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TAXATION OF THE AGRICULTURAL SECTOR : ADVOCACY FOR A PEDAGOGIC APPROACH WITH QUICK OUTCOMES

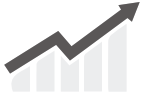
OR

HOW BEST TO ENSURE THAT THE REFORM IS IMPLEMENTED AND THAT THE COUNTRY HAS THE MEANS TO ACHIEVE ITS EMERGENCE AMBITIONS?

The latest news driven by the 2023 Finance Law relating to the tax on cocoa export has sparked large and heated debates in audiovisual media, printed/online media and the public opinion as a whole. However, it is business as usual. Yet, the government would have certainly gained more, in terms of support from all stakeholders (at least the majority) and the anticipated volume of revenues, by adopting a more pedagogic participatory and inclusive approach.



The "FRONT PAGES" of some local newspapers



Since the adoption of the finance bill for the year 2023 that introduces, among other innovations, a 10% increase in the export of cocoa beans in Cameroon, most local media¹ have addressed the issue in a controversial way, reflecting the pessimistic and negative perception of this government measure. All of this could turn this tax into a worm in the fruit of the development of the cocoa sector and further enhance the increasingly widespread idea that in cocoa production, the **farmer is the neglected child**².

Reacting to this wide controversy, the General Director of Customs stressed in an interview granted to "l'Economie Quotidien" newspaper No 02481 of Friday 16 December 2022 that it is not a "new exit fee", in other words a new tax, but rather a change in the tax base. He argues: *"In the past, the 10% was deducted from the charges levied on the export of cocoa beans, which are currently set at CFA75 francs per kilogram. From now on, this 10% will be applied directly to the taxable value of the cocoa beans to be exported"*. In plain language, this tax no longer focuses on the volume but on the monetary value of the beans exported. Therefore, it is the exporter who will bear the levy. CFQD. But the message, as perceived and disseminated, does not seem to go along this line.

What is it all about? A brief overview of the background

The finance bill for the 2023 fiscal year, adopted by the Houses of the Parliament and promulgated by the President of the Republic, is 6,345.1 billion in resources and expenses. It represents an increase of 265 billion in absolute value compared to the 2022 budget. The main objectives are: *"the resilience of the economy and the consolidation of growth"* through the acceleration of *"import-substitution"* policy. And this money must be found and generated. It so happens that among the "new" sources of revenues identified and approved, the government is considering an increase in the tax on cocoa beans export as from 2023.

However, while it is claimed that the increase of this tax aims to reduce the export of cocoa in its raw form (bean) in order to foster the development of the cocoa sector's value chains in Cameroon,

1 - A selection of newspapers' front pages shows that radio and television talkshows, as usual, extensively debated on the issue

2 - The issue was covered by the 18 May 2022 edition of the bilingual national daily, Cameroon Tribune.

the measure seems to be badly perceived by the public opinion. For exporters, it is an additional tax pressure and producers view it as a form of targeted impoverishment of their trade and the segment of population that they represent, specifically the rural world.

What is the reason of this media fuss on such an issue, given that the country is ranked 5th world cocoa producer (behind Côte d'Ivoire (1st), Ghana (2nd), Indonesia (3rd) and Nigeria (4th)) and that it has struggled for several decades to reach 300,000 tons of beans per year on the one hand, and that things are not really taking off as concern the development of the sector's value chains, including second and third level processing.

What is the reality? Will this levy not have a negative impact on cocoa farm-gate price and subsequently on the producer even though the price per kilogram of cocoa has been rising since the 2022-2023 cocoa season? What if the message has been poorly conveyed and therefore badly perceived?

In an attempt to unravel this problem, the approach adopted will be divided into two main parts: (i) a reminder of some of the salient facts of the context and; (ii) an outline of an innovative methodological approach to assist the government in this process.

(A) Some facts about the economic situation in Cameroon in 2022

i) High funding needs...

