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Breaking the Taboo: Perspectives of African Civil Society on Innovative Sources of Financing Development

Country Experience: A view from Cameroon

Judging the effectiveness of Financing For Development half way to the MDGs target date.

By Martin Tsounkeu,
General Representative (ADIN)

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SUMMARY

NON GOVERNMENTAL ORGANIZATION FOR THE DEVELOPMENT OF AFRICA
BP 16407 Yaounde Melen – Face EMIA / Po Box 15274 Douala - Cameroon
Tel: (237) 77 74 78 28 * 22 06 11 14 * 22 00 07 86 * * 99 29 67 85 Fax: (237) 33 40 14 49
E-mail : martsou@yahoo.com / adin_apd@yahoo.com

I- Introduction and Context

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NON GOVERNMENTAL ORGANIZATION FOR THE DEVELOPMENT OF AFRICA
BP 16407 Yaounde Melen – Face EMIA / Po Box 15274 Douala - Cameroon
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I.1 Africa in the international Financing for Development context

African economies are mainly characterized by a growing poverty, a result of the economic crisis that lingers since the late 1980s. The continent has suffered continuous terms of trade degradation during the two passed decades and the burden of debt keeps growing. Various solutions, including assistance from International Financial Institutions (IFI) or bilateral and multilateral partnership agreement, have been tried, here and there, with very little success.

Cameroon is no exception to the general unsuccessful financing for development trend in Africa and may even be one of the worse and more unfortunate cases. After some signs of prosperity in the late seventies and great hope of rapid development in the early eighties, the country has definitely sunken in a sea of economic crisis. Twenty years of economic adjustment seem to have brought no efficient solution. Today, the country globally faces a wide range of challenges including:

- *growing unemployment and poverty ;*
- *lingering corruption and public mismanagement ;*
- *fragile sociopolitical environment and hindered democracy.*

Last February (2008), more than fifteen years after the early nineties' political turmoil, partly because of the high cost of living, the evil of social unrest showed it face again. It gave a strong warning signal to the whole country that the people's sufferings had gotten to an unsustainable level.

I.2 Introduction

This presentation mainly derives from a contribution to the Civil Society Consultation on Innovative Development Financing Mechanism in Dakar, Senegal on 18 – 21 April 2008. It tries to review the socioeconomic situation in Cameroon and appraise the Financing for Development process. It is about putting a particular eye on how Cameroon has been managing with the many poverty reduction challenges that the country faces. In order to give an appreciation of the effectiveness of the Financing for Development Mechanisms in Cameroon, our analysis covers the following:

- ***Poverty reduction challenges and policies****, with examination of the HIPC status of Cameroon, the PRSP features and implementation failure plus subsequent adjustments ;*

- ***Financing for Development mechanisms in Cameroon,*** *looking into quantitative and qualitative performances of aid or other financing schemes and the HIPC resources exploitation ;*

- ***Conclusion on the need for a new financing for development approach,*** *which could help draw benefit from domestic financing opportunities and implement better HIPC resource recycling schemes.*

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II. Poverty reduction challenges and policies in Cameroon

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II.1 The HIPC status of Cameroon

Since 1987, all economic measures taken in Cameroon, the structural Adjustment Plan above all, with the IMF and the World Bank have not been able to take the country out of its protracted economic crisis. Cameroon has stepped from the status of Average Income Country to that of Highly Indebted Poor Country (HIPC). The reasons why the country got into this situation not withstanding, it has now been implementing a Poverty Reduction Strategic Paper (PRSP) for more than five years.

II.2 The PRSP features in Cameroon

The National Development Strategy in Cameroon today is essentially about poverty reduction. It should be recalled in this respect that Cameroon's PRSP gives the government's strategic vision, objectives, and priority actions for fighting poverty in line with the Millennium Development Goals (MDGs). The document was prepared with the clear objective of using it as a tool to achieve the MDGs.

