

CONSTRAINTS AND OPPORTUNITIES FOR DRM IN AFRICA: The Case of Cameroon

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Presentation Outline

- Introduction
- Issues on DRM in the Public Sector
- Issues on DRM in the Private Sector
- Key measures to enhance DRM in Cameroon

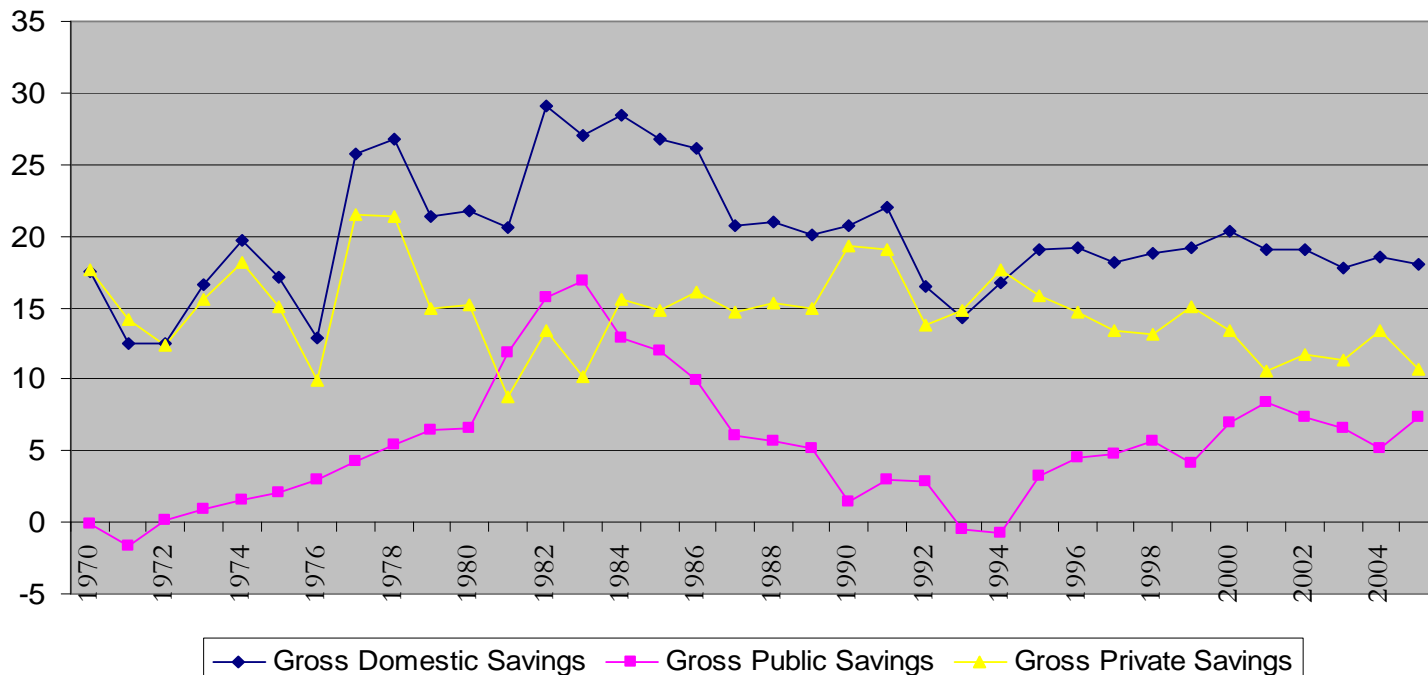
Introduction

- Growth after CFAF devaluation, following prolonged crisis, but growth has slowed to less than 3%
- Sustained growth of 7% required to impact poverty significantly
- Donors insist on scaling up ODA to meet MDGs
 - Pessimism on capacity of LDCs to raise resources locally
- We argue that a greater share of resources for Devt should be mobilised locally so as to reflect local priorities and realities

- Several initiatives (starting with SAP) to raise enough resources locally, but results below expectations – judging from government’s own economic reports. However
 - Oil output fallen by 57% compared to the 1980s
 - Timber exports plummeted following recent crisis
 - Cocoa/coffee prices fluctuate regularly
- There is therefore need to increase DRM and reduce dependence on aid and volatile export income
- Our report identifies the difficulties and then the opportunities of enhancing DRM in the public and private sectors in Cameroon

- Tax revenue 16%, compared with 20% for SSA
- Gross domestic savings <20%, LAC 24%, EAP 43%
- Private savings fluctuate below 15%, while public savings fluctuate below 10% in recent years

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



Issues related to DRM in Public Sector

- Cam classified as 'low-effort, low-collection' country
- Large informal sector
 - 50% of GDP & 90.4% of employment (2005)
 - Subsistence activities & 'illegal' informal - tax cheats
- High level of corruption in tax/custom administration
 - CFAF304 billion lost in 2004 to fiscal fraud
- Numerous tax exemptions, at times as inv incentive
- Unattractive business environment –171/183 DBI 2010
- Insufficient effort to collect real estate tax
- Trade liberalisation hurting Gvt revenue: EPA & CET
- Low GDP growth (<3%) & prevalence of poverty (39.9%)