In its sustainable development vision (2035 vision), which has been elaborated in the GESP and the NDS30, Cameroon aims to be an emergent country united in its diversity by 2035. After the first phase of the GESP (2010-2019), which had mixed results and significantly mortgaged the initially expected growth, the major unfinished projects were renewed in the NDS30 (2020-2030). Their completion and effectiveness were supposed to be assessed in 2022 according to the official timetable. The state therefore needs a lot of money to finance its major economic projects and meet non-negligible current public expenditures. This is added to the funding of the war in the NOSO, coupled with the adverse effects of insecurity in the north caused by BOKO HARAM. The list is not exhaustive.

But...

ii) The level of internal revenues³ remains below the African average and the threshold required by United Nations experts

In the analysis report of the economic and budgetary programming document submitted to the National Assembly on 4 July 2021, MINFI's projections show a 12.5% tax burden in 2022 against 11.80% in 2021, and a 13.55% projection by 2024. However, this indicator, which represents the contribution of compulsory tax levies to the GDP remains below the African average and international standards. However, it has been shown that the contribution of compulsory levies to national wealth over a year (GDP) must reach at least 20% to be significant and generate a boom in the framework of the 2030 Agenda for Sustainable Development Goals⁴.

Various studies and reports by Experts have proven it and converge; empirical observation and facts confirm it: with an annual growth rate below 5% for more than 20 years, Cameroon cannot get out of endemic poverty and take off towards emergence. The best that can be expected is resilience, in other words resisting to avoid sinking. According to all these studies, the minimum contribution of public revenues is 20% of GDP to expect a significant achievement of the 2030 Agenda of the SGDs. Cameroon, which has capped at less than 14% for over 20 years, is still very far from the threshold of taking off towards emergence.

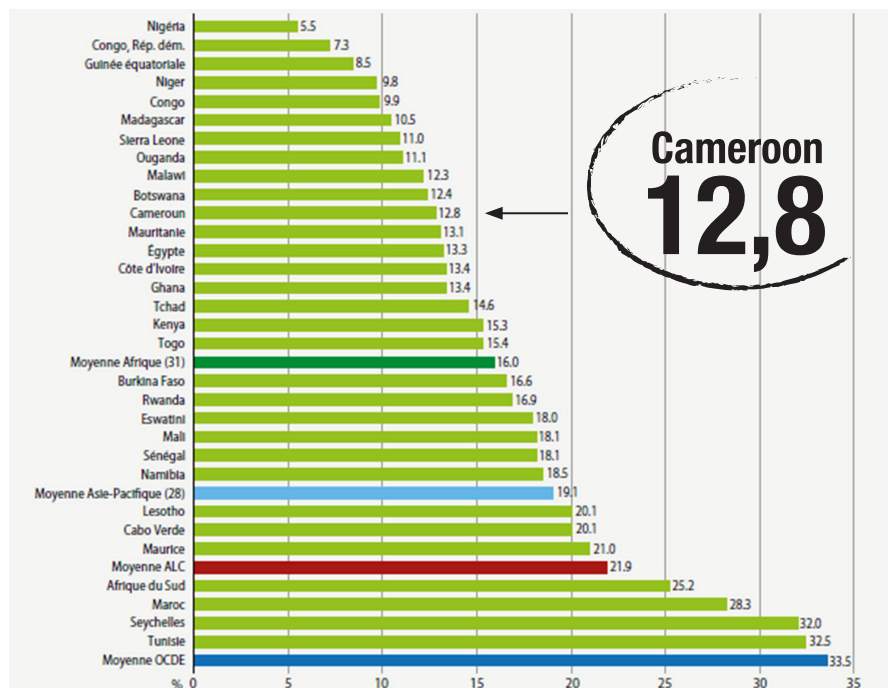
Based on analysis, it is true that the Government needs to replenish its coffers by exploring new fiscal niches. However, it seems that the way it is doing it is misleading and could give the impression of strangling a population whose purchasing power has drastically dropped and who is bogged down in poverty due to multiple crises (health and security, among others).

i. Yet there are fiscal niches including the rural agricultural and craft sector

According to the 2005 General Census of Population and Housing, 51.2% of the Cameroonian population lives from farming, rural and craft activities. In 2020, it accounted for 25% of GDP⁵.

