INTERNATIONAL SCHOOL FOR SECURITY FORCES

Research and Documentation Center

INSIGHTS

N° 17, August 2023

New Financial Pact in the making: challenges and prospects for Cameroon's economy

Financing developing countries in general, and Cameroon's economy in particular, is a crucial issue for supporting their economic, social and environmental development. Developing countries often need additional financial resources to fight poverty, promote education, improve infrastructure, strengthen health systems, promote access to drinking water and energy, as well as to meet the challenges of climate change.

It was indeed from 1874, with the classic author Walter Bagehot[1], that the historical responsibility of finance in economic development was put forward. According to Bagehot, "money is the nerve of economic power" and finance played an essential role in triggering industrialisation in England by facilitating the mobilisation of capital for "immense works". However, the effect of finance on the real economy is controversial and perceived in different ways. In general, a historical review of the theoretical evolution of finance reveals two opposing trends: on the one hand, classical and neo-classical authors have long considered finance to be neutral in traditional theories; on the other hand, Keynesians have asserted the links between financial factors and macroeconomic developments.

The challenges of finance for African economies are numerous. They lie in its ability to facilitate the match between capital and labour, enabling savers and borrowers to delay or bring forward their spending, and individuals to share and exchange risk. Seen from this angle, finance has a major role to play in development, mainly by facilitating and optimising the allocation of savings to productive investment.

[1] Bagehot W. (1874), *Lombard Street*: A Description of the *Money Market*.

Although the weight of continuity generally prevents any desire for change, the advent of financial crises has also marked the evolution of the issue. More recently, the role of finance in development has received specific attention in the literature for at least two reasons. Firstly, the optimal financing of African economies does not seem to have been as effective as previously thought. Secondly, however, capital accumulation and technological innovation have been on the rise. In this context, there is a need to go beyond traditional methods of financing. To these reasons were added a context marked essentially by the war in Ukraine, the acceleration of global warming, and the increase in indebtedness due to COVID 19. It was this combination of difficulties, compounded by the need for developing countries to achieve the Sustainable Development Goals (SDGs) that gave rise to the new Global Financial Pact as a solution. Essentially, according to this Pact, moving forward with solidarity and ambition would make it possible to achieve the SDGs, carbon neutrality and our common objectives of protecting biodiversity.

In such a context, we are entitled to ask **what implications the summit on the New Financial Pact, which has just been held in France, could have for Cameroon.** This central concern is at the heart of this reflection, which maintains that in such a context, the said pact is justified to improve the capacity of Cameroon's economy to achieve the MDGs; and this, on condition that certain constraints are respected so that the mountain does not give birth to a mouse.

1) The New Financial Pact: a paradigm shift for optimal financing of development in a changing environment

The deal advocated by the New Financial Pact is to propose a financing method that takes into account the facts linked to changes in the environmental variable. In fact, implications of the financial environment for Cameroon may vary depending on several factors such as the country's economy, government policies, international relations and global economic trends. The financial environment can influence foreign investment decisions in Cameroon, affect Cameroon's access to international financing, such as loans from international financial institutions or bond issuance in global financial markets, and influence the stability of Cameroon's national currency. Exchange rate fluctuations can have an impact on the import and export of goods and services, as well as on inflation. An effective monetary policy and prudent management of foreign exchange reserves can help maintain monetary stability, and/or influence Cameroon's international cooperation with other countries and financial institutions.

It should be noted that these implications may vary depending on the evolution of global economic and financial conditions, as well as the policies and measures taken by the Government of Cameroon to promote financial stability and economic growth. With regard to this ever-changing environment, we can dwell on the war in Ukraine, the acceleration of global warming and the country's high level of debt.

The war in Ukraine, which began in 2014 when Russia annexed Crimea and supported separatist groups in eastern Ukraine, has had an indirect impact on the financing of developing countries in general and Cameroon in particular. This conflict continues to cause loss of life, massive population displacements, regional instability and a disruption of funding forecasts, particularly with regard to the reallocation of resources, global economic instability, changes in geopolitical priorities and the contagion effect. It is therefore crucial for Cameroon's development that the international community remains committed to supporting developing countries, despite the challenges posed by this conflict. Efforts must be made to maintain and strengthen existing financing mechanisms, promote global economic stability and continue to provide development assistance to countries in need, so as to enable them achieve their sustainable development goals.