Seven main lines are drawn in the document, as was approved by the Bretton Woods Institutions in 2003:

- *Promoting a stable and growth-enhancing macroeconomic environment ;*
- *Strengthening growth through economic diversification ;*
- *Empowering the private sector as the main engine of growth and a partner in delivering social services ;*
- *Developing basic infrastructure and natural resources in an environmentally sustainable manner ;*
- *Accelerating regional integration within the CEMAC framework ;*
- *Strengthening human resource development and bolstering social services.*

Although Cameroon's PRSP fully supports the MDGs agenda and contains sub-strategies that cover them as well as explicit pledges, it implementation goes along with a great financing for development challenge.

II.3 The PRSP implementation failure and subsequent adjustment needs

In the period when Cameroon's Poverty Reduction Strategy Paper (PRSP) was prepared, four out of ten Cameroonians lived below poverty line, locally defined at CFA Francs 232,547 in the year 2001. Any improvement of this situation that may have followed the PRSP implementation efforts seem to have been washed out by the current

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economic hardships characterised by the very high cost of living, which recently appeared as one of the causes of social unrest in February 2008.

In fact, four years of PRSP implementation have brought very little livelihood improvement in Cameroon and the poverty level may, as it is, have increased. Few objectives set in the PRSP process have been achieved. It appears that the Cameroon government do acknowledge this, with regard to the results of the recent PRSP appraisal campaign, which recently led to a PRSP adjustment process. A revised document was validate on Friday 27 June 2008.

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III. The Financing for Development mechanisms in Cameroon

- *Quantitative and qualitative domestic financing*
- *Foreign aid mechanisms and other financing sources*
- *The use of HIPC resources*

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III.1 Quantitative and qualitative domestic financing

The main source of domestic financing for development in Cameroon is the state, through public funds in the framework of national budget. This is voted every year in two folds: the current working budget on the one hand and the Public Investment budget on the other hand. Beside this, the whole financing system lies on a number of institutions and regulations that frame the banking system and the microfinance sector which has witnessed a relative boom, following a specific microfinance regulation was set in 1992, revised in 2005.

This financing system, entitled to allow national savings to be turned into investment, does not quantitatively cover the entire needs of the country which has turned toward different foreign assistance schemes. Qualitatively, the financing system suffers from multiple weakness factors. These factors include public mismanagement in terms of kind of expenditure and priority setting in project funding.

Another hindering factor in domestic financing for development, here, is the problem of accessibility to resources by all, when ever these are available. The bulk of the population and the core of the economic system which is made up of Small and Medium size Enterprises (SMEs) and other underground structures, find it difficult to access available financial resources. They generally can not afford banking and credit conditions. The rural sector although very important, has financing needs generally out of coverage range of the existing financial facilities. These needs, as regards the poor populations, generally don't match the existing offer from traditional facilities. People would very much like to get credit in rural areas, but traditional financing conditions are out of reach. Financing for development is broadly more than a challenge in African rural areas and very probably a nightmare.

III.2 Foreign aid mechanisms and other financing sources

The financing for development strategy in Cameroon has always included foreign assistance opportunities, in terms of bilateral and multilateral financing agreement, with the purpose of complementing domestic financing mechanisms. Official Development Aid (ODA) and Foreign Direct Investments (FDI) have traditionally been regarded has crucial, the government making all efforts to promote these. The acknowledged purpose of this policy is to draw benefit from the financing for development opportunities that FDIs represent.

Apart from these major source of financing, Cameroon has also relied on International and regional Financial Institutions. Beside IMF and World Bank economic adjustment facilities, the country gets financing from specialised institutions like African Development Bank (ADB), The Islamic Bank, the International Fund for Agriculture Development (IFAD) and others.

Numerous national projects are funded by these institutions but the results achieved within these projects in their majority have not been up to expectation. Most of the time,

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failure and early termination have been the conclusion. Major rural development projects like the ***"Priority Integrated Action Zone"*** funded by the World Bank in the seventies, with the purpose of boosting rural production in the Eastern Province of Cameroon, through a more efficient community structuring, and many other rural development projects rather turned out to be ***debt burden boosters***.

