CONSTRAINTS AND OPPORTUNITIES FOR MOBILISING DOMESTIC RESOURCES IN AFRICA: The Case of Cameroon

Executive Summary

by

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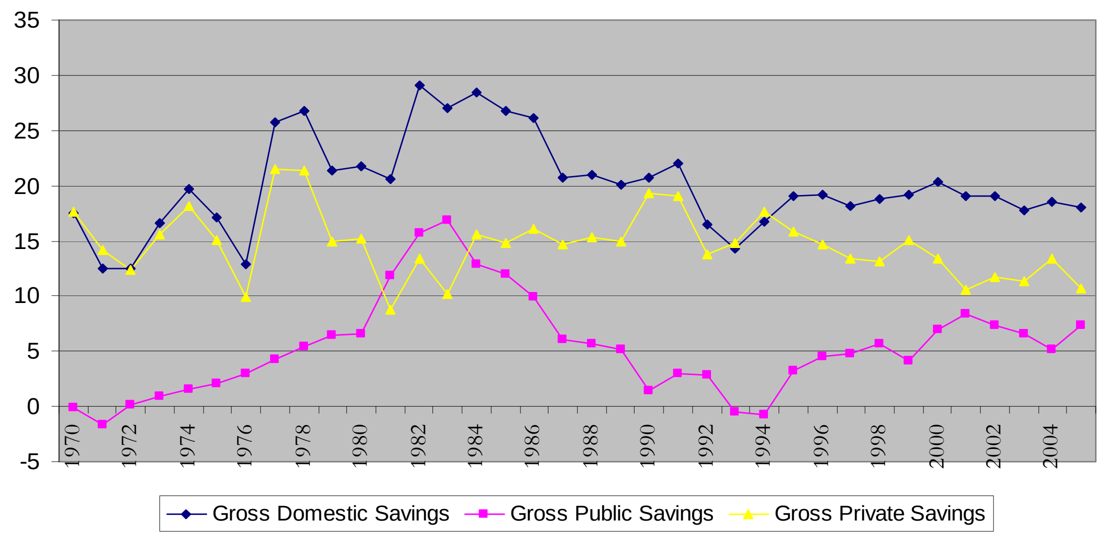
Donors seem to be pessimistic about the capacity of developing countries to mobilise resources locally and are instead talking of scaling up ODA to finance the MDGs. There are a number of arguments for raising a greater share of resources for development within the country than from external sources. Foreign resources are driven by profit motives of foreign private investors or political objectives of donors and creditors and may not reflect local development objectives and priorities. The quantity of foreign resources might not only be insufficient, unpredictable and unsustainable, but they might not "fit" the needs of many sectors.

It is therefore in the interest of Cameroon and other developing countries to mobilise an important share of resources locally for development. The need to enhance DRM is not, however, a new concern in Cameroon. It has been one of the goals of policy reforms starting with the structural adjustment programme in 1988 to the recently concluded PRGF. However, Cameroon has been classified among 'low effort' and 'low collection' countries in terms of tax revenue collection averaging about 16% of GDP and lower than the Africa average of almost 22%. Compared with other Africa countries, there is still room for improving tax performance in Cameroon. This is even more important given the declining importance of the oil sector in government revenue. The government has acknowledged that tax revenue has not met targets set with its multilateral partners and that more efforts are still to be made to improve tax revenue.

Similarly, Cameroon performs poorly in terms of domestic savings rates that rose above 25% in the early 1980s due to the oil boom, but has remained below 20% since 1992 to date (Figure 1). The private savings rate which rose to more than 20% in the late 1980s, has fallen below 15% since 1996. Public savings have performed worse following the peak of almost 17% in 1983 that was followed by a declining trend and now fluctuates below 10% of GDP.

Figure 1: Domestic Savings in Cameroon (% of GDP)



The study aimed to assess the constraints and potentials of Cameroon mobilising more resources locally to finance its development and consequently reduce its dependence on foreign resources. The following policy implications emerged from an examination of both the public and private sectors and could help increase the level of DRM in Cameroon.

Broadening the tax base

Any attempt to raise more tax revenue should focus more on broadening the tax base than increasing tax rates that are generally considered to be high in Cameroon compared with similar countries. A number of measures can expand the tax base:

Given the large informal sector in Cameroon (producing 50% of output and employing 90.4% of the active population), an expansion of the tax base requires a reduction of especially the ‘illegal’ informal sector of tax cheats who are normally supposed to be paying formal sector taxes. A number of policy initiatives can facilitate the process. First, streamlining the process of starting/registering businesses through a one-stop-shop for creating enterprises (e.g. today 12 procedures are required as against 9.4 for Sub-Saharan Africa and 5.4 for OECD countries); providing informal sector firms with bookkeeping and tax education and subsequently coerce them to keep proper records of their transactions using standard accounting procedures which could eventually be used by tax controllers to graduate them to the formal sector; strive to systematically register informal sector firms in order to better monitor their evolution and select those to be formalised;