Faster global warming could have a significant impact on development funding in Cameroon, as it could lead to a growing need for funding to deal with the adverse effects of climate change; a shortage of climate funds, as the resources allocated to existing funds are often insufficient to meet the State's needs (this can lead to financial constraints in implementing climate change adaptation and mitigation projects); high energy transition costs; and an impact on key economic sectors such as agriculture, fishing, tourism and natural resources.

This phenomenon also highlights the importance of strengthening international cooperation to mobilise adequate financing, as provided for in the New Financial Pact. It is crucial to recognise that financing climate change is a complex issue that requires an integrated approach and collaboration between governments, international financial institutions, the private sector and civil society. Increased financial resources, innovative financing mechanisms and a fair distribution of responsibilities are needed to support Cameroon in its efforts to adapt to and combat climate change.

Finally, Cameroon's high indebtedness may have an impact on the financing of development through the country's constraint to devote a large proportion of its revenue to paying off debt to the detriment of development priorities, the reduction in borrowing capacity, dependence on creditors, the risk of over-indebtedness and the negative effect on investor confidence. In addition to the measures announced in the Pact, efforts must be made at national and international level to ensure debt sustainability, by putting in place more effective debt management mechanisms. This may include debt restructuring initiatives, calls for debt relief, and measures to improve economic governance and transparency in the management of public finances.

2) Provided a number of imperative constraints are met

There is no single model of development financing that suits all countries and all circumstances. In fact, some financing models and mechanisms such as direct investment, official development assistance, multilateral financing, public-private partnerships, innovative financing (green bonds, social impact investment funds, results-based financing mechanisms, technology transfers) and the mobilisation of domestic resources have proven effective in certain situations. It is important to emphasise that the choice of financing model depends on specific national contexts, development priorities and the country's capacities.

While an integrated and diversified approach combining different sources of financing and favouring the mobilisation of domestic resources is generally considered to be the most effective way of supporting sustainable development, external financing is just as important. Similarly, the challenges of access to finance, transparency, effective resource management and the fight against corruption remain. In particular, a certain number of conditions must be met to ensure the financing of the energy transition, restore fiscal and budgetary space, encourage the development of the private sector and mobilize innovative financing.

To encourage investment in green infrastructure for Cameroon's energy transition, key measures could include:

- ✓ *Creating a favourable policy and regulatory environment:* Government can put in place/consolidate clear and stable policies and regulations that encourage investment in green infrastructure. This may include tax incentives, preferential tariffs, financial support mechanisms, sustainability targets and standards, and revenue guarantees for green infrastructure projects ;
- ✓ *Strengthen public-private partnerships (PPPs):* PPPs can be effective mechanisms for mobilising private investment in green infrastructure. The government can facilitate the creation of PPPs by developing appropriate legal and regulatory frameworks, promoting transparency and accountability, and putting in place mechanisms for equitable sharing of risks and benefits between public and private partners;
- ✓ *Mobilising international climate finance:* International climate finance, such as the Green Climate Fund and the Clean Development Mechanism, can be accessed to support investment in green infrastructure. The government needs to build their capacity to access these funds, prepare robust project proposals and develop partnerships with international funding agencies;
- ✓ *Develop innovative financial mechanisms:* The government can explore innovative financial mechanisms to encourage investment in green infrastructure. This could include issuing green bonds, creating dedicated renewable energy investment funds, promoting performance-based financing mechanisms such as power purchase agreements, and developing public-private partnerships to finance projects;
- ✓ *Building local capacity:* The government must invest in building local capacity to develop and manage green infrastructure effectively. This means training local professionals in the fields of renewable energy, energy efficiency, waste management, water management and so on. Improving local skills encourages innovation, the creation of local jobs and the sustainability of projects ;
- ✓ *Facilitate technology transfer:* The State can benefit from the transfer of clean and sustainable technologies from developed countries. It should facilitate technological partnerships, knowledge transfer and licensing agreements, as well as promoting research and development of technologies adapted to local needs.
- ✓ *Strengthen regional coordination and cooperation:* Regional coordination and cooperation could facilitate investment in green infrastructure. Further, developing countries could share best practice and harmonise policies and regulations.

