Cameroon's Rising Public Debt - Any Future for The Young Generation?

Debt is bad. Unsustainable debt is even worse, especially for a nation. Nation-states, like most individuals, usually incur debt for major infrastructural projects. How well a country manages its debt structure usually gives a good indication of how well the country is building for the next generation.
Adam Smith, in noting the value of being debt free, posed the question "what can be added to the happiness of a man or a nation who is in health, out of debt and has a clear conscience?"

Nation-states do not die, people die. In this light, Herbert Hoovercouldn't have made it clearer when he said

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"blessed are the young for they shall inherit the national debt". What African presidents, Cameroon's inclusive, should realize is that as Dave Ramsey once said"Debt is Dumb, and Cash is King".
Going by this logic it is obvious that nation-states should strive to avoid debtsor, rather, be prudent when it comes to the acquisition of debts because, to paraphrase Alexander Hamilton,a national debt is a blessing if, and only if, it is not excessive. African presidents and policymakers, Cameroon included, are yet to develop and put into effect comprehensive mechanisms and teams of experts who would provide counsel based on key variables on whether a country should go for a given loan or not. Such variables include but are not limited to:

i) Ability to repay the loan
ii) The tenure or time period of the loan
iii) The interest to be paid
iv) A cost-benefit analysis of the project to be executed with the borrowed funds. This would help determine the economic viability of the projects and give a justification of borrowing or not

Without putting in place such a mechanism, coupled with a high propensity to borrow, the national debt is bound to rapidly increase to unsustainable levels. It becomes even more difficult to repay these debts when the tenure spans the lifetime of the current leaders or generation. Hence, going by projections or forecasts, the impact of debts on future generations should also be assessed before a final commitment.
Cameroon on its part, has a debt history with numerous lessons that should be a guide to its current borrowing and debt management policy.

Cameroon: An impenitent debtor?

Following a proposal from the World Bank and the International Monetary Fund (IMF), the Heavily Indebted Poor Countries' HIPC Initiative was launched in Lyon, France at the G7 summit in 1996. Fully sponsored by the European Union and its member states, the HIPC initiative had as its principal objective, the reduction of the debt burden of poor countries to what was considered "sustainable levels" where no country faces unmanageable debts (EUR-Lex, Access to European Union Law 2005). The initiative placed debt relief within the framework of poverty reduction, making sure that restructuring and development programs are not jeopardized by the servicing of unsustainable debt burdens. After fulfilling the four stipulated criteria, Cameroon reached the ***Decision Point*** but it wasnot until May 1st 2006 thatCameroon attained the ***Completion Point*** of this HIPC initiative. As a result, the IMF and the World Bank approved for the country an approximately USD 1.27 Billion in debt relief in end of 1999 Net Present Value (NPV) terms, equivalent to about 27 percent of Cameroon's debt relief (in NPV terms) after traditional debt relief (AfDB-GROUP 2006). During the HIPC initiative, Cameroon made significant improvements with respect to certain macroeconomic indicators as shown in Table 1 below

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	Average							
	1990-94	1995-2000	2001-05	2001	2002	2003	2004	2005
(In percentage change, unless otherwise indicated)								
Economic growth and prices								
Real GDP	-1.8	4.7	3.8	4.5	4.0	4.0	3.7	2.6
Oil	-4.0	1.4	-6.5	-4.0	-4.4	-5.0	-9.3	-9.7
Non-oil	-1.1	4.9	4.8	5.5	4.9	4.9	4.9	3.5
Consumer prices (period average)	7.2	3.1	1.9	3.7	2.8	0.6	0.2	2.0
Gross domestic investment	15.0	16.8	19.4	20.3	19.8	18.3	18.9	19.6
(In percent of GDP)								
Government finance								
Total revenue (excl. grants)	13.5	15.5	16.6	18.2	16.2	16.0	15.2	17.2
Oil revenue	3.8	3.9	4.7	5.9	4.9	4.1	3.9	4.9
Non-oil revenue	9.7	11.6	11.8	12.3	11.3	11.9	11.3	12.3
Total expenditure	20.5	17.3	15.6	16.8	15.7	15.3	16.0	14.3
Current expenditure	17.3	14.8	13.2	13.6	13.6	13.2	14.0	11.8
Of which: Non-interest current spending	11.7	9.2	10.9	10.5	10.9	10.9	12.1	10.3
HIPC-related spending	0.0	0.0	0.4	0.0	0.4	0.2	0.5	0.8
Capital expenditure	3.2	2.3	2.3	2.9	2.4	2.1	2.0	2.3
Overall budget balance (commitment basis, excluding grants)	-7.0	-2.9	0.9	1.2	0.5	0.7	-0.8	3.0
Of which: non-oil primary fiscal balance	-2.7	1.1		-0.5	-1.4	-0.7	-2.0	0.0
(In percentage change, unless otherwise indicated)								
Balance of payments								
Current account bal. (excl. grants; in percent of GDP)	-1.7	-2.3	-3.3	-1.7	-6.4	-2.6	-3.6	-2.0
Export volume	-6.2	8.0	-0.5	0.5	-7.0	6.9	1.5	-4.6
Import volume	-4.1	12.4	6.4	18.2	1.9	-0.6	11.7	0.7
Terms of trade	3.4	3.6	0.7	-9.7	0.0	-0.8	-1.3	15.1
Real effective exchange rate (index, 2000=100)	88.4	67.5	70.9	66.3	68.7	72.6	72.8	69.4

