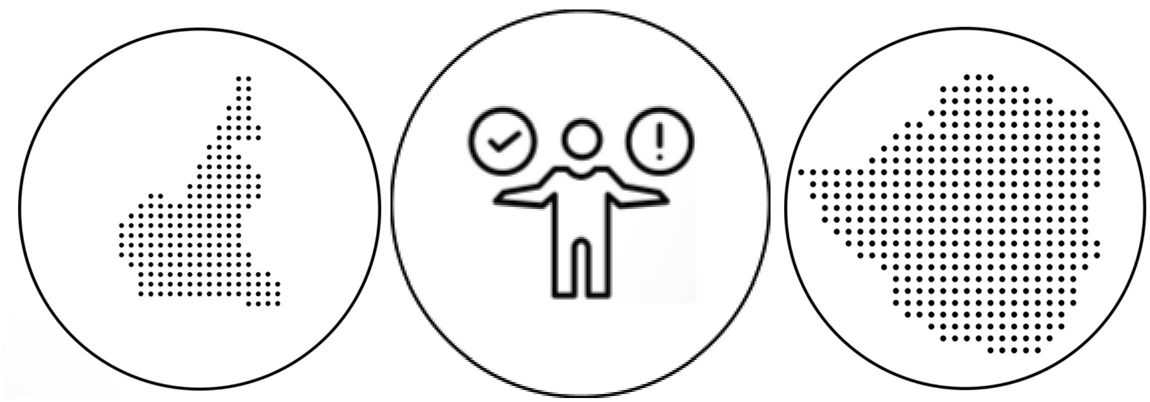
Country Risk Report

REPUBLIC OF CAMEROON
V.
REPUBLIC OF ZIMBABWE

May 24, 2021



A comparison of risk factors focused on governance issues from the perspective of a development-based NGO.

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Table of Contents

Introduction

As a development NGO, our work focuses on the health, education and agriculture sectors, while always being concerned with wider human rights, gender or environmental issues. We mostly work at the national level, providing private investors with country risk reports evaluating different countries' development rates, both from human and economic perspectives. This document indeed aims at providing an overall assessment of governance in the Republic of Cameroon and the Republic of Zimbabwe. To do so, we will firstly look at the political background of both countries, including the Human Development Index (HDI), the Gross National Income (GNI), the Democracy Index, the Fragile States Index (FSI) and the Corruption Perception Index (CPI). This will be followed by an overview of the overall economic conditions and policy outlook before looking at the inflation and budget deficit. Finally, we will evaluate the balance of payment position. The information and rankings used to provide our evaluations derive from trusted sources such as COFACE, SACE, the World Bank (WB), and Transparency.org. We strive to suggest investing in a country that shares our principles of slave-free and fair trade, on top of sustainable production, as part of our goal to promote sustainable development.

Political Background

The Republic of Cameroon

The Republic of Cameroon is a country of about 26,545,864 people governed by a unitary presidential republic, where the President is both the head of state, the head of government, as well as of a multi-party system. However, executive power is exercised by the government, while legislative power is vested in both the government and the National Assembly of Cameroon. Since November 1982, the country has been led by President Paul Biya, who is now the second-longest-ruling president in Africa, the longest-ruling leader who is not of royal descent, and the oldest head of state in the African continent. Although the current leadership has insured some degree of political stability, some infringements on liberties may have occurred. For instance, while censorship was abolished in 1996 and the Republic has numerous independent newspapers, the Government does occasionally seize or suspend newspapers and has been known to arrest journalists. Additionally, despite the authorisation for private radio and television stations since 1990, new licenses have not been granted since March 1998. It is particularly worth noting that the Republic of Cameroon is the only country in the world where two constitutions coexist. This is because, under the 1972 Constitution, the Prime Minister is designated as the constitutional successor of the Head of State in the event of the incumbent's incapacity, death, resignation, or unaccountable absence. The 1996 Constitutional Reform, on the other hand, designates the President of the Senate as the constitutional successor; however, the Senate (as provided for by the 1996 Reform) does not exist. Aside from increasing the presidential mandate from five to seven years, very few amendments to the 1996 Constitutional Reform have been implemented.

