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Strengthening Domestic Revenue Mobilization for Fiscal Resilience in Cameroon

Bahrom Shukurov, Islom Urolov and Céline Thévenot

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Strengthening Domestic Revenue Mobilization for Fiscal Resilience in Cameroon
Prepared by Bahrom Shukurov, Islom Urolov, and Céline Thévenot

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ABSTRACT: Cameroon is highly vulnerable to natural disasters and strengthening resilience is macro-critical. The government faces significant challenges, including weak infrastructure, insufficient protection against floods, and lack of financial resources. Simulations using the DIGNAD model illustrate the positive impact of investing in climate-resilient infrastructure and strengthening public investment efficiency on economic growth and debt, compared to ex-post disaster management and financial contingency funds. Given Cameroon's large needs and debt vulnerabilities, international financial support is key to strengthen resilience.

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Cameroon

Prepared by Bahrom Shukurov, Islom Urolov, and Céline Thévenot

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The African Department

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STRENGTHENING DOMESTIC REVENUE MOBILIZATION FOR FISCAL RESILIENCE IN CAMEROON[1]

Strengthening domestic revenue mobilization will be central to bolstering Cameroon's fiscal resilience. While recent reforms—particularly notable progress in modernizing tax administration, as reflected in the authorities' medium-term revenue mobilization strategy—have laid an important foundation, Cameroon continues to collect well below its tax potential, with a sizeable efficiency gap remaining despite recent progress. Closing this gap will require a sequenced package of tax policy and administration measures tailored to local context. International experience suggests that even modest early gains can help build momentum for deeper reforms, while comprehensive efforts may deliver substantial and lasting fiscal benefits. The scale and timing of these payoffs will ultimately depend on effective implementation of the authorities' reform agenda.

A. Introduction and Policy Context

1. Cameroon stands at an important juncture in its public finance trajectory. The authorities have a valuable opportunity to enhance fiscal resilience and create additional fiscal space for priority social and infrastructure investments. Recent macroeconomic developments show encouraging signs: growth has rebounded to 3.5 percent in 2024, and inflation is moving closer to the CEMAC convergence threshold. Ongoing security challenges may have constrained revenue mobilization in certain areas.

2. Cameroon continues to face fiscal pressures, highlighting the importance of reinforcing revenue mobilization to sustain growth and preserve fiscal stability. Public debt remains moderate at 43 percent of GDP, though debt service is projected to absorb about 17 percent of tax revenues over the next three years, which could weigh on budget flexibility. International evidence suggests that countries with tax-to-GDP ratios below roughly 15 percent often struggle to sustain core state functions and meet development objectives (IMF, 2025). The country is currently assessed at high risk of debt distress, as two key indicators—external debt service-to-revenue and external debt service-to-exports—exceed thresholds under the IMF's baseline scenario. Strengthening domestic revenue mobilization will be essential to rebuild fiscal buffers and ease constraints to borrowing at attractive rates as investors closely monitor liquidity risks to debt sustainability. While progress has been made, especially in revenue administration, as reflected in the authorities' medium-term revenue mobilization strategy, revenue performance remains modest: central government tax revenue reached 12.3 percent of GDP in 2024, compared to 11.5 percent a decade ago. The tax system continues to rely heavily on indirect taxes, particularly VAT, while direct and property taxes offer untapped potential. Tax expenditures and exemptions, as noted in recent analyses, also reduce the effective tax base.

[1] Prepared by Bahrom Shukurov, Islom Urolov, and Céline Thévenot.

3. **Objective and scope of the paper.** In light of these challenges, this paper examines options for strengthening domestic revenue mobilization to support fiscal sustainability and inclusive growth, in alignment with the National Development Strategy 2020–2030 (SND30). It analyzes Cameroon's tax revenue potential, reviews the fiscal cost and effectiveness of current tax expenditures, and develops reform scenarios that combine tax policy measures with revenue administration improvements. The approach draws on cross-country benchmarking and stochastic frontier methods to assess the tax revenue gap.