Sources: Cameroonian authorities and staff estimates and projections.

Table 1: Cameroon: Selected Macroeconomic indicators, 1990-2005

This all indicates that prior to the design and implementation of the HIPC initiative the country's external debts were already astronomical, taking into consideration the country's size and productive capacity. Cameroon was under immense debt distress and the debt-to-export ratio levels had already exceeded the fixed ratio of 150%. Beyond this ratio, debt is considered unsustainable(EUR-Lex, Access to European Union Law 2005). Without this initiative the country, most likely, would never have had the possibility of running a budget surplus again.

Attaining the completion point of HIPC therefore, was agreat relief for both Cameroonian policy makers and members of the general public.One does not need a degree in Keynesian economic theory to come to terms with the reality that, under the weight of such debts, the country was headed for a complete economic meltdown.

Debt relief meant or seemed to mean – to many Cameroonians – that the country was being given a second chance at making things better. The public debt burden was drastically reduced by the end of 2006, as shown in Figure1, with the objective of diverting repayments towards development projects that would improve on the livelihood of Cameroonians. In fact, there was renewed hope for an unknown economic future.

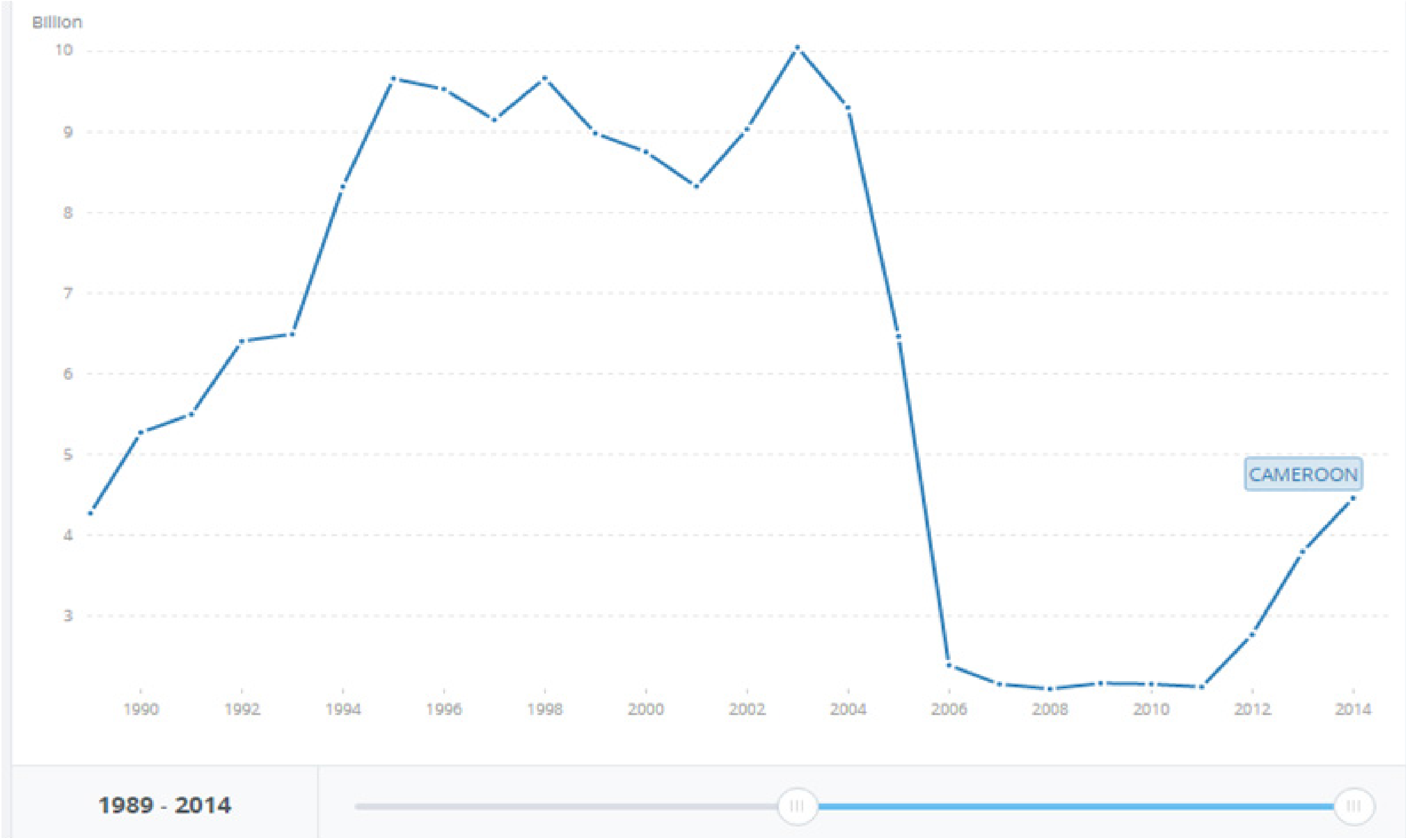

Figure 1: External Debt Stocks, public and publicly guaranteed. (US$)
Source: World Bank International Debt Statistics

With such debt relief, Cameroonians, especially the youths, envisaged a different economic trajectory. One of renewed hope, better education, healthcare, other infrastructural development and the implementation of policies that would encourage private savings and trigger private investments throughout the nation. All of this was based on the perception that the change they sought may have finally arrived. Unfortunately, the change that was witnessed in terms of debt relief was two-fold;

i) Forceful and
ii) From abroad