However, this sector is still poorly taxed mainly because it is informal and predominantly poor. (ECAM 2014, NIS). This is not for lack of income but mainly because of the impossibility to track the said incomes and their uncertain and irregular nature. While acknowledging that the fiscal efforts must be borne by everyone and at all levels in order to restore the dignity of each person to take part in the country's development process, it is also appropriate not to leave these citizens behind. In this way, the rural populations are taken out of the state of perpetually aided persons and of organized begging that is known as subjective poverty.

Chart 1 : Tax/GDP ratio (total tax revenues in percentage of GDP), 2020



Source : OCDE/ATAF/CUA(2022), Statistiques des recettes publiques en Afrique 2022, <http://oe.cd/revstatsafrica>

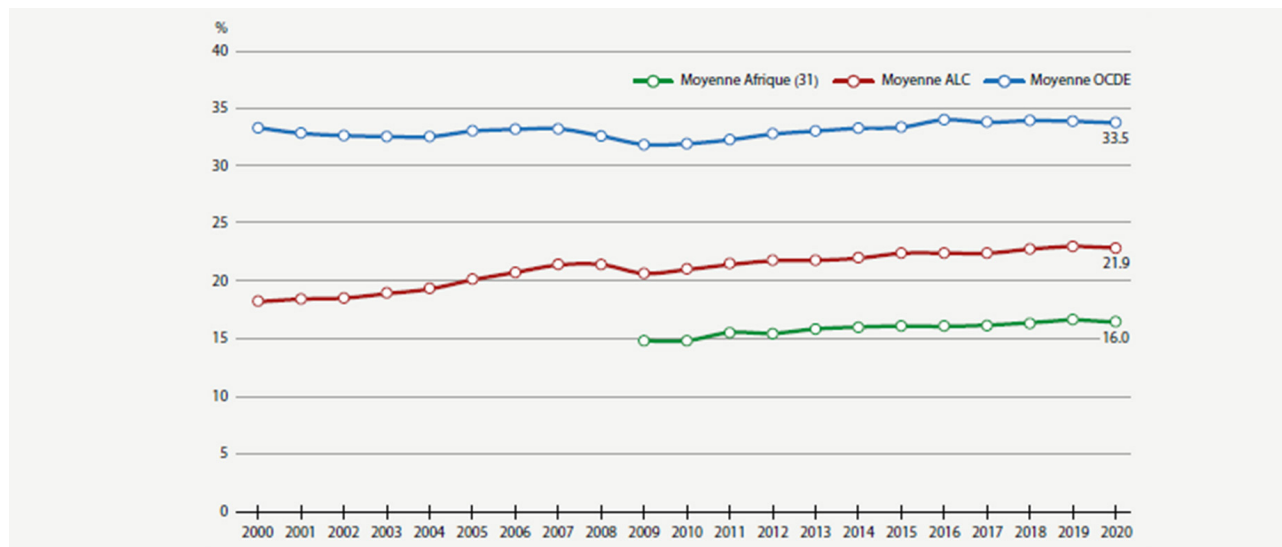
3 - Internal revenues include compulsory levies and other revenues. Compulsory levies include fiscal revenues and contributions to social security

4 - Economic report on Africa, UN Economic Commission for Africa, 2019: Fiscal policy for financing sustainable development

5 - Comptes de la Nation, INS



Chart 2 : Tax/GDP ratio, 2000-2020



Source : OCDE/ATAF/CUA(2022), Statistiques des recettes publiques en Afrique 2022, <http://oe.cd/revstatsafrica>