B. Stylized Facts: Revenue and Fiscal Space

Revenue Structure

4. **Cameroon's revenue structure is predominantly based on tax revenues, with indirect taxes forming the largest share.** Taxes on goods and services—primarily value-added tax (VAT) and excise duties—account for the bulk, followed by international trade taxes and corporate income tax (CIT). Personal income tax (PIT) contributes a relatively small portion of total tax revenue. Over time, the shares of CIT and PIT have remained broadly stable, while trade taxes have declined modestly, consistent with Cameroon's regional integration efforts and gradual tariff reductions. Contributions from grants and social contributions have been relatively limited. Other revenue sources, including royalties from the Société Nationale des Hydrocarbures (SNH)—Cameroon's state-owned oil company—and non-tax revenues, have fluctuated over time, largely in response to changes in oil production and global price movements (Figure 1).

5. **This tax mix points to areas where Cameroon's revenue system could be further strengthened.** The current reliance on consumption taxes suggests opportunities to broaden the base for direct taxation, while the relatively low PIT share reflects structural factors such as the size of the formal employment sector and ongoing administrative challenges. In addition, exemptions—particularly in VAT and investment regimes—reduce the effective tax base and limit revenue productivity, highlighting scope for rationalization over time.

6. **The decline in oil revenue has increased reliance on more stable non-oil sources, underscoring the importance of strengthening domestic revenue mobilization.** Oil-related revenue—including CIT from oil companies and SNH royalties—has fallen significantly since its peak in the late 2000s, reaching about 2 percent of GDP in 2024, mainly due to lower production and global price volatility. In contrast, non-oil revenue has remained relatively stable at 12–13 percent of GDP, with indirect taxes consistently providing the largest contribution (Figure 1).

Figure 1. Cameroon Government Revenue and Tax Composition Trends, 2007-24 [1/]

Source: IMF staff calculations based on the WEO data.

[1/] Total revenue consists of taxes, grants, social contributions, and other revenues. Tax revenue includes corporate income tax (CIT) collected from oil companies. Oil revenue comprises CIT from oil companies as well as oil royalties. Non-oil revenue includes tax revenue excluding CIT on oil companies, along with non-tax revenue.

Fiscal Space Lens

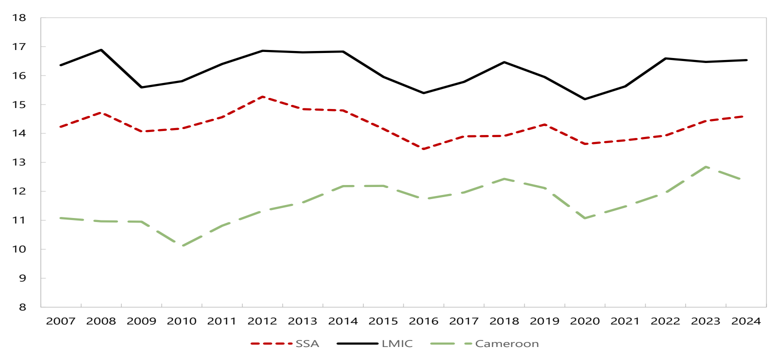
7. Although debt levels remain moderate, Cameroon's fiscal space is constrained by significant debt service obligations, which limits room for priority social and capital spending. This context reinforces the importance of mobilizing additional domestic revenues. Without a substantial increase in tax collection, there is a risk that critical development priorities such as infrastructure, education, and health may not receive adequate funding. The SIP will examine reform scenarios, consistent with the authorities' medium-term revenue mobilization strategy, aimed at broadening the tax base, improving compliance, and rationalizing tax expenditures, thereby creating sustainable fiscal space.

C. Tax Revenue Performance and Challenges

Tax Revenue Performance

8. Cameroon's tax-to-GDP ratio remains relatively low, at about 12 percent of GDP on a central-government basis, compared to averages of around 15 percent for Sub-Saharan Africa (SSA) and 16 percent for lower-middle-income countries (LMICs), measured on a comparable coverage.[2] While the gap with CEMAC narrowed after 2015—largely due to revenue declines in other member countries—Cameroon still collects several percentage points less than SSA and LMIC peers. This trend points to a structural revenue mobilization gap and highlights the importance of continued reforms to strengthen non-resource tax collection (Figure 2).