The fate of the country was still in the hands of the very government and officials that had ran it into debt and it wouldnot be long before the country found itself borrowing back to unsustainability amidst other ills like bribery and corruption, mismanagement, extravagancy and embezzlement. Going by the lessons of the past that got Cameroon heavily indebted in the first place, one would have thought that current policies would be pointing towards a new and hopeful economic trajectory. This is not the case as current government actions seem to totally disregard these lessons,thereby sending a signal that Cameroon is dismissive of the debt-driven economic catastrophe that befell the country prior to the HIPC initiative. Let us see where this takes us.

Analyzing the Current debt situation: Post HIPC to Present

Within five years (as depicted in Figure 1 above) post the completion point of the HIPC initiative, it all seemed well with respect to public, publicly guaranteed and external debts. This, however, was short-lived. Going by actual dollar values over the years, between 1996 and 2006 at the completion point of the HIPC, the external debt stocks dropped by 74.9% but it took barely 8 years between 2006 and 2014 to increase the external debts, public and publicly guaranteed debts by 86.6%. This implies an average debt growth rate of slightly above 10% per annum. This percentage is even higher when the analysis is being narrowed to a year-by-year basis. For example, beginning in 2011 in progression, by the end of 2012 the percentage increase in the debt was 30.66%, in 2013, 37.03% and in 2014, 17%. This is both a disturbing trend and an indication of the inefficacy of certain policies within the economy. One of such is taxation.

Lest we forget, public indebtedness temporarily disassociates the provision of public goods from taxation. The problem with the Cameroonian situation is that there is hardly an optimal or laudable provision of public goods; tax rates are on an unjustifiable uphill climb, thereby begging the question of what do we intend to achieve with such high debts.

