SUMMER 2010

DOMESTIC RESOURCE MOBILIZATION IN AFRICA
CAMEROON

The project: The North-South Institute has been working with African, UK and Canadian partners on case studies exploring the potential for domestic resource mobilization (DRM) in five Sub-Saharan countries: Burundi, Cameroon, Ethiopia, Tanzania and Uganda. DRM refers to savings and investments that are generated by both the public sector (primarily through taxation) and the private sector (as a channel for private savings by households and domestic firms). Interest in DRM as a means to support sustainable growth and reduce dependence on external aid has been growing: in 2002, the Monterrey Consensus made improved DRM the first of its leading recommended actions; and, the current global economic crisis has only drawn more attention to DRM's potential, due to declining flows in external assistance and global remittances. This summary sets out our key project findings for Cameroon.

Context: Although relatively well endowed with resources, Cameroon struggles to achieve sustained development. Despite efforts at reform starting in the mid-1990s, progress has been uneven. Revenues from oil, once a mainstay, can no longer be counted on. In 2008, GDP per capita was US$2,330 (PPP), higher than the Sub-Saharan average of US$2056 (PPP). Yet roughly 40% of the population lived below the poverty line, a share that barely budged from 2001. Forecasts suggest that unless investments rise considerably, growth will fall well below the 7% per year needed to achieve Millennium Development Goals by 2015.

Key constraints to DRM: Cameroon performs below the African average in **taxes as a percentage of GDP**, a critical marker of public DRM. The informal sector produces more than half of national output, much of it untaxed. The tax system is costly and complex. The time required to prepare, file and pay taxes in Cameroon, for example, is the longest in Africa. The country's **poor business and investment climate** (ranked among the world's worst as measured by various surveys – see table on the reverse) is another major constraint to DRM. Entrenched corruption further erodes revenue, as do lax enforcement, widespread smuggling, generous investment incentives and trade liberalization. The legacy of reliance on oil revenue has made Cameroon slow to address these problems.

Rank in Doing Business Database 2010:	171/183
Tax revenues (% GDP):	17.8*
Savings rate (% GDP):	18.6*
Sub-Saharan average:	16.6 (2000-08)

*latest available figures

Sources: World Bank, Doing Business Database, 2010 and World Development Indicators Database; International Monetary Fund, International Financial Statistics

The **savings rate**, another key DRM marker, is also lower than what is required to sustain high investment levels. Low incomes and an average of 2.7 dependents to each worker make it hard to save. Those who do save tend to prefer physical to financial assets. With only 35.5 bank accounts per 1,000 residents, banking penetration is low; in fact, fewer than 5% of the population use banking services at all. High deposit requirements and fees imposed by banks as well as a decline in branch penetration following the restructuring of the financial sector in late 1980s are among the reasons. For companies, **access to long-term credit** is difficult because of lack of credit information and a highly fragmented financial sector.

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Indicator	Cameroon	Sub-Saharan avg.	OECD avg.
Number of procedures to start a business	12	9.4	5.7
Hours required per year for tax compliance	1,400	306	194.1
Number of tax payments per year	41	37.7	12.8
Cost to register property (as % of its value)	17.8	9.9	4.6
Getting credit (% of adults covered by public or private credit bureau)	1.8	6.9	68.4

Source: World Bank, Doing Business Database, 2009 and 2010

The way forward: **The Cameroonian government** acknowledges the need for action, which should focus on:

Reducing the size of the illegal informal sector through streamlined requirements for businesses, education, gradual compliance measures and, ultimately, on-line tax filing and payment;

Further boosting tax revenues through intensifying anti-corruption measures, removing easily-abused exemptions, policing borders more rigorously, liberalizing trade progressively and working harder to collect property-related taxes; and,

Improving financial services by removing barriers to entry and exit in the sector, upgrading rural infrastructure, encouraging greater use of credit/debit cards and mobile phone banking. Steps are needed to accelerate access to reliable credit information by strengthening the credit bureau and setting up new registries and developing a private-sector bond market.

The **international community** can help encourage reliance on increased domestic resources by directing aid to enhancing DRM capacity in both the public and private sectors. In particular, support aimed at building market informational infrastructure, such as creditor and taxpayer information systems, could pay off significantly.

This is a summary of ***Domestic Resource Mobilization in Sub-Saharan Africa: The Case of Cameroon*** *by Sunday Khan. Mr. Khan is a Senior Lecturer, Faculty of Economics and Management, University of Yaounde II, in Cameroon. To read the full case study, go to www.nsi-ins.ca and follow the research project links.*

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