Figure 2. Cameroon and Comparator Average: Tax Revenue, 2007–24
(In Percent of GDP)

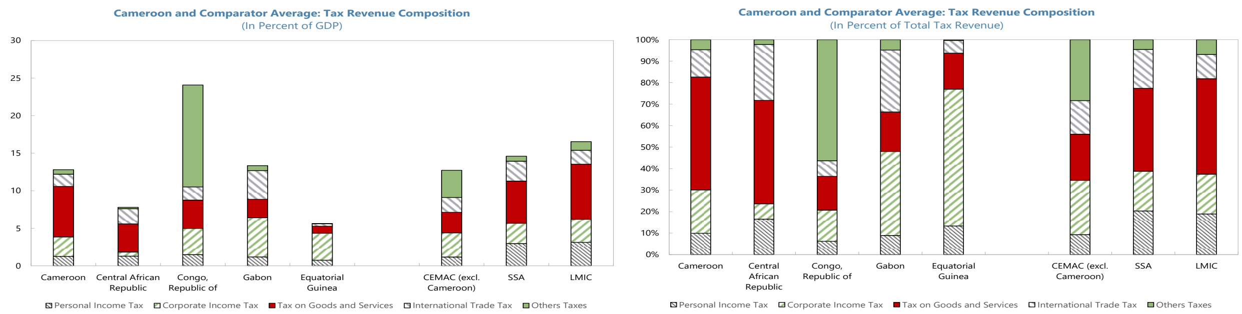


Source: IMF staff calculations based on the WEO data.

9. Cameroon's tax revenue structure differs from that of its peers, with notable composition gaps. Taxes on goods and services account for about 6 percent of GDP, while PIT and CIT contribute approximately 1 percent and 2.5 percent, respectively (Figure 3). By comparison, SSA and LMIC peers typically collect a larger share from income taxes, often exceeding 6 percent of GDP combined. International trade taxes represent about 13 percent of Cameroon's total tax revenue—below the SSA average (18 percent) but above LMIC levels (11 percent). This reliance on indirect taxes, together with relatively limited direct taxation, highlights opportunities to broaden the tax base and strengthen income tax contributions over time.

[2] Tax revenue in this analysis includes corporate income tax from oil and other commodity-exporting companies to ensure cross-country comparability, given limited data on disaggregated non-resource tax revenue. The tax-to-GDP ratio increases to around 14 percent of GDP when revenues collected by local governments following decentralization reforms are included. For consistency, both Cameroon and the SSA and LMIC benchmarks cited here are based on central government tax revenue only, consistent with the coverage used in Figure 2.

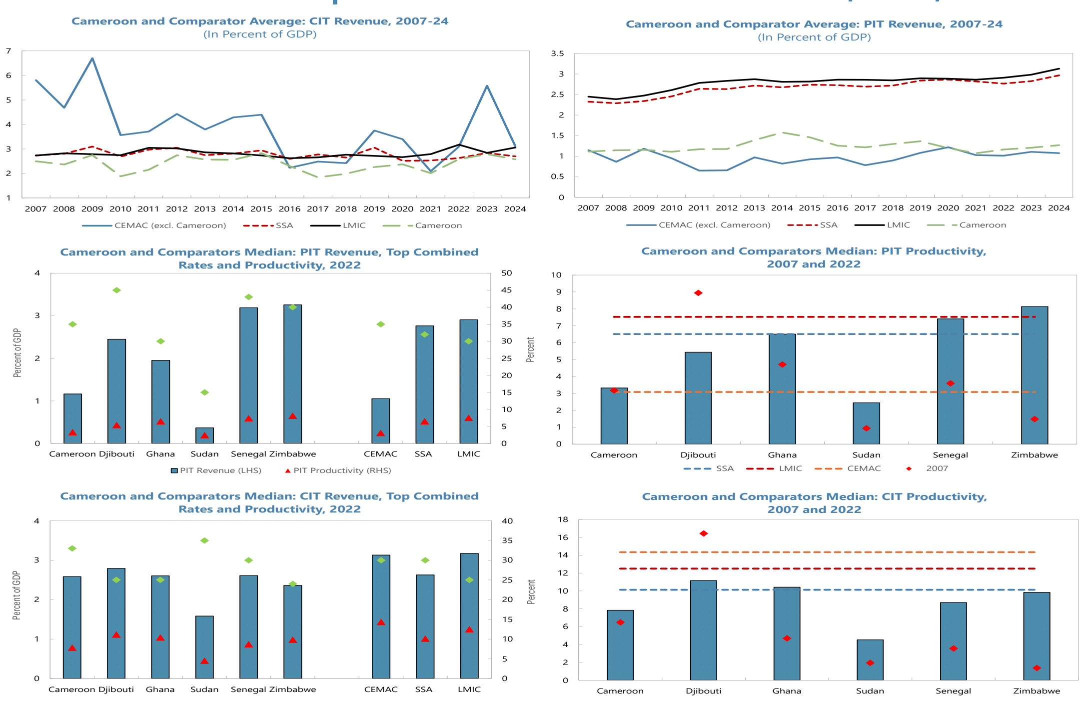
Figure 3. Cameroon and Comparator Countries: Tax Revenue Composition, 2024