Due to its 2019 nominal GDP of US$98.4 billion and GDP per capita of US$1,524, the Republic of Cameroon is considered by the World Bank (WB) a low-income country. In terms of development, however, the Republic of Cameroon’s HDI for 2019 is 0.563, which positions it at 153 out of 189 countries and territories, in the medium human development category. In the past thirty years, the Republic of Cameroon’s HDI value has experienced an overall increase of 26%: the GNI per capita increased by 16%, the life expectancy at birth increased by 6 years, mean years of schooling increased by 3 years and the expected years of schooling increased by roughly 4 years. However, while the Government’s human rights record has improved over time, it still has flaws. There have been reports of detainees being beaten, arbitrary arrests, and illegal searches. The judiciary is frequently corrupt, inefficient, and influenced by politics. This definitely had an impact on the Republic's Democracy Index: while in 2019 it was equal to 2.85, Cameroon scored 2.77 in 2020, earning the label of an authoritarian regime. The Republic of Cameroon was also 16th (scoring 97.0 in 2019) in the FSI, with 72% of people thinking that corruption increased in the past 12 months, positioning the country at 149 out of 180 in the CPI.

The Republic of Zimbabwe

The Republic of Zimbabwe is a country of roughly 15 million people governed by a full presidential republic, where the President is both the head of state and government, which is organised by the 2013 Constitution. While the executive power is exercised by the government, the legislative power is vested in both government and parliament. Since the 11th century, the Republic of Zimbabwe has been home to several organised states and kingdoms, including the Rozvi and Mthwakazi kingdoms, as well as a major migration and trade route. In 1965, the conservative white minority government unilaterally declared independence as Rhodesia. This led to state-endured international isolation and a 15-year guerrilla war with black nationalist forces, which culminated in a peace agreement in April 1980 that established universal suffrage and de jure sovereignty as Zimbabwe. Zimbabwe then joined the Commonwealth of Nations, from which it was suspended in 2002 for violations of international law committed by its then-government under Robert Mugabe, and from which it resigned in December 2003. Robert Mugabe became Prime Minister of the Republic in 1980, following his party's (ZANU–PF) victory in the elections at the end of white minority rule; he served as President of Zimbabwe from 1987 until his resignation in 2017. Under Mugabe's authoritarian regime, the state security apparatus dominated the country and was responsible for widespread human rights violations. Since the 1990s, the country has been in economic decline, with several crashes and hyperinflations along the way. After more than a year of protests against his government and Zimbabwe's rapidly declining economy, Mugabe was placed under house arrest by the country's national army in a coup d'état on November 15, 2017, and resigned six days later. Since then, Zimbabwe's president has been Emmerson Mnangagwa.

Due to its 2019 nominal GDP of US$43.2 billion and GDP per capita of US$1,254, the Republic of Zimbabwe is considered by the WB a low-income country. In terms of development, the Republic of Zimbabwe's HDI for 2019 is 0.571, which positions it at 150 out of 189 countries and territories, in the medium human development category. In the past thirty years, the Republic of Zimbabwe has experienced an overall increase of 20%: the GNI per capita increased by about 43%, the life expectancy at birth increased by over 3 years, the mean years of schooling increased by 4 years and the expected years of schooling increased by a little over 1 year. While the country is still considered governed under an authoritarian regime, The Republic’s Democracy Index has been improving over the past ten years, starting from a value of 2.78 in 2014 to 3.16 in 2020. Still, Zimbabwe’s Republic is the 10th most fragile state, with an FSI of 99.5, with 60% of people thinking that corruption increased in the past 12 months, positioning the country at 157 out of 180 in the CPI.

Overall Economic Conditions and Policy Outlook

The Republic of Cameroon

Despite being the largest economy in the Central African Economic and Monetary Community (CEMAC), Cameroon faces the typical challenges of a developing/emerging country. The COVID-19 pandemic exposed its overreliance and, therefore, its susceptibility to shocks in the oil markets. Given oil exports are a primary source of revenue for the Cameroonian government, the steep drop in oil prices precipitated an economic crisis, one that has impacted the other members of CEMAC as well. Like many countries worldwide, Cameroon's economy contracted in 2020 due to the global economic slowdown. Nonetheless, since the turn of the century, the country's economy has grown over three times its size in 2000 in terms of real GDP (PPP).