It is also important to restore the country's fiscal and budgetary space by strengthening tax revenue mobilisation; reducing dependence on external aid; promoting transparency and accountability; rationalising public spending; strengthening institutional capacity; reforming debt management (Prudent debt management can be adopted to avoid unsustainable indebtedness. This means carefully monitoring debt levels, diversifying sources of financing, renegotiating debt terms and adopting responsible debt management policies); and strengthening regional and international cooperation.

It should also be considered the development of the private sector in Cameroon. In fact, this involves taking into account the creation of a business-friendly environment; access to finance through the creation of development financial institutions and credit guarantee mechanisms to facilitate access to finance for small and medium-sized enterprises (tax incentives and specific financial support policies can also be put in place); strengthening entrepreneurial skills; promoting innovation and technology; facilitating access to regional and international markets; and strengthening governance and political stability.

Innovative financing also needs to be mobilised, as the issue is not just how to improve one type of financing, but ensuring that it is the optimum method for the country's situation. Examples of innovative financing include the issue of sovereign bonds, the creation of specific investment funds, the use of financial technologies (fintech, crowdfunding, mobile payments, digital microfinance, peer-to-peer lending, etc.), sovereign wealth funds and pension funds, climate financing and carbon mechanisms, partnerships with international financial institutions and the promotion of entrepreneurship and innovation.

Finally, it is worth mentioning coalition-building, which can play an important role in making the funding model work. Coalitions can enable Cameroon to work with other countries, international institutions, private sector actors, civil society organisations and development partners to mobilise financial and technical resources for development. To help finance Cameroon, these coalitions can focus on:

- *Collective resource mobilisation:* Coalitions can enable African countries to collectively mobilise financial resources for specific development projects. By working together, coalition member countries can attract greater attention, funding and support from donors and investors ;
- *Sharing knowledge and good practice:* Coalitions provide a platform for sharing knowledge, experience and good practice in development financing. African countries can learn from each other, share information on successful financing mechanisms, successful partnerships and resource mobilisation strategies;
- *Capacity building:* Coalitions can help to build the development finance capacity of African countries. This can include training in financial management, developing sound projects, negotiating contracts and improving resource mobilisation skills;
- *Advocacy and lobbying:* Coalitions can play a crucial role in advocating and lobbying for increased funding for African countries. By working together, member countries of a coalition can strengthen their collective voice and exert pressure on donors, international institutions and political decision-makers to obtain increased financial support ;
- *Sectorial cooperation:* Coalitions can be formed around specific sectors, such as energy, agriculture, health or education. These sectorial coalitions can promote specific investments, mobilise dedicated funds and develop strategic partnerships to support the financing of development in these key areas.

It is important that coalitions are based on principles of inclusion, transparency and accountability, and that they are guided by country needs and priorities. Effective coordination, strong governance and transparent communication are essential to ensure that coalitions make a real contribution to financing sustainable development.

Moreover, external financing can have a negative impact on security in Cameroon through : firstly, increased economic dependence (excessive debt can limit a country's ability to invest in internal security, which can have a negative impact on the country's overall stability); secondly, conditionalities attached to loans which may include economic reforms with short-term social consequences, such as increased social instability and political tensions; thirdly, an unsustainable debt burden which may hamper investment in priority sectors, including those related to security; and finally, exposure to the risks of financial crises linked to international financial transactions which may lead to political, social and economic instability, thereby affecting a country's internal security.

While the impact of the emerging New Financial Pact on Cameroon's security situation may vary depending on the factors mentioned above, it is possible to dilute or cancel out the potential deterioration in this important aspect with the following non-exhaustive measures:

➡ *Prudent debt management:* Prudent debt management: This involves carefully assessing the country's repayment capacity and developing a sustainable debt strategy to avoid excessive debt accumulation. Borrowing should be used productively, notably by investing in priority sectors including security;

➡ *Transparency and accountability: This implies putting in place robust governance mechanisms, such as competitive bidding processes, regular audits and independent monitoring of debt-financed projects;*

➡ *Diversification of funding sources: Diversification of funding sources is recommended to reduce over-reliance on external loans;*

➡ *Rigorous assessment of loan conditions: The country must ensure that the conditions imposed are aligned with its national priorities and do not compromise the security or well-being of its citizens;*

➡ *Internal capacity building: Strong and competent institutions are essential to ensure the effective use of borrowed resources and to minimise risks to the security of people.*

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