(B) - Some ways of implementing the reform

The effectiveness of such tax measures would be based on two main factors: optimizing tax and non-tax revenues; and securing/stabilizing agricultural and rural revenues.

i. Optimizing tax and non-tax revenues

In Cameroon, the achievement of SDGs requires a massive increase in investments to be funded from internal or external resources. Given the scarcity of external financing (FINEXT) for various reasons, the mobilization of internal revenues appears to be the best option. One of the ways through which the Government can address the issue of State funding is to optimize tax and non-tax revenues.

- **Optimizing tax revenues⁶.** To achieve this in a viable way, three levers could be used: (i) building trust and proving the effectiveness of public action, which we refer to in our works as “the social utility of tax”; (ii) giving greater privilege to simplicity and thus the possibility to track taxation operations; and (iii) enhancing the use of digital technology by dematerializing procedures.



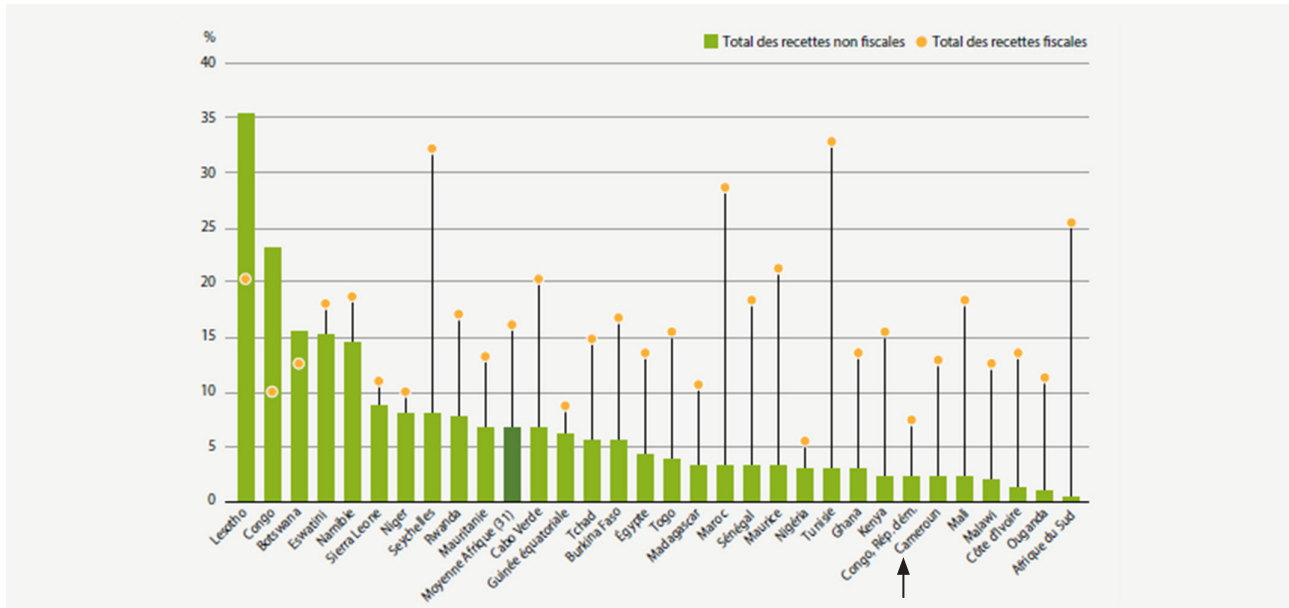
- **Controlling non-tax revenues (RNF).** Alongside tax incomes, RNFs appear to be an alternative and additional source of financing to sustain growth and economic development. In order to achieve best performance in this area, it is necessary to have an excellent knowledge of the sphere of action which requires the proper identification of observation units (the revenue generating factor) and a perfect mastery of their follow-up⁷. In this regard, CAMERCAP-PARC designed and developed a Statistical Information System (SIS) on RNF in 2021 with the help of MINFI. The reports, containing metadata, have been submitted to the “client/beneficiary”⁸ for implementation.