In 2021, the economic growth is expected to reach 4.3%, a sizeable rebound driven by three primary factors:

1. An uptick in natural gas production, aided by a brand-new offshore liquified natural gas (LNG) terminal.
2. A diminished reliance on oil exports subject to volatile price changes due to unforeseen exogenous shocks.
3. Continued growth in housing, construction, and services industries.

The World Bank, in 2017, published a Country Economic Memorandum in which they delineated a path for Cameroon to become an upper-middle-income country by the year 2035. Unsurprisingly, achieving this goal would require some drastic yet also smaller pragmatic changes to the status quo.

Primarily, Cameroon would have to bolster its productivity while simultaneously allowing its nascent private sector to flourish. Providing for a greater share of GDP earmarked for investment could be a primary means of achieving the desired economic growth in the envisioned timeframe.

The investment, as mentioned earlier, would primarily manifest itself in large-scale infrastructure projects targeting traditional, educational, and health care infrastructures. Existing infrastructure disparities between the more developed South-western and coastal regions and the rest of the country are prime targets for said government investment. Fixing these existing imbalances would, in turn, accelerate private sector growth and government investment in regions of the country that have been neglected until now.

Despite its export of natural resources (primarily a governmental revenue stream), the majority of the nation's workforce continues to be employed in the agricultural sector. Cameroon remains a leading exporter of cocoa, coffee and cotton, and petroleum. A natural resource-rich nation, Cameroon also survives on the export of cobalt and kyanite, iron ore, uranium, nickel, and manganese. It's worth noting that most of its power supply comes from hydroelectricity and other renewable resources. Fossil fuels and natural gas are mainly used as a means of generating revenue in exports.

As referenced above in the Political Outlook, Cameroon's economic growth is threatened primarily by governmental mismanagement and overall weak governance. The ineffective leadership of governmental institutions is simply off-putting for most investors, even those with a high-risk tolerance. Furthermore, Cameroon ranks in the bottom quintile for both Transparency International's Corruptions Index and the World Bank's Doing Business Report, published in 2018 and 2019, respectively.

The Republic of Zimbabwe

Much like Cameroon and nearly every nation on Earth, Zimbabwe experienced an economic contraction in 2020, though its economic contraction also occurred the year prior. It is forecasted to experience an expansion of roughly 2.9% with said expansion largely coming down to the recovery of the agricultural sector, still one of the most important economic components in Zimbabwe and the general return to normalcy, in Zimbabwe and around the world. While the importance of agriculture has undoubtedly declined since the turn of the century, it remains responsible for roughly 15% of the total GDP and an estimated 50% of the labor force is directly involved with various agricultural activities. As in most nations, healthcare guidelines and operating restrictions greatly reduced productivity and opportunity, stifling improvements across the board.

The pandemic highlighted several inadequacies in the Zimbabwean economy and its management by the government. For example, remote learning implementation strategies proved incredibly difficult given the constraints of public resources. In particular, rural areas suffered much greater in this regard given the lack of viable internet connectivity or other means of communication. A phone survey revealed that “less than 30% of school-going children in rural areas engaged in education and learning during the pandemic-related school closures, compared with 70% of urban children.”

From a healthcare perspective, the situation appears similarly bleak. The overall quality of the health care system in Zimbabwe dropped during the COVID-19 pandemic as doctors, nurses and other hospital staff went on strike. Among their many protests and complaints were the lack of reliable supply chains regarding personal protection equipment (PPE) and being overworked given a general shortage of qualified healthcare professionals in the country. Overall, it’s fair to say that the pandemic underscored the importance of human capital, namely the importance of continued progress toward greater investment in human capital.