The Private Sector and DRM

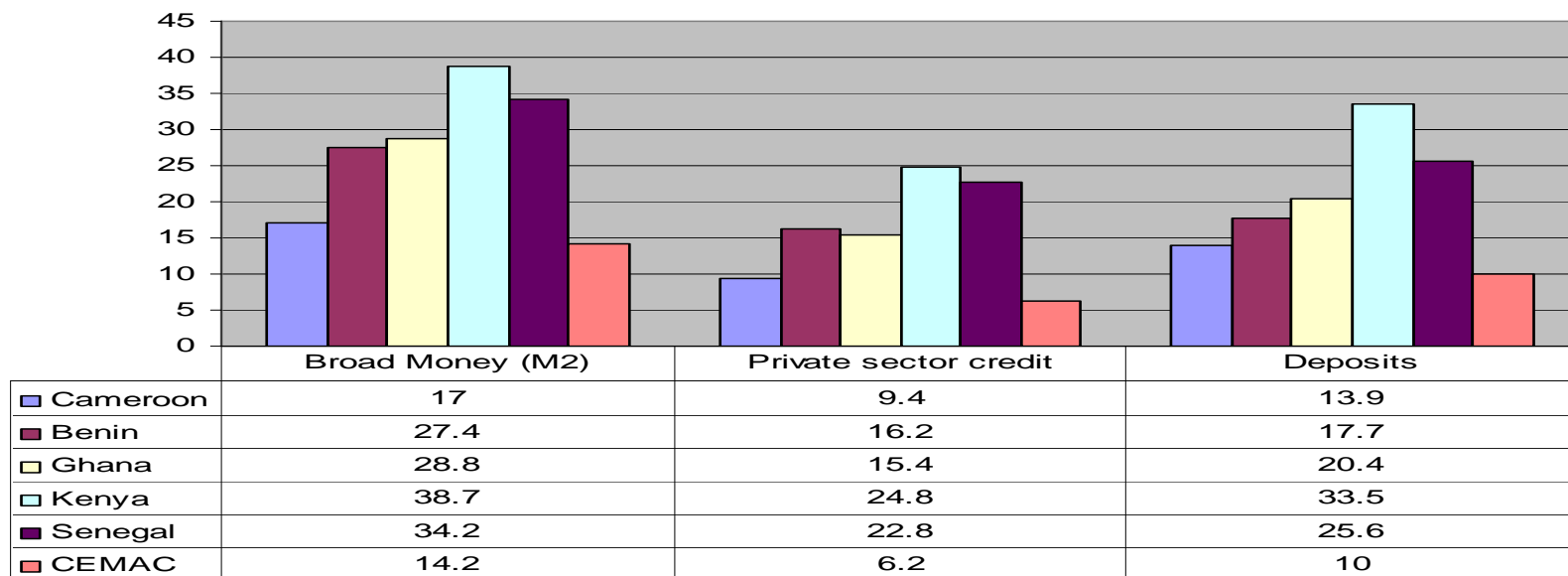
➤ Features of the Financial Sector

- Largely influenced by membership of an economic and monetary community (CEMAC)
- Fairly liberalised following crisis & subsequent reforms within SAP and beyond
- The financial sector comprises:
 - Formal sector (Banks and non-bank financial insts), semi-formal (MFIs) and informal sector (friends, relatives, etc)
- Limited access to financial services
 - < 5% use banking services

➤ Features of the Financial Sector

- No long term savings mobilisation Insts & Instruments
 - deposit structure, DSX, Dvt Banks, no bond mkt
- Excess liquidity in banking sector
- Limited linkage between formal & semi-formal insts
- Scarcity of credit info on potential borrowers to enable lenders manage risk appropriately

Figure 2: Selected Financial Intermediation Indicators, 2005 (% of GDP)



Enhancing DRM in Cameroon

➤ Broadening the tax base

- Reducing ‘illegal’ informal sector of tax cheats
 - streamlining the process of starting/registering businesses through a ‘one-stop-shop’
 - bookkeeping and tax education prior to graduation
 - strive to systematically register informal sector firms
- More efforts to tax real estate property
 - Effective implementation of existing legislation
 - 0.1% of property value and 5% of rents to tax authorities
 - Encouraged/obliged to register property within say a period of 5 or 10 years.
 - Exempting unexploited ancestral lands & dealing with the politically connected & wealthy landowners -
 - Provide incentives for registration thru social amenities

- **Expand access to financial services & create appropriate savings mobilisation instruments & instns**
 - Revoke authorisation to open/close branches of financial instns
 - to reduce the cost of opening bank accounts and the minimum balance requirement
 - Encourage non-cash payment instruments
 - introduce m-banking in collaboration with telecom providers
 - Improving rural infrastructure
 - create credit bureaus for reliable info on potential borrowers
 - Create bond market, single (3 windows) Devt finance instn,
 - Single CEMAC stock market in Cameroon

➤ Fight corruption in Tax and Custom administration

- Systematically sanction and shame guilty officials and taxpayers alike.
- Regular mutation of tax officials could break networks created with taxpayers
- Re-enforcing border controls to check illicit imports
- online declaration and eventual payment of taxes

➤ What role for Donors?

- support government initiatives aimed at mobilising more resources domestically
- Design aid to complement DRM and not as a substitute
 - Revenue shortfalls due to EPA should progressively be replaced through the development of alternative revenue sources rather than rapidly with aid flows.
- Help set up a development finance institution to provide funds to credit-scarce sectors
- More generally, donor assistance should be put within the framework of an aid-exit strategy –
 - what assistance can donors start providing now to rid Cameroon of aid in the near future?
 - Which Institutions, what capacity?

Thank You Very Much
for your Attention

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