Source: IMF staff calculations based on the WEO data.

10. Income tax productivity in Cameroon remains relatively low, reflecting opportunities to strengthen both tax policy and administration. Despite a 30 percent CIT rate, Cameroon's CIT productivity—measured as CIT revenue divided by the product of the CIT rate and GDP—is about 0.08, compared to medians of 0.10 for SSA and 0.12 for LMICs (Figure 4). Similarly, PIT productivity stands at around 0.03, below peer medians of 0.06–0.07 for SSA and LMICs. These ratios suggest that Cameroon's income tax system could perform better, given structural factors such as a narrow taxpayer base, multiple preferential regimes, and administrative capacity constraints that affect compliance.

Figure 4. Cameroon and Comparator Countries: CIT and PIT Revenue, Rates, and Productivity [1/]



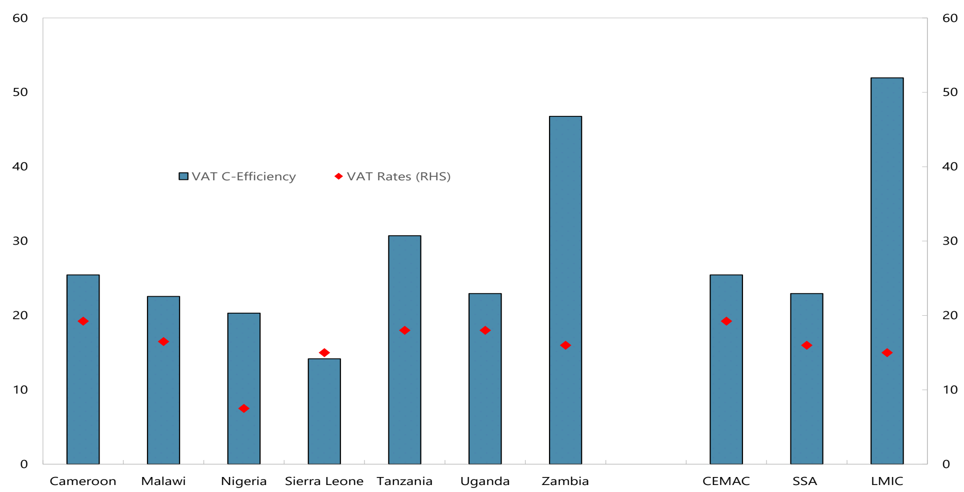
Source: IMF staff calculations based on the WEO data.

[1/] Comparators include SSA and LMIC medians, chosen to reflect Cameroon's regional peers and countries at similar income levels.

11. Cameroon's VAT system demonstrates efficiency in line with regional standards, though there remains scope to move closer to best practice. The VAT C-efficiency ratio—actual VAT revenue as a share of potential revenue based on the standard rate and total consumption—is around 25 percent, comparable to the CEMAC median and slightly above the SSA average (23 percent). However, it is still below the LMIC average of 52 percent and lower than high-performing African countries such as Zambia (47 percent) and Tanzania (31 percent) (Figure 5). Opportunities for progress include rationalizing exemptions and special regimes and strengthening compliance through better audit capacity and faster VAT refund processing.

Figure 5. Cameroon and Comparators Median: VAT Productivity and Standard Rates, 2022

(In Percent)



Source: IMF staff calculations based on the FAD data.