In terms of outlook and room for progress, Zimbabwe has unveiled an ambitious long-term recovery plan, aimed at stemming the negative results of the pandemic and ensuring a more resilient and sustainable economy. It’s worth underscoring that Zimbabwe must actively avoid returning to the hyperinflation that decimated its economy just over a decade ago.

Inflation and Budget Deficit

The Republic of Cameroon

The robust economic growth mentioned above notwithstanding, inflation has been a bit high over the past four decades. Between 1979 and 2019, the inflation rate rose by a total of roughly 543%. On average the inflation rate was 4.9% per year, ranging from -3.2% (deflation) to 35.1% (very high). Regarding outstanding loans and repayment of said loans, Cameroon will undoubtedly benefit from the G20 Debt Service Suspension Initiative (DSSI), as will many other developing nations in Africa, Asia and South America. This initiative will help prevent budget deficits from ballooning due to financial obligations incurred before the onset of the pandemic.

The Republic of Zimbabwe

It’s not exaggerating to say that inflation in Zimbabwe is a uniquely delicate subject. In the last century, few analogous examples exist except maybe the Weimar Republic. Gross economic and political mismanagement plunged Zimbabwe into an inflation spiral that resulted in record-high unemployment rates, an ever-growing economic recession, and a near unredeemable loss of credibility in the eyes of the global financial community.

It is expected that Zimbabwe will operate a budget deficit in the coming years as it continues to invest in its National Development Strategy1 aimed at buoying the economy after the tumult of the pandemic. Like Cameroon, it hopes to achieve upper-middle-income status by the year 2030, though that will certainly prove to be a tall order. Essential to its achievement is the strengthening of governance, the expansions of public funding, and the assurance of transparency and accountability.

Balance of Payment Position

The Republic of Cameroon

The Republic of Cameroon operates at a trade deficit. In 2019 exports amounted to US$ 6,745 million while imports amounted to US$ 8,532 million. Overall The Republic of Cameroon exports approximately 1,358 products to 122 countries and imports 3,694 products from 199 countries. Their estimated reserves equate to 4.9 months of imports. The IMF suggests that in the past a general rule of thumb for reserves is the equivalent of at least 3 months of imports or the equivalent of 100% of short-term debt. However, they now suggest using a risk-weighted metric that accounts for factors such as falling export income, a sudden stop in short-term debt flows, outflows from other debt and equality liabilities, and residential capital flights to determine the required reserves for developing countries such as Cameroon. The Republic of Cameroon has a relatively high credit risk. A rating by SACE gives Cameroon a 72/100 for average credit risk, a 69/100 for sovereign credit risk, and a 74/100 for bank credit risk. The current account balance of the Republic of Cameroon was estimated at -5.5% of GDP for 2020. In 2019 the current account balance was -4.4% of GDP and the projected current account balance for 2021 is -4.5% of GDP. The increased deficit in 2020 was likely due to the Coronavirus pandemic and the 2021 projection appears to suggest a realignment with pre Coronavirus conditions. Public Debt in Cameroon was estimated to be 45% of GDP in 2020 up 2.3% from the year before. Given the credit risk, negative account balance, and the possible decline in petroleum usage due to climate policy and regulations Cameroon likely needs to build a more substantial reserve in order to be adequately protected from shocks in the market. That being said the export of Petroleum is consistent in Cameroon for the time being, and the aforementioned liquified gas terminal is likely to ramp up production in the short term. The IMF indicates that Cameroon has a high risk of external and overall public debt distress, but also states that debt remains sustainable as of January 2020.

The top 5 countries Cameroon imports from are China (23%), Nigeria (13%), France (11%), United States (4%), and Belgium (4%). The top 5 export countries are China (13%), India (12%), Spain (10%), Netherlands (9%), and Italy (6%). Their two main exports are petroleum products and coffee and tea products. As previously discussed petroleum exports may decrease in the long run. The Organization of the Petroleum Exporting Countries (OPEC) has predicted an overall growth in petroleum exports until the year 2030 after which they suggest that the market will plateau until at least 2045. Based on environmental trends the petroleum market is likely to decline over time, yet may be increased in the short term following an uptick in demand after the Covid-19 pandemic and increased efficiencies provided by the LNG terminal. Growth of the agricultural sector, including coffee and tea products, can be seen as an opportunity to promote development within Cameroon. Cameroon uses the Central African CFA Franc BEAC as its main currency. The Central African Franc has seen peaks and valleys over the past 10 years. The currency is weaker than it was in 2010 but has been gaining strength from a low point in 2019. The Central African CFA Franc is pegged to the Euro which has offered it some stability over the long term.