Tax revenue can also be increased through broadening the base of real estate tax, especially in urban areas in Cameroon. Real estate tax and tax on income from such property, is one of the most underutilised forms of taxation in Cameroon as land registries cover less than 1% of the country’s territory. A number of measures can be taken both in the short and medium to long term to raise more taxes from real estate property in the urban areas which is largely owned by the wealthy and the politically well-connected: The immediate and initial effort is the effective implementation of existing legislation on property tax and property income tax which requires estate owners to pay 0.1% of property value and tenants 5% of rents to tax authorities. To expand the tax base, real estate owners could be encouraged/obliged to register their property within say a period of 5 or 10 years. A strong political will is required to deal with the wealthy and the politically well-connected urban landowners who will a lot of influence. Exempting unexploited ancestral lands from taxation might reduce the risk of social unrest by the indigenous populations. Lastly, areas designated for urbanisation could be provided with social amenities (like water, electricity, roads) so as to increase the value of the land and provide an incentive for land registration.

Expand access to financial services and create appropriate savings mobilisation instruments and institutions

About 95% of Cameroonians do not use banking services as penetration of financial institutions (including microfinance institutions) is very limited, especially in rural areas. A number of administrative hurdles, the limited use of non-cash payment instruments and the poor infrastructure (roads, electricity and telecommunication) especially in the rural areas are also to blame. The result has been reduced DRM but also low financial intermediation despite a significantly liberalised financial sector. The government in collaboration with the private sector should strive to expand access to financial services which could enhance DRM and increase financial intermediation. The following policy changes can be helpful in this direction. Revoke the need for authorisation to open/close branches of financial institutions, requiring such institutions merely to inform the financial authorities of their decision to extend their outreach. The government/central bank could work with financial institutions to reduce the cost of opening bank accounts and the minimum balance requirement. Financial institutions could also be assisted to implement non-cash payment instruments which are still largely underutilised and introduce mobile phone banking (m-banking) in collaboration with mobile telecom providers as is the case in a number of African countries. Improving rural infrastructure (electricity, telecommunications, and roads) could facilitate the extension of financial services (and especially the semi-formal) to rural areas not presently served with banking facilities. An acceleration of the process of creating CEMAC credit bureaus to provide financial institutions with reliable credit and financial information on the creditworthiness of potential borrowers should have a positive impact on financial intermediation. A liberalised financial system with limited credit/financial information will not promote financial intermediation.

In Cameroon, about 99% of bank credits are short and medium term. Such a credit structure reflects the structure of bank deposits which are 75% short and medium term and are not supposed to finance long term credits according to prudential requirements. The Douala Stock exchange, established to mobilise long term savings, has failed and all the development finance institutions created to provide long-term finance for investment were all liquidated during the financial sector reforms, due to mismanagement. There is therefore need to create appropriate savings mobilisation instruments and institutions in Cameroon. The following financial sector reforms could work to improve savings mobilisation. First, create a bond market to raise non-tax revenue from the public, rather than relying on advances from the central bank with risk of crowding out private sector initiatives. Second, set up a development bank with appropriate management structures void of political meddling. A single development bank (for a start), with windows that handle issues related to agriculture, SMEs, and long-term investment projects. Private sector participation can be encouraged, but corporate interest should not be allowed to dominate its developmental goals. Potential funding instruments could be long-term bonds and pension funds. There is also need to dialogue with fellow CEMAC members to merge the Douala Stock Exchange with the sub-regional stock exchange in Libreville and locate the new institution in Cameroon with the largest potential market. A sub-regional stock exchange should imply more guarantees for transparency and less likelihood for insider dealing, and possibility of attracting more firms than a national stock exchange within the context of a monetary union. This might entail forgoing some CEMAC institutions and responsibilities to other members.

Fight corruption in Tax and Custom administration

The level of corruption in Cameroon (especially among tax and custom administrators) is also considered very high and a constraint to DRM. Fighting corruption has been on the reform agenda since SAP in 1988, but results are negligible. Successfully fighting corruption through the following measures could significantly boost tax revenue. First, systematically sanction and shame (through wide publication of court decisions) guilty officials and taxpayers alike. Regular mutation of tax officials could break networks created with taxpayers to defraud the state. Re-enforcing border controls to check illicit goods and import of counterfeit goods could also have a positive impact on tax revenue. Creating facilities for online declaration and eventual payment of taxes could substantially improve tax administration and curb collusion between tax authorities and taxpayers to defraud the state.

What Role for Donors?

Donors are encouraged to support government initiatives aimed at mobilising more resources domestically. Aid should be designed as an incentive for DRM and not allowed to serve as a disincentive. Revenue shortfalls due to trade liberalisation should progressively be replaced through the development of alternative revenue sources rather than rapidly with aid flows. Donors could also assist Cameroon to set up a development finance institution to provide funds to credit-scarce sectors like agriculture and SMEs and for long-term investment projects. More generally, donor assistance to Cameroon should aim at enabling the country exit from aid by building the appropriate capacity and institutions necessary for raising resource domestically for its development.