Tax Administration Achievements and Challenges

12. Cameroon has made notable progress in modernizing tax administration under the 2023–25 Tax System Modernization Plan. The authorities have rolled out, as part of their medium-term revenue mobilization strategy, mandatory e-filing, e-payment, and e-invoicing. Digital tools such as Harmony (taxpayer management system), One-Time Password (OTP) authentication for secure access, and E-Billing have enhanced taxpayer services and improved arrears management. The reforms have also helped expand the taxpayer registry, with VAT filers rising from 14,000 to 22,000 in 2024—an encouraging sign of improved coverage. The creation of a formal risk management committee and a three-year compliance plan has strengthened oversight, while automated cross-checking of third-party data and mobile payment options have supported compliance, particularly among SMEs.

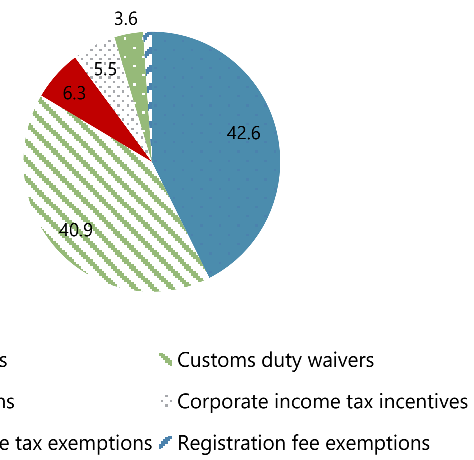
13. Operational challenges remain despite recent progress. Filing compliance rates for VAT, CIT, and PIT are still below international benchmarks, particularly among smaller taxpayers. For example, VAT filing compliance was around 73 percent in 2024, compared to over 90 percent for large taxpayers, while CIT and PIT compliance are estimated to be lower. International best practice typically targets compliance rates above 90 percent across major tax types, highlighting the gap for smaller taxpayers (TADAT Secretariat, 2025). Arrears older than 12 months continue to represent a notable share of outstanding liabilities, and past efforts to tackle them have delivered sizable revenues. For example, the government's 2024 action plan targeted recovery of at least 15 percent of outstanding tax and customs arrears—starting with the largest 100 unpaid debts—and similar initiatives in previous years yielded gains of up to 1.5 percent of GDP from SOE arrears clearance. VAT refund processing is still largely manual, which can affect liquidity and confidence. In addition, audit quality control mechanisms are underdeveloped, leading to inconsistent enforcement and signaling opportunities to enhance taxpayer trust.

D. Tax Expenditures: Fiscal Cost

14. Tax expenditures in Cameroon aim to achieve important policy objectives, but their efficiency and targeting vary across instruments. The 2024 Tax Expenditures Report estimates total tax expenditures at 1.8 percent of GDP and 14.1 percent of non-oil tax revenue. The rationalization of tax expenditures is a stated objective of the authorities' medium-term revenue mobilization strategy. VAT exemptions account for the largest share, followed closely by customs duty waivers (Figure 6). However, many VAT exemptions—especially on food—remain poorly targeted: only 5–6 percent of the forgone revenue reaches the poorest households, while more than 40 percent accrues to the richest. Broad VAT exemptions often function as untargeted subsidies, suggesting that more targeted approaches—such as cash transfers or reduced VAT rates on essential goods—could deliver better equity outcomes at a lower fiscal cost. Similarly, corporate tax incentives—including generous CIT holidays and free zone regimes—have delivered mixed results. These measures have not always translated into significant new investment or job creation, as evaluations suggest that many firms benefiting from tax holidays might have invested regardless. Recent policy changes introducing new tax credits, allowances, rate reductions, and exemptions—while pursuing social or sectoral objectives—also highlight risks of further narrowing the tax base if such measures are not tightly targeted, time-bound, and systematically evaluated. International experience indicates that factors such as infrastructure, governance, and labor quality tend to rank higher among investor priorities than tax breaks, highlighting the need to reassess the role of fiscal incentives within a broader investment strategy (IMF, 2023; WB, 2024).

Figure 6. Expenditure

(In Percent of Total)



Source: Ministry of Finance of Cameroon.