The Republic of Zimbabwe

The Republic of Zimbabwe operates at a surplus. In 2019 exports amounted to US$ 4,663 million while imports amounted to US$ 4,195 million. Overall The Republic of Zimbabwe exports approximately 1,329 products to 92 countries and imports 3,790 products from 148 countries. Their estimated reserves equate to .3 months of imports. Which is very low compared to the ‘rule of thumb minimum’ of three months and does not match the reserves required based on the risk factors. Risk factors present in the Republic of Zimbabwe that suggest the need for additional reserve requirements include falling export income based on sanctions and outflows from other debts as foreign debt equates to 57.2% of GDP. The current account balance of the Republic of Zimbabwe was estimated at 6.3% of GDP for 2020. In 2019 the current account balance was .2% of GDP and the projected current account balance for 2021 is 3.1% of GDP. Additionally, it is important to consider that The Republic of Zimbabwe has extremely high credit risk. A rating by Sace gives Zimbabwe a 98/100 for average credit risk, a 96/100 for sovereign credit risk, and a 99/100 for bank credit risk. These risk factors suggest that it may be difficult to seek repayment within this country. We also see a rising public debt within Zimbabwe. Public debt was estimated to be 63.1% of GDP in 2020 up 9.3% from the year before and projected to reach 64.9% this year (2021), as public debt continues to grow in Zimbabwe we see the risk of slowed growth. Based on a joint sustainability analysis by the World Bank and the IMF published in February of 2020 Zimbabwe "in debt distress" and public and publicly guaranteed (PPG) external and total debt and large external arrears are considered unsustainable. The report assesses that both external and total public debt breach the thresholds in both the baseline and shock scenarios.

Zimbabwe's top 5 export destination countries were South Africa (39%), Special Categories[1] (22%), United Arab Emirates (20%), Mozambique (9.27%), and Uganda (2.89%). The top 5 total imports came from the countries of South Africa (49%), Singapore (10.8%), China (9.32%), India (3.21%), and Mauritius (3.2%). Their two major exports are Nickel and Gold. Zimbabwe's diamond mining practices have been controversial and have impacted trade relations with major developed countries. The Republic of Zimbabwe is subject to many international sanctions that impact its ability to trade including countries such as the United States and the United Kingdom and face an embargo from the EU in arms trading. These trade restrictions limit the export market for Zimbabwe. Additionally, we see inconsistencies in the strength of Zimbabwe's currency. Zimbabwe suffered from a period of hyperinflation causing them to get rid of their own currency, the Zimbabwe dollar, in favor of the US dollar in 2009. The Zimbabwe dollar was reintroduced in 2019 in conjunction with a ban on foreign currency within the country. The long-term strength and stability of the Zimbabwe dollar after reintroduction have yet to be seen.

[1] Special Categories: Undisclosed

Conclusion

Summary of Major Factors

	Republic of Cameroon	Republic of Zimbabwe
GDP per capita	1,524 US$	1,254 US$
Average Political Risk	68/100	90/100
War and Civil Disturbance Risk	78/100	80/100
Sovereign Credit Risk	69/100	96/100
HDI (2019)	0.563 (153/189 countries)	0.571 (150/189 countries)
Democracy Index (2019)	2.85	2.78
FSI (2019)	97.0 (16/178 countries)	99.5 (10/178 countries)
CPI (2019)	149/180	157/180
Total Reserves	4.9 months of imports	.3 months of imports
Average Credit Risk	72/100	98/100
Current Account Balance	-5.5% of GDP	6.3% of GDP
Main Exports	Petroleum, Coffee/Tea	Nickel & Gold