6 - Leitmotiv de l'Agenda 2030 : Leave no one behind !

7 - We are referring here to the centralization of authority of the various governing bodies in the country

8 - The working documents are MINFI's property. Therefore we cannot publish them

Chart 3 : Tax and Non-tax revenues in percentage of GDP, 2020



Source : OCDE/ATAF/CUA(2022), Statistiques des recettes publiques en Afrique 2022, <http://oe.cd/revstatsafrica>

ii. Securing and stabilizing agricultural and rural incomes

Broadly speaking, securing and stabilizing agricultural and rural incomes consists in a strategy to equalize the producer’s incomes over the year. To do this, two options are worth exploring :

- a. **The banking integration model.** It is an approach that involves financing and supporting agricultural production by a banking or financial institution in general. Concretely, it consists for a bank or a financial institution acquiring inputs and/or tools and giving them to agricultural producers to ensure the quality and quantity of production. In return, the financial institution guarantees the marketing circuit and the security of incomes that will be deposited in an account opened by each producer. This approach can be described as a form of leasing for small producers. In the end, this model offers many benefits to banks, agricultural producers and the State. For banks, the number of clients increases significantly as well as deposits and banking operations in general. For producers, this model provides guaranteed and secured income determined in advance. For the State, this model allows for the identification of producers and the development of a database for a multifaceted support. In return, it could become easy to tax agricultural incomes.
- b. **The approach through the wage-earning of workers:** This approach is multimodal, flexible and allows for the inclusion of small producers who do not have land titles. It is based on the approach of “solidarity funds” and/or

“assistance” of thrift and loan schemes in Cameroon, but with an improved organization. It is about agreeing to track the income over a period (one year) and to equalize it (with the minimal assumption) over the said period. The balance represents the money to be recouped at the end of the period.

With this system, just like the first, there are three winners: the agriculture/rural couple, the management structure if it is a private or public structure, and lastly the State. The latter could improve its trade balance and foreign currency earnings due to the country’s productivity and overall export production, not to mention the easy collection of related taxes (taxes on salaries and other incomes, other taxes and compulsory levies, etc.). The most important is the constitution of a class of agricultural entrepreneurs who, in a short term, can represent a middle class that is an essential characteristic of an emergent country.





iii. An adaptive methodological approach to tax the agricultural sector : the role of institutions supporting and regulating the sector

Government communication is both a public policy instrument and a method to legitimate public action and decisions by political officials. Therefore, the Government has the duty to provide adequate and reliable information in order to avoid any misunderstanding and misinterpretation by citizens who are the main targets of this government communication. The controversy that dominated news in Cameroon on the implications of the 2023 Finance Law; in particular, the 10% increase in the tax on cocoa bean export could have been avoided.

This information rapidly spread among the public opinion, with diverse interpretations. Each person made his own interpretation and analysis. As we can see, the persons directly concerned by this tax are cocoa producers and exporters. This situation poses a risk of seeing them reduce their activity given the communication channel used to convey the information to the main targets.

Yet, the country has public institutions that can help the government to implement the reforms, even fiscal reforms, in the sector.

(a). The Economic and Social Council (CES⁹)

According to law, the CES is an advisory assembly that represents the main economic and social activities, promotes cooperation among various professional categories and contributes to the development of Government's economic and social policy. Furthermore, the CES is competent to advise on bills, ordinances or decrees, and legislative proposals. (Ref. Part IX, Section 54 of the 18 January 1996 Constitution).

Under normal circumstances, the CES should have been seized or act on its own initiative on such a topic and brought the debate to the public space. The resulting discussions would have had the advantage of spreading the message in the public opinion and preparing minds. It is therefore important for the CES to take a stand on the issue, to reassure public opinion in general but specifically cocoa producers and exporters on the need for them to pay taxes.

(b). The Chamber of Agriculture, Fisheries, Livestock and Forests (CAPEF¹⁰)

It is an advisory body that represents the interests of agricultural professionals. In this capacity, it has the duty to ensure the financial security of producers and exporters of agro-sylvo-pastoral products like cocoa; it also has the duty of communicating on the levy of taxes imposed by the State on cocoa imports.

9 - Law No 86/009 of 05 July 1986 on the composition, powers and organization of the CES in the Republic of Cameroon

10 - Decree No 2009/249 of 06 August 2009 on the change of denomination and reorganization of CAPEF

As part of its mission, the Chamber of Agriculture should thus help the Government to communicate with cocoa producers and exporters, it should be closer to the latter to make them understand the merits of levying the tax on cocoa bean exports, but also and above all on the importance for them to contribute to the tax effort so as not to make them resistant to this government measure.

(c). The Chamber of Commerce, Industry, Mines and Craft (CCIMA¹¹)

It is also an advisory and representative body of the business community in the field of trade, industry, mines, and craft. One of its missions is the development of an intensive activity of guidance and especially of promotion of enterprises by disseminating economic and commercial information. In the present case, the CCIMA has the duty to contribute to government communication concerning the tax on cocoa in order to raise the awareness of exporters and not discourage local cocoa production in the coming years.

Far from being distorted, the communication undertaken by the Government does not enable the populations to understand the merits of the tax on cocoa. Furthermore, it does not enable cocoa producers (of various ages) to realize that their gains and even their resources, in a way and most of the time, exceeds a number of assets of the formal and informal sectors of services and processing.

The CAPEF and CCIMA should therefore take the debate among their members and the public opinion to get the message across. This is a good way for the two chambers to show their commitment in defending the interest of their members while enabling the government to implement the reform.

(d). The Senate (as representative of CTDs)

Section 20, Paragraph 2 of the Constitution stipulates that each region is represented in the Senate by 10 senators. As such, the Senate is the representative of CTDs. Moreover, it is the Upper House of the Parliament whose missions include adopting laws on second reading, making amendments or rejecting texts submitted for its scrutiny.

In accordance to the 2023 Finance Bill, the Senate, as the Upper House, can better communicate on the tax on cocoa bean export that the Government will implement from January 2023. The same applies to all other reforms. We should see more senators in the field, especially as they are all from the presidential majority, to mobilize the support of producers and actors of the agricultural sector in the broader sense.

(e). The role of Think Tanks in the management ecosystem

In today's modern world, advanced or developed countries and those that aim to become so, which we call emerging, are characterized by a recurrent practice: Think first, Act next, in other words the primacy of thought and reflection over action. This is the main reason for the existence of Think Tanks or research centers that abound in these countries and in all areas of the socio-economic and political life. And there has been public and private affiliation.

Cameroon has subscribed to this idea since 2013 by creating the Cameroon Policy Analysis and Research Center (CAMERCAP-PARC). This structure, which is currently attached to MINEPAT, modestly strives to support the Government, the private sector and civil society organizations in the formulation, analysis and monitoring and evaluation of public policies. However, its survival is now in jeopardy after the withdrawal of the African Capacity Building Foundation (ACBF).

Like CAMERCAP-PARC, other reflection and analysis units are struggling to make the message heard, which is not only that of fruitless criticism but proposals to help in decision-making.

It is time for the Government to give them a clearly defined status and provide them with the necessary support in terms of capacity building, but also by listening to them.

Dare-Propose-Innovate, that's our mission .

(c) CAMERCAP-PARC 2023/01

¹¹ - Decree No 2001/380 of 27 November 2001 on the change of denomination and reorganization of CCIMA

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AND RELATIVES A
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NEW YEAR



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