African country to reach the quarterfinals of the World Cup, (see Vidacs, 2003; Nkwi and Vidacs, 1997 ;)

For five decades running, Cameroon, under the leadership of its two heads of state - Ahidjo (from 1960 to 1982) and Paul Biya since 1982 - enjoyed political stability in comparison to other surrounding regional countries such as Chad and Central African Republic. However, during the period 1992-1994 the opposition staged huge civil unrest rallies (Operation "villes mortes" / Dead cities protestations rallies) in order to force out Biya.

All these unrest are happening because the developing strategy used since the independence era had not established an economy that creates jobs. About 60% of the working class toil in the "gray"/ underground economy, earning survival "wages" [€40 per month in average] that is insufficient to pay for escalating living costs: housing rental, utilities supply, food staples purchase and healthcare. In addition, 80% of graduated in all lines of knowledge are jobless. The energy crisis experienced by the whole continent in general and Cameroon in particular is

not helping either. It is hampering small enterprises' productivity. Tailors-shop, industrious welders and mechanics shops cannot rely on a permanent supply of energy. In the transport businesses, thousands of taxi-cab drivers and motor-drivers are handicapped by the rising cost of oil.

A sober observation of Cameroon political stage can see that, like most of African countries, Cameroon is at the cross-road that may lead to global conflagration and chaos - which is already happening in several other African countries, mainly for lack of a proper developing strategy capable of establishing an economic system that creates jobs to cope with demand, and riches for all in order to alleviate poverty.

Cameroon has one of the strongest agriculture in sub-Saharan Africa and is amongst the top world producers of cash crops: coffee, cocoa, banana, and pineapple. The production of these cash crops comfortable oil reserves, help the country to be one of the economic "success story" in the Central African Economic and Monetary Union (CEMAC) region.

Still, it has to struggle with hindrances, which have plagued the economic development of many third world countries; such as inflated civil service, "corruption" and a generally unfavourable climate for business enterprise.

### **3.2 The research design**

The research design adopted for the study is descriptive statistics. This is because the data for analysis is not too large and therefore does not require statistical econometric methods. Yearly GDP values over the period 1997-2006 are used as a sufficient measure of economic growth. The research used the Statistical Package for the Social Sciences (SPSS) to estimate the result of the correlation between the variables and the T-test to test the hypothesis of the study.

### **3.3 Research instrumentation**

All analysis in the study will be made by the use of secondary data obtained from Textbooks, Economic Journals, Magazines and the Internet. Time series data from similar sources as possible will also be employed.

### **3.4 Variables for data collection and procedure for data analyses**

The variables for data collection are Official Development Assistance (ODA) net flows to Cameroon, yearly, over a ten-year period from 1997 to 2006, GDP per capita values US purchasing power parity (\$PPP) over the same period. A correlation is done to see the degree of the relationship between the variables.

The Human Development Index (HDI) is used to measure welfare or the level of economic development. The (HDI) is a normalized measure of life expectancy, literacy, education, standard of living, and GDP per capita for countries worldwide. It is a standard means of measuring well-being. It is used to determine and indicate whether a country is a developed, developing, or underdeveloped country. It is also used to measure the impact of economic policies on quality of life.

To calculate the (HDI), data will be collected on life expectancy, Educational attainment, and real GDP per capita (in PPP\$). The HDI is essentially a score between 0 and 1. A score of 0 would mean no human development has taken place and a score of 1 is the maximum amount of human development. In order to transform these raw variables into unit free indices between 0 and 1, which allow for different indices to be added together, the following formula will be used:

$$\bullet \quad x\text{-index} = \frac{x - \min(x)}{\max(x) - \min(x)}$$

Where  $\min(x)$  and  $\max(x)$  are the lowest and highest values the variable  $x$  can attain, respectively.

The Human Development Index (HDI) then represents the average of the following three general indices:

$$\bullet \quad \text{Life Expectancy Index} = \frac{LE - 25}{85 - 25}$$

$$\bullet \quad \text{Education Index} = \frac{2}{3} \times ALR + \frac{1}{3} \times ER$$

$$\text{-Adult Literacy Index (ALI)} = \frac{ALR - 0}{100 - 0}$$

$$\text{-Gross Enrolment Index (EI)} = \frac{ER - 0}{100 - 0}$$

$$\bullet \quad \text{GDP Index} = \frac{\log(GDPpc) - \log(100)}{\log(40000) - \log(100)}$$

$$\bullet \quad \text{HDI} = 1/3(\text{LEI}) + 1/3(\text{EI}) + 1/3(\text{GDP})$$

LE: Life expectancy at birth

ALR: Adult literacy rate (ages 15 and older)