15. Managing tax expenditures and special regimes presents ongoing opportunities for strengthening Cameroon's fiscal system. While the large number of exemptions and special regimes has added complexity to administration and compliance, recent efforts—such as the introduction of annual tax expenditure reports—have notably enhanced transparency. Many exemptions, however, have remained in place for extended periods without regular review or assessment of their effectiveness, including the extension of measures initially intended to be temporary, underscoring the need for clearly defined eligibility lists and beneficiaries and stronger monitoring of the destination of exempted goods. Building on these advances, there is scope to further refine monitoring practices, clarify policy objectives, and introduce systematic evaluations to ensure that tax expenditures are closely aligned with national priorities and deliver tangible benefits. The recent reform of the 2013 Investment Incentives Law marks a significant step toward rationalizing and streamlining incentives—eliminating CIT reductions in favor of tax credits and accelerated depreciation, limiting the duration of incentives, and clarifying eligibility and approval procedures. These changes are expected to contribute to reduced tax expenditures and improved administrative efficiency, supporting the evolution of a more effective and transparent fiscal framework. Overall, continued efforts will help ensure that incentives remain well-targeted, closely aligned with strategic priorities, and deliver meaningful benefits for Cameroon's economy.

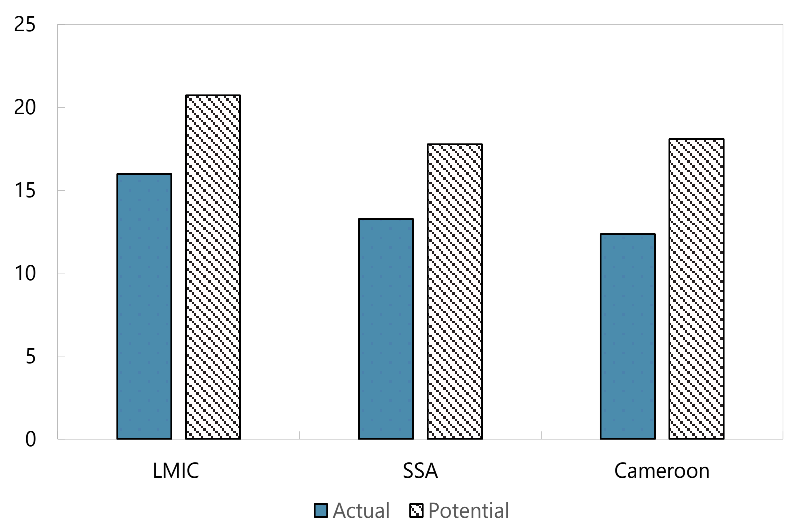
E. Estimating Cameroon's Tax Revenue Potential

16. A stochastic frontier framework is used to benchmark Cameroon's tax performance against the maximum revenue achievable under its structural characteristics. The model is estimated on a panel of countries over 2000–2024 and includes Cameroon alongside structurally comparable peers, using data from the IMF (WEO October 2025), the World Bank (WDI and Informal Economy Database (Elgin et al, 2021), and Transparency International (CPI). It identifies a "tax frontier"—the tax-to-GDP ratio consistent with structural determinants such as economic composition, consumption patterns, financial depth, inflation, and reliance on natural-resource revenues—against which actual performance is assessed. Deviations from this frontier capture efficiency gaps stemming from weaknesses in tax administration, compliance, and policy design rather than temporary shocks. This approach helps isolate reform-relevant inefficiencies from structural constraints and provides a clear benchmark for assessing the scope to raise domestic revenues without altering underlying economic fundamentals (Annex I).

17. Cameroon's sizable shortfall between actual and potential tax revenue underscores persistent efficiency gaps. The model estimates Cameroon's tax potential at 18.1 percent of GDP in 2024, and applying Cameroon's structural characteristics to the estimated coefficients indicates that most of the distance to this frontier reflects efficiency shortfalls rather than structural constraints. Although SSA and LMIC medians also lie below potential, the stochastic frontier is global—anchored by the best performers in the full sample—while the different potential values reflect differences in each group's structural characteristics. In comparative perspective, Figure 7 shows that Cameroon's gap of 6 percentage points of GDP is larger than the median gap in both SSA and LMICs, where differences between actual and potential collections are typically closer to 4 percentage points.

Figure 7. Total Tax Revenue

(In Percent of GDP)



Source: IMF staff calculations and estimates based on the WEO data.