Concluding Opinion

Based on the analysis of the provided economic indicators and the current status of each country assessed individually and in comparison to one another, we conclude this report by recommending investment in the Republic of Cameroon. Despite the two nation's similarities as emerging African countries, we see the Republic of Zimbabwe's inflation history and the recent re-establishment of their own currency as high indicators of investment risk. Zimbabwe is assessed at higher political risk, risk of war and civil disturbance, and sovereign credit risk than Cameroon all of which indicate higher instability. Zimbabwe's history of embargoes and sanctions leads to insecurity in their long-term GDP growth and may hinder the speed of their overall development. We also see extreme risk reflected in Zimbabwe's debt distress at both the baseline and shock scenarios. Cameroon's development benefits from the expected uptick in oil production provided by the LAN pipeline, a more stable reserve, and a more predictable currency. Additionally, in relation to attracting FDI and international trade, Cameroon appears to be considered more stable by other countries around the world. With further development and investment in the agriculture sector as well as the predicted growth in housing, construction, and services industries, the people of Cameroon may be able to flourish in the long term. Cameroon appears to us to be the better choice for investment based on its ability to develop its economy despite economic and political hardships and its greater resistance to inflationary pressure.

Resources

Corruption Perception Index:

Republic of Cameroon: https://www.transparency.org/en/countries/cameroon

Republic of Zimbabwe: https://www.transparency.org/en/countries/zimbabwe

Credit Risk Indicators:

Republic of Cameroon: https://www.sace.it/en/maps/detail?countryCode=cm

Republic of Zimbabwe: https://www.sace.it/en/maps/detail?countryCode=zw

Current Account Balance:

Republic of Cameroon: https://www.coface.com/Economic-Studies-and-Country-Risks/Cameroon

Republic of Zimbabwe: https://www.coface.com/Economic-Studies-and-Country-Risks/Zimbabwe

Democracy Index:

Republic of Cameroon: https://www.sace.it/en/maps/detail?countryCode=cm

Republic of Zimbabwe: https://www.sace.it/en/maps/detail?countryCode=zw

Foreign Debt:

Republic of Cameroon: https://www.sace.it/en/maps/detail?countryCode=cm

Republic of Zimbabwe: https://www.sace.it/en/maps/detail?countryCode=zw

Fragile State Index (FSI):

Republic of Cameroon: https://fragilestatesindex.org/country-data/

Republic of Zimbabwe: https://fragilestatesindex.org/country-data/

Gross National Income (GNI):

Republic of Cameroon: https://data.worldbank.org/indicator/NY.GNP.PCAP.PP.CD?locations=CM

Republic of Zimbabwe: https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?locations=ZW

Human Development Index (HDI):

Republic of Cameroon: http://hdr.undp.org/sites/default/files/Country-Profiles/CMR.pdf

Republic of Zimbabwe: http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/ZWE.pdf

IMF Debt Assessment Report:

Republic of Cameroon: https://www.imf.org/external/pubs/ft/dsa/pdf/2020/dsacr2048.pdf

Republic of Zimbabwe: https://documents.worldbank.org/en/publication/documents-reports

Import/Export Data:

Republic of Cameroon: https://www.eulerhermes.com/en_GL/economic-research/Cameroon.html, https://trendeconomy.com/data/h2/Cameroon/TOTAL

Republic of Zimbabwe: https://trendeconomy.com/data/h2/Zimbabwe/TOTAL

Overall Economic Conditions and Policy Outlook
Republic of Cameroon: https://www.afdb.org/en/countries-central-africa-cameroon/
Republic of Zimbabwe: https://www.afdb.org/en/countries/southern-africa/zimbabwe

Public Debt:
Republic of Cameroon: https://www.coface.com/Economic-Studies-and-Country-Risks/Cameroon
Republic of Zimbabwe: https://www.coface.com/Economic-Studies-and-Country-Risks/Zimbabwe

Total Reserves:
Republic of Cameroon: https://www.sace.it/en/maps/detail?countryCode=cm
Republic of Zimbabwe: https://www.sace.it/en/maps/detail?countryCode=zw