In 2013, while affirming Cameroon's B credit rating, the rating agency Fitch warned that the country's rapid increase in bilateral loans, especially from countries like China with high interest rates,will dangerously increase the cost of debt within the short term. Between 2008 and the end of 2014, Cameroon's risk of external debt distress increased from "Moderate" to "High" (IMF-DSA 2015).In 2014, the debt to Gross Domestic Product (GDP) ratio was estimated at 26.6%, more than double the 10% 2008 figure and a current estimated debt rate of over 8%. The IMF recently noted that the country's public debt management capacity had critical shortcomings and under the World Bank Country Policy and Institutional Assessment (CPIA), was categorized as a country with weak policy and institutional capacity. A reorientation of debt policy was therefore recommended.

Despite the above statistics and warnings, very little has changed for the better. In January 2016, the country borrowed FCFA 42 Billion from the World Bank suggesting that part of the loan would be used in the fight against the Islamic sect, bokoharam. Later in the year, theBiyagovernment borrowed FCFA 75 Billion from EXIM Bank of China for the provision of 500,000 laptops to University students. Then FCFA 241.4 Billion for the construction of a dual carriage road linking Douala and Yaoundé. In August 2016 FCFA 180 Billion was borrowed from the World Bank to boost the services of the national grid company. This is just to name a few of the poorly-conceivedborrowing policies the government has engaged in without any comprehensive repayment plan. Currently Cameroon is the second most indebted country in Francophone Africa going by the International Debt Statistics of the World Bank.The country's accumulated debts stand at over USD 5,289 Million. The debt curve is steeply bullish compared to the situation after the completion of the HIPC initiative. With customs revenue expected to drop following the signing and putting-to-effect of the Economic Partnership Agreement, coupled with the inefficiency and ineptitude of the taxation department, the difficulties are bound to increase.

What future for the Youths?

According to the World Health Organization, less than 6% of the population of Cameroon is above the age 55. However, most of those governing the nationarein their 70s or above. This, therefore, implies that much of the debts of the nation would have to be managed and paid by a totally different generation. Looking ahead, it would be very difficult for the nation's young people and even more so for those who aspire to govern as they would face the difficult task of choosing between pursuing the nation's development objectives and servicing the national debt. With the current borrowing rate, Cameroon would find itself again sometime in the future at the mercy of our creditors, seeking debt forgiveness. But this time, it is unlikely to happen given that the current actions of the government related to debt and debt management have shown little or no change in policy.

The way ahead/ Policies:

If excessive debt is bad, then let's stop it.
In order to prevent these huge debts, the government has to ensure an effective public budget management system. A computerized system that takes into account every franc spent, including a detailed post project assessment data sheet.

Also, it is obvious that the EPA going into effect reduces government revenues but an EU staff study reveals that if and only if the efficiency of tax collection were to increase, the country would be able to make up for the loss in revenues without any difficulties. To achieve this, the tax code as it stands has to be revised to be less of a disincentive to investment. Cameroon's corporate tax rate stands at 33 percent. A reduction of this rate to 15 percent would incentivize domestic as well as Foreign Direct Investment. The result□jobs, economic growth and upward social mobility.

Also, the EPA could be renegotiated. Opening up to 80% of the domestic market to European products may only yield the intended objectives of reducing the cost of production and increasing output in the short-run. In the long run, this agreement will threaten the very existence and growth of the nascent local manufacturing industry and even increase the country's dependence on imports. As a nation, Cameroon should rather focus on technological transfer. While exports become cheaper, the deal could also focus on the establishment of manufacturing companies here in Cameroon. A given percentage of the employees could be Cameroonian so as to ensure technological transfer. With this, overtime, the need to import these products would drastically diminish as local production takes the lead. Government would also be able to raise revenue from the companies through an efficient tax policy.

Finally, the state should create conditions necessary for savings. Savings provide investment capital for entrepreneurs and it is a trigger to a buoyant economic atmosphere. For this to happen, there has to be a stable, well regulated formal savings/credit market. In Cameroon, like most other developing nations, this market is not well developed; hence many individuals have to rely on the informal money/credit market which charges exorbitant interest rates. As a result, lendingis mainly confined to meet consumption needs. Therefore, the development of a viable formal credit sector with low or market-determined interest rates will guarantee the availability of investment capital and provide a cushion in times of financial distress. With these steps taken, the massive external debts won't be an option.

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