More recent examples can be cited. In this respect almost all current IFAD funded projects in the year 2007 including the ***"Community Development Support Project***", *the* "***Roots and Tuber National Development Programme***" and the "**Support Project to Microfinance Programme**" have been questionable, with regard to their potential to attain originally set objectives. The President of the International Fund for Agriculture and Development (IFAD)'s last visit in Cameroon was more than a working visit. It raised the issue of how best the country could deal with funding from this institution. Later on, a review mission of the same institution stumbled on incoherence in the management of of almost all the projects that it was funding in the country.

III.3 The use of HIPC resources

The HIPC process in Cameroon has, some how, strengthen the flow of resources for the MDGs. It made the equivalent of CFA F 213 billion available for funding of social project at its first stage, following the first three years interim period that ended in 2001.These resources were further more enhanced after the country got to the HIPC completion point in April 2006. Beside the general HIPC funds, some bilateral initiatives provided financial resources as is the case with CD2 for gearing French debt relief funds toward eligible projects.

It appears that the source of the funds not withstanding and due in great part to the attached conditionalities, the utilization rate of the funds has remained very low, around 30%, and inefficient for a number of additional reasons including:

- ***insufficient information on the availability of the fund and on how the financing process works;***

- ***Incompatibility between the conditions of accessibility to funds and bureaucracy backdrops or some consequences of public service corruption.***

Another problem is about how the projects that are eligible for funding really cover the needs of the people and thus contribute to development at the grassroots. This project relevance to people's needs is a real challenge in Cameroon. The Civil Society it not really allowed to fully play its participating role in choosing or shaping projects. There is still too much misunderstanding with the government on what really is at stake. Soft co-operation is still limited here because of insufficient trust between government and the Civil Society.

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IV. Conclusion remarks on the need for a new financing approach

- *Drawing benefit from domestic financing opportunities*
- *Implementing better HIPC resource recycling schemes*
- *A solution chart of how the Civil Society could help take the challenge*

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It comes out of this analysis that the financing for development process in Cameroon, as in many African countries in general, is still very weak and the efficiency of the related resource allocation is doubtful. The main reason for this situation is mismanagement and irrelevant choice of priority. It is about time that solutions be found to this problem in order to keep hope on attaining the Millennium Development Goals (MDGs). Two main areas of intervention could be considered.

IV.1.Drawing benefits from domestic financing opportunities

It is crucial to try to draw all possible benefit from domestic financing opportunities, meaning that efforts should be geared toward enhancing local resource generating capacity and frame financial aspects of living in an economic environment where the following would be ensured:

- *Micro development bank to be made available for local small size initiative;*
- *Microfinance development to be built on production potential at the grassroots and in rural area in particular;*
- *Proposal of financing regulation that would deal with the real accessibility to financing resources for all;*
- *Empowerment of the Civil Society in financing allocation of financing resources.*

IV.2 implementing better HIPC resource recycling schemes

It is important to make sure that HIPC financial resources are better used, by allocating them to relevant socioeconomic projects. These projects should be relevant in the sense that they are designed by the people themselves at community level, with regard to their needs.

It should be noted that priority has to be given to sustainable projects, capable of generating permanent additional resources, in order to be less dependant of external assistance. HIPC or Poverty alleviation resources should, in fact be practically given a "***Capital Status***". They need to be renewable, through an objective recycling system that relies on existing economic opportunities.

No government no where in Africa can fully be willing and capable of making this possible on it own. The Civil Society should force its way into the process and take a more proactive role, by working closer and more efficiently with local communities and people at the grassroots to shape projects that can be imposed to decision makers in exchange for their votes. Ways should also be found for the Civil Society to deal directly with International Financing Institutions where ever necessary.

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IV.3 A solution chart of how the Civil Society could help take the challenge

FINANCING FOR DEVELOPMENT ACTION CHALLENGE
FOR CIVIL SOCIETY ORGANISATIONS

African Government's set of mind

- Power conservation
- Individualism and selfishness
- Dependant to foreign interest
- At great risk of Corruption

Spectrum of misunderstanding

CSO's set of mind

- Community oriented
- Socially oriented
- Independent
- Justice seeking

Necessity for Compromise

Facilitating Interface NGOs

- Opportunities identification

- Publication of information

- Upgrading of Management System

- Arrangement of a Negotiation platform between communities and governments