F. Reform Scenarios: Policy and Administration Packages

18. Cameroon has made progress in mobilizing tax revenue, yet collections remain below levels typically associated with sustainable development and strong state capacity. Current revenues are still below this benchmark, highlighting the importance of a coordinated strategy — consistent with the authorities' medium-term revenue mobilization strategy—that combines targeted policy measures with continued improvements in tax administration.

Policy Levers: What Might Change

19. One area with potential for reform is the VAT system. Although VAT accounts for over 40 percent of tax revenues, its effectiveness is affected by exemptions and a complex rate structure. International experience suggests that narrowing VAT exemptions to a short list of basic food items, and considering more targeted support for vulnerable households—such as cash transfers—in place of broad VAT exemptions, could help balance revenue needs with equity and public acceptance (Warwick et al., 2021). As discussed earlier, Cameroon has already implemented mandatory e-filing and e-payment for all taxpayer categories, with near-universal adoption and coverage. However, the full rollout of mandatory e-invoicing—particularly as a compliance and audit tool for large and medium taxpayers—is still in progress, with the authorities prioritizing its expansion alongside greater system interoperability and real-time VAT monitoring. Further steps are needed to extend e-invoicing to all relevant segments, improve system integration, and streamline digital processes to maximize efficiency and compliance, while broader VAT policy reforms would be considered over the medium term. Moving toward a single standard rate and streamlining the refund process, which is currently slow and cumbersome, are approaches that have improved VAT performance in other countries.

20. PIT and CIT also present opportunities for reform. PIT collections remain modest, and the structure can place a heavier burden on salaried workers, while high standard deductions tend to benefit higher earners. CIT is similarly complex, with multiple rates, special regimes, and generous investment incentives that narrow the tax base. Possible approaches discussed in various contexts include simplifying PIT and CIT schedules, introducing a zero-rate threshold for PIT, and reducing the number of brackets to improve progressivity and compliance. Harmonizing tax rates for capital and rental income—potentially through a unified rate such as 15 percent—could help ensure consistent and equitable treatment across income categories. Other options include limiting special regimes and tax holidays to priority sectors, subject to sunset clauses and performance-based criteria, and consolidating all incentives within the tax code to enhance transparency—building on the authorities' ongoing efforts to strengthen the governance and monitoring of tax incentives. Broader taxation of capital income, including dividends and interest, has also been considered as a way to address distributional concerns and reduce avoidance, while ensuring that formal sector wage earners are not further burdened (IMF, 2023; IMF, 2025).

21. Excise taxes, though recently updated, remain a relatively modest source of revenue. The current structure is complex, with multiple rates and exemptions, and enforcement can be challenging. Aligning excise policy with health and environmental objectives—such as gradually increasing rates on tobacco, alcohol, and sugary drinks in line with WHO recommendations, and introducing or strengthening carbon and environmental taxes—has been used in other countries to mobilize revenue while supporting broader policy goals, and aligns with the authorities' broader emphasis on environmental taxation. Harmonizing rates between domestic and imported goods and leveraging digital tools to track excisable products are additional approaches that could help reduce leakage and curb smuggling.

22. Property taxation in Cameroon remains underdeveloped, generating limited revenue relative to GDP. The tax base is narrow, valuations are outdated, and enforcement capacity is constrained. Strengthening property taxation has been identified by the authorities as an important medium-term avenue to enhance domestic revenue mobilization, including to support the financing needs of decentralized local authorities. International experience shows that expanding the property cadaster and updating valuation standards—potentially using satellite imaging and GIS technology—can help broaden the base and improve equity; in Cameroon, the authorities' strategy similarly emphasizes improving taxpayer registries and leveraging digital tools to strengthen the identification and taxation of property. Other approaches include implementing rental income withholding at source and strengthening enforcement mechanisms, with collaboration between central and local governments often seen as key to effective collection—a priority also reflected in the authorities' emphasis on improving the yield of local taxation and coordination with decentralized entities (World Bank, 2020; IMF, 2025).

23. Recent policy developments also point to some encouraging steps in the direction of base broadening. In particular, initiatives such as taxing non-resident digital firms, broadening VAT bases, strengthening excises, expanding property taxation, and introducing environmental levies move in a revenue-positive direction and align with international best practice.

Administration Levers: How to Deliver

24. Modernizing tax administration is widely recognized as essential for achieving durable revenue gains, with digitalization at the core of this transformation. Cameroon has made progress in e-filing and e-payment, though integration across systems and the use of data analytics remain limited. Authorities are strengthening interoperability between tax and customs systems, reflecting their medium-term focus on improving compliance, efficiency, and data-driven enforcement. The rollout of e-invoicing for VAT and large transactions—starting with large and medium taxpayers—is increasingly prioritized globally to strengthen audit trails and reduce fraud. As discussed above, Cameroon has established a risk management committee and compliance plan, and uses automated cross-checking to support compliance. Building on these foundations, further investment in advanced data analytics and risk-based compliance management —central elements of the authorities' reform agenda—could help target audits and interventions more effectively, in line with international best practice. Integrating tax and customs data and improving the quality of the taxpayer registry could further facilitate cross-checking and compliance monitoring, including to address under-valuation risks and recent reductions in customs values for selected products (Aslett et al., 2024; IMF, 2025; TADAT Secretariat).

25. Segmenting the taxpayer base by size and risk profile can support more targeted compliance strategies and efficient resource allocation. Expanding Large and Medium Taxpayer Offices to cover significant taxpayers, implementing a unique taxpayer identification number, and developing compliance improvement plans for each segment are approaches that the authorities are actively pursuing, drawing on international experience. For the informal sector—which remains sizable—strategies combining simplified regimes for small enterprises with clear graduation paths to the standard regime as businesses grow could encourage formalization. Leveraging mobile money and digital platforms can make tax payments easier for informal and small businesses, consistent with the authorities' emphasis on facilitating compliance. Shifting toward service-oriented compliance—through support and incentives for formalization—can help broaden the tax net over time (IMF, 2025; TADAT Secretariat).

Phased Reform Roadmap and Revenue Impact

26. A sequenced reform roadmap, consistent with the authorities' medium-term revenue mobilization strategy, can provide Cameroon with a practical approach to balance early results with sustained progress and capacity building. The following phases illustrate possible options and their indicative revenue impact (Box 1):

- **Quick Wins (Phase 1):** This phase would focus on strengthening non-oil revenue mobilization through the completion and deepening of reforms already underway prioritizing measures that are administratively feasible. Key actions include further rationalizing tax expenditures and accelerating digitalization to enhance compliance, transparency, and efficiency. Legal amendments could concentrate on eliminating obsolete VAT exemptions and expired or temporary tax incentives, thereby simplifying the tax system without undertaking a comprehensive redesign at this stage. At the same time, continued expansion of e-invoicing, improved integration across tax administration systems, and further streamlining of digital processes—including greater use of real-time transaction monitoring—would strengthen audit trails and compliance management. Together, these measures are expected to deliver early revenue gains while reinforcing institutional credibility and building support for broader reforms. International experience suggests such measures may yield revenue increases of about 0.5 percent of GDP.

- **Core Package / Medium-term Reforms (Phase 2):** This phase would build on the early gains by broadening the tax base and further modernizing revenue administration. Priorities include gradually limiting VAT exemptions to a short list of essential goods and services in line with the CEMAC VAT Directive, advancing reforms in personal and corporate income taxes, and piloting property tax modernization in selected jurisdictions. These reforms seek to deepen the impact of earlier initiatives, address informality, and leverage digital technologies to improve efficiency, transparency, and equity—objectives emphasized in the authorities' strategy. International experience indicates that such reforms, when adapted to local priorities, may yield additional revenue gains of around 2 percent of GDP. While broadening the VAT base and enhancing efficiency remain important objectives, it is equally vital that the strategic approach to VAT reform considers equity and fairness. International experience suggests that VAT systems can be made more progressive by carefully targeting exemptions and reduced rates to essential goods and services and by considering zero-rating or lower rates for these necessities (de la Feria and Swistak, 2024). Complementing VAT reforms with continued strengthening of direct taxes, including personal income tax, corporate income tax, and property tax, can further support a more balanced and equitable overall tax system.

- **Full MTRS / Comprehensive Reforms (Phase 3):** The final phase would involve expanding property tax reforms nationwide and deploying advanced analytics for compliance, consistent with the authorities' medium-term strategy. This phase is particularly critical given Cