Mobilising Tax Revenues to Finance the Health System in Cameroon

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Mobilising Tax Revenues to Finance the Health System in Cameroon (Executive summary)

The full book is available in French: *Mobilisation des recettes fiscales pour le financement de la santé au Cameroun*

OCDE (2024), *Mobilisation des recettes fiscales pour le financement de la santé au Cameroun*, OCDE, Paris, https://www.oecd.org/fr/fiscalite/politiques-fiscales/mobilisation-des-recettes-fiscales-pour-le-financement-de-la-sante-au-cameroun.pdf

Cameroon's health performance is low. The health outcomes in Cameroon are below the average for countries with similar levels of development, particularly in terms of life expectancy, maternal and infant mortality, and epidemiological status (HIV, Malaria and Tuberculosis).

There is a need to increase public health spending. Financial resources for health are insufficient, with total health expenditure accounting for less than 4 % of GDP. Health funding relies too heavily on out-of-pocket expenditures (70% of the total health funding). Public spending on health, on the other hand, is very low (USD 6 per capita) and needs to be increased. The share of the budget allocated to the Ministry of Health has fallen since 2010 and amounts to 3.6 % of the total budget in 2023.

Economic growth is essential for Cameroon to strengthen its health funding. Analysis over the long term shows that growth has a key role to play in increasing the tax revenues to reach sufficient public spending. However, economic growth alone will not be enough to improve health funding. Economic growth must be accompanied by prioritising the health sector within the budget and through ambitious tax reform to mobilize domestic resources.

The potential for increasing tax revenues is high. The tax-to-GDP ratio is low and stagnant (13-14 % of GDP between 2013 and 2021). So far, tax revenues have not been sufficiently mobilized and are not buoyant enough to benefit from growth. According to the estimates of the frontier analysis in this report, total tax revenue potential could reach 21 % of GDP (assuming no change in Cameroon's structural characteristics). Achieving this ambitious increase requires a wide-ranging tax reform that will have to broaden the tax base, rebalance the tax system, and make it more progressive.

The report identifies four areas of reform to mobilise additional tax revenue for health:

i. **Broadening the tax base by incentivising formalisation and compliance**. Reducing informal employment would lead to a significant increase in revenues from existing social security contributions (SSC) and would also have a positive impact on general tax revenues. Measures could aim to minimise the disincentives to formalisation, such as raising the personal income tax (PIT) exemption threshold and improving the design of the presumptive and simplified tax regimes.

Other measures could directly encourage formalisation, such as the introduction of unemployment insurance financed by a dedicated SSC, as well as better social benefits and public services. Broadening the value added tax (VAT) tax base, by reducing the numerous exemptions, will enable the formalisation of production chains by acting on the entire value chain through the fractioned payment mechanism. It will be also necessary to broaden the tax base by strengthening tax enforcement through more effective tax auditing (particularly among the wealthiest firms and informal workers). Further improving the collection and sharing of data on taxpayers will also help strengthen tax compliance.

ii. **Increasing health-related tax revenues**. In Cameroon there is considerable scope to increase and improve taxation on tobacco and sugar-sweetened beverages (SSBs). Combating illegal trade will also be a prerequisite for increasing tax revenues. Environmental taxation should be developed in parallel with the reduction in fossil fuel subsidies.

iii. **Greater use should be made of general tax revenues**, with an improvement in the design of the VAT, corporate income tax (CIT), PIT and property tax in particular. For each of these taxes, priority should be given to reducing tax expenditures, and combating fraud and tax evasion. For instance, an overhaul and reduction of the PIT basic allowance and the PIT deduction of 30% of employment income (for professional expenses) would generate substantial additional revenue, close to 1 percentage point of GDP. These measures, combined with an increase of the PIT exemption on low incomes, would make the tax system more progressive and increase the incentives to work in the informal sector for workers at the bottom of the income distribution. There is also scope for increasing taxation on capital income, which would help make the tax system more progressive and buoyant. Reducing the number of products exempt from VAT (especially poorly-targeted exemptions such as exemptions on housing, transport and education that benefit the poorest households the least) and eliminating some of the many tax incentives for businesses would increase tax revenues by 1 to 2 percentage points of GDP. Increasing both the tax base and rate of property and inheritance taxes could also be an important and progressive additional source of funding.

iv. **Considering soft earmarking a part of general revenues to health**, subject to certain conditions designed to overcome some (or all) of the limitations of earmarking. For example, earmarking all or a part of tax revenues (current or from future increases) from products harmful for health, as well as other contributions or fees could lead to more healthcare funding. However, as earmarking ensures the stability of funding but does not necessarily lead to an increase in revenue collection: mobilising additional revenues through the tax system and major tax reform must remain a priority objective.

Reducing informality would make it possible to mobilise more tax revenue. OECD analysis shows that the additional tax revenues from some of these measures could be in the order of 3 percentage points of GDP in the short term, and 9 to 12 percentage points of GDP in the medium term. Such an objective will only be achieved if Cameroon succeeds in significantly reducing informality and commits to an ambitious tax reform. These estimates could be improved and take more measures into account if better and more data were available. This highlights the importance of improving data collection, which is essential for properly designing future tax reforms. Such measures are further detailed in this report which also analyses their acceptability and impact on equity and formalisation.

The government aims to create universal health coverage (UHC) in two phases (2021-25; 2026-30). While this commitment is welcome, Cameroon should pay close attention to further estimates of the total cost of UHC to ensure proper planning of the resources to be mobilised. The cost of UHC is estimated to range between 4 % and 6 % of GDP per year, but these figures are based on old data and vary according to the assumptions used.

This report proposes measures to finance Phases 1 and 2 of the UHC. Phase 1 (cost of 0.5 % of GDP) could be financed by an increase in excise duty on tobacco and SSBs and an increase in taxes on property, as well as, in a more ambitious scenario, by a reallocation of certain revenues and a reduction in PIT allowances. The introduction of a health SSC is not recommended in the very short term. In fact, introducing such a reform during phase 1 would bring in little additional tax revenue and would generate a number of disadvantages (administrative costs, higher labour costs, and increased incentives for informal work). Improving the collection of SSC is therefore a priority, as this will raise more general tax revenues. Instead, the health SSC should play a part in financing Phase 2 of UHC. The design of the SSC will have to meet several criteria (including especially a broad base and a moderate rate) and must be compulsory. If well implemented, it could increase revenues by 1 percentage point of GDP over time (compared with 0.3 percentage point of GDP if it were introduced in the short term). Reducing VAT exemptions, strengthening tax enforcement and measures on PIT and CIT would supplement tax revenue and make it possible to cover all the costs of the UHC (even the upper bound of the estimated cost of UHC).