CGER: Combined gross enrolment ratio for primary, secondary and tertiary schools

The three basic dimensions of human development captured by the HDI are:

- **A long and healthy life**, measured by life expectancy at birth. Life expectancy is used as a proxy for other health indicators like infant mortality, under-five mortality, maternal mortality and more.
- **Knowledge**, measured in terms of adult literacy rate and gross primary, secondary and tertiary enrolment ratio. From 1995, mean years of schooling have been replaced by a combined primary, secondary and tertiary gross enrolment ratio because of easier data availability. The weights attached to adult literacy and gross enrolment ratios are 2:1.
- **Decent standard of living**, measured by GDP per capita (PPP US\$). GDP per capita in the HDI index emphasizes sufficiency, and not satiety, higher income needs to be discounted. Thus from 1997, log (GDP per capita) is used as the variable to reflect a decent standard of living

The HDI, is calculated by creating an index for each dimension. To calculate these dimension indices, maximum and minimum values (goal posts) are chosen. Performance in each dimension is expressed as a value between 0 and 1.

The HDI is then an average of the three dimensional indices.

Goal posts for calculating HDI till 1994 were the actual maximum and minimum values, but there was a problem of fluctuating goal posts, and this made comparisons over time meaningless. Thus, from 1994, fixed goal posts for extreme values were adopted as seen on the table below,

*Table 3.1: Goal posts for calculating the HDI since 1994*

	Maximum	Minimum
Life expectancy	85	25
Adult literacy	100	0
Combine enrolment ratio (%)	100	0
GDP per capita (PPP US\$)	40000	100

*Source: Established from Human Development Report 1999*

Table 3.1 shows the maximum and minimum goal posts for calculating the indices for life expectancy, adult literacy, combine enrolment ratio and GDP per capita. Tables are used to present the HDI of Cameroon from 1997 to 2006 and descriptive statistics or the textual analytical method is used to analyse the results.

## CHAPTER FOUR

### DATA PRESENTATION AND ANALYSES

#### 4.0 Introduction

This chapter presents the data that were collected from all secondary sources using tables. Descriptive and inferential analyses are used to analyse the data, all in an effort to investigate the relationship between foreign aid and economic growth and development in Cameroon.

#### 4.1 Descriptive analyses

Table 4.1: *Official development assistance (ODA) figures, net disbursements to Cameroon from all donors from 1997 to 2006*

YEAR	Amount in current prices (Millions of US Dollars)
1997	499.05
1998	498.98
1999	434.53
2000	379.33
2001	480.08
2002	656.25
2003	895.12
2004	772.55
2005	417.44
2006	1684.34

*Source: Extracted from Organisation for Economic Co-operation and Development (OECD)*

*Statistics, 2008*

Table 4.1: Shows that the amount of ODA to Cameroon from all donors in 1997 was \$499.05million, it reduced from \$499.05 in 1997 to \$379.33 in 2000.

The flow of ODA increased in 2001 to \$480.08 million, and continued through 2002, 2003, witnessing a slight drop in 2004 and a large drop in 2005. The highest amount of ODA received within the study period was in 2006, amounting to \$1684.34 million.

*Table 4.2: The Gross Domestic Product (GDP) figures of Cameroon from 1997 to 2006*

YEAR	Amount in current prices (billions of US\$)
1997	9.8
1998	9.6
1999	10.5
2000	10.1
2001	9.6
2002	10.9
2003	13.6
2004	15.8
2005	16.9
2006	18.3

*Source: Extracted from World Development Indicator online Website*

The above data shows that the GDP figures of Cameroon from 1997 to 2000 were fluctuating. The GDP value stood at \$9.8 billion in 1997 and experienced a drop of about 2% in 1998, an increase of 9.4% in 1999, and witnessed a drop of about 3.8% in 2000. From 2001 to 2006; the GDP experienced a gradual increase at an average of \$1.8 billion annually.

*Table 4.3: Shows the ODA and GDP figures for Cameroon from 1997 to 2006 at current prices in millions of US\$*

Year	ODA figures (Millions of US\$)	GDP figures (Millions of US\$)
1997	499.05	98000
1998	498.98	96000
1999	434.53	105000
2000	379.33	101000
2001	480.08	96000
2002	656.25	109000
2003	895.12	136000
2004	772.55	158000
2005	417.44	169000
2006	1684.34	183000

*Source: Established from table 1 and 2*

This table shows the combined figures of ODA and GDP at current prices since it was not possible to get GDP values each year, over the ten-year study period at constant prices. Both figures are in millions of US dollars.

*Table 4.4: The Human Development Index (HDI) figures for Cameroon from 1997 to 2006*

Year	LEB	ALR	CGER	GDP per capita (PPP US \$)	LE Index	Education Index	GDP Index	Human dev. Index
1997	54.7	71.7	43	1.890	0.50	0.62	0.49	0.536
1998	54.5	73.6	46	1.474	0.49	0.64	0.45	0.528
1999	50.0	74.8	43	1.573	0.42	0.64	0.46	0.502
2000	50.0	75.8	43	1.703	0.42	0.65	0.47	0.512
2001	48.0	72.4	48	1.680	0.38	0.64	0.47	0.499
2002	46.0	67.9	56	2.000	0.36	0.64	0.50	0.501
2003	45.8	67.9	55	2.118	0.35	0.64	0.51	0.497
2004	45.7	67.9	62	2.174	0.34	0.66	0.51	0.506
2005	49.8	67.9	62.3	2.563	0.53	0.52	0.54	0.532
2006	-	-	-	-	-	-	-	-

*Source: Established from Human Development Report 1999 to 2007/2008*

LEB = Life expectancy at birth

ALR = Adult literacy rate

CGER = Combined primary, secondary, and tertiary gross enrolment ratio.

LE = Life expectancy index

Table 4.4 presents the real situation in Cameroon from 1997 to 2005. The GDP pc witnessed a drop from 1997 to 2001, and started rising at a snail pace thereafter. The average life expectancy at birth over the nine-year period stands at 49.3 years with the lowest was 45 years. The rate of human development shown by the HDI experienced a continuous drop from 1997 to 2004. In general, the standards of living of an average Cameroonian was deteriorating.

## 4.2 Inferential analyses

### 4.2.1 Hypothesis 1

Ha1: There is a significant relationship between foreign aids (ODA) and economic growth (GDP) in Cameroon.

Ho1: There is no significant relationship between foreign aids (ODA) and economic growth (GDP) in Cameroon.

Values for ODA and GDP were entered into a Statistical Package for the Social Science (SPSS) spreadsheet and the Pearson Moment Correlation was computed. The result is shown in table 4.6 and 4.7.

*Table 4.5: Means and Standard Deviations of ODA and GDP*

	Mean	Std. Deviation	N
ODA	671.7670	392.78239	10
GDP	125100.00	33587.200	10

*Table 4.6: Correlation coefficient for ODA and GDP*

		ODA	GDP
ODA	Pearson correlation	1	.679(*)
	Sig.(2-tailed)		.031
	N	10	10
GDP	Pearson correlation	.679(*)	1
	Sig.(2-tailed)	.031	
	N	10	10

A correlation coefficient of 0.679 shows a positive strong relationship between foreign aid

and economic growth in Cameroon. To test the hypothesis, a two-tail test was conducted at 0.05 test level, ( $\pm 1.96$ ) with N-2 degrees of freedom ( $10-2=8$ ). The results are presented on the table below.

*Table 4.7: Showing the correlation coefficient and the critical value at 8 degrees of freedom*

	P, (2-tailed test)	r-statistic	t-value at 8 df
Hypothesis 1	.308	.679	2.62

From the above table, the t-value (2.62) calculated, is greater than the critical value (1.96), therefore we reject the null hypothesis and accept the alternative hypothesis that there is a significant relationship between foreign aids (ODA) and economic growth (GDP) in Cameroon.

#### **4.2.2 Hypothesis II**

Ha3: There is a relationship between foreign aid (ODA) and economic development (HDI) in Cameroon.

Ho3: There is no relationship between foreign aid (ODA) and economic development (HDI) in Cameroon.

The values of ODA and HDI for Cameroon from 1996 to 2005 were used to compute the correlation coefficient with the aid of SPSS. The output is presented in table 4.9 and 4.10.

*Table 4.8: Means and Standard Deviation for ODA and HDI*

	Mean	Standard Deviation	N
ODA	559.2589	176.52029	9
HDI	.51256	.015331	9

*Table 4.9: Correlation Coefficient of ODA and HDI*

		ODA	GDP
ODA	Pearson correlation	1	-.478
	Sig. (2-tailed)		.193
HDI	Pearson correlation	-.478	1
	No of years	9	9

Correlation coefficient of -0.478 implies there is no relationship between foreign aid and economic growth in Cameroon.

*Table 4.10: Summary of hypothesis testing*

	P 2-tail test	R-statistic	T-value	Decision
Hypothesis 1	.308	.679	2.62	Reject Ho
Hypothesis 2	.193	-.478	-1.44	Accept Ho

From the above table the t-value calculated (-1.44) is less than -1.96. Thus we accept the null hypotheses.

## CHAPTER FIVE

### SUMMARY OF FINDINGS AND RECOMMENDATIONS

#### 5.0 Introduction

This chapter summarised the work, made recommendations based on the findings.

#### 5.1 Summary of findings

##### 5.1.1 Research Question 1

- Is there a relationship between Foreign Aid and Economic Growth in Cameroon?

Statistics from table 4.1 and 4.2 on ODA and GDP values for Cameroon respectively, from 1997 to 2005, and the results of the Pearson Moment Correlation computed in table 4.5 and 4.6, show that there is a strong and significant positive relationship between foreign aid and economic development in Cameroon.

##### 5.1.2 Research Question 2

- Is there a relationship between foreign aid and economic development?

The data presented by table 4.1 and 4.4 and the result of the Pearson Moment Correlation computed from these tables and presented in table 4.10 and 4.11 shows a Correlation coefficient of -0.478. This implies that there is a negative relationship between ODA and HDI. The findings show that foreign aid contributes to economic growth but the growth is not translated to economic development in Cameroon.

#### 5.2 Recommendations

Since there is a positive and strong relationship between foreign aid and economic growth in Cameroon, and a negative relationship between aid and development, this means that aid contributes to growth but the growth is not translated into meaningful development. To

effectively manage this aid so that the masses can feel the impact, the following measures can be taken:

- The government of Cameroon should divert a larger portion of aid to investment in agriculture because about 70% of its population depends on agriculture. Agricultural trade liberalisation is particularly important and growth in agriculture has a disproportionate effect on poverty reduction.
- Aid donors should provide a framework for the implementation of aid funds. Aid can and does have an impact when provided within a framework that acknowledges the drivers for broad based growth. Well-targeted aid increases the ability of Cameroon to maximise the benefits of trade liberalisation, improve the environment for investment and ensure that the poor have the ability to contribute in achieving growth.
- Cameroon witnessed an average GDP growth of \$1.74 billion from 2001 to 2006; basic social indicators still remain some of the worst in the world. There are many reasons for this but the most important are; corruption, and Poor governance, which have allowed revenue windfalls to be squandered and have impeded growth and development. Corruption has a substantial negative impact on economic growth and development and weakens institutions. The costs of corruption fall disproportionately on poor people. In order to solve this problem, the following measures have been recommended:

1. Systematic anti-corruption reform should be put in place and should be driven from within. Efforts to combat corruption are most successful when change is driven internally, and when political leadership is strong. The private sector has a major role and responsibility in fighting corruption and therefore should

well encourage. Industry representatives, including trade unions, have proven to be strong champions and thus should be encouraged.

2. An Anti-corruption strategies for Cameroon must be long term and multifaceted. An effective anti-corruption strategy requires a multi-pronged approach. It needs to draw on successful strategies that support local reform constituencies, reduce opportunities for corruption, and provide positive and negative incentives
3. To be effective, anti-corruption strategies must adapt to meet emerging challenges
4. Donor priorities and responses must be informed by local needs, identified through Cameroons anti-corruption planning. This will determine the scope, sequence and speed of assistance, as well as where emphasis is warranted. For example, where political will is weak, engagement with civil society will be the key to success.
5. The efforts of various aid donors to Cameroon must be well coordinated because concerted action avoids duplication and wastage of scarce resources.
6. The Cameroon women should be given a greater chance in administration and politics because women are less prone to corruption than men. The linkages between gender equality and anti-corruption can be promoted, for example, by introducing anti-corruption measures alongside support for anti-discrimination measures
7. The civil society groups, churches, the media, and other organisations that have the capacity to gather information on the incidence of corruption in Cameroon should be supported, to promote awareness among constituencies

most affected by corrupt activities, improve understanding of public processes, monitor government activities, and report cases of corruption.

8. Lastly, funding and enough resources should be diverted to civic education to help Cameroonians be informed about the roles and responsibilities of their elected representatives.

## **CHAPTER SIX**

### **CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESEARCH**

#### **6.1 Conclusions**

The issue of whether foreign aid leads to economic growth and economic development is still debatable one. What is clear is that the impact may be significant or insignificant depending on the country understudy, type of aid, the adjective of the donor country, the implementation policy of the recipient country, the methodology used, and the period of study.

In Cameroon, foreign aid leads to economic growth but the growth does not translate to economic development because of bad governance and corruption.

#### **6.2 Limitations of the study**

#### **6.2 Suggestions for further Research**

Because of the importance of this topic, further research can be carried out in the following areas:

- 1) The effectiveness of foreign aid in Cameroon
- 2) Corruption and its impact on growth and development in Cameroon
- 3) “Corruption and bad governance” barriers to the positive impact on foreign and economic growth in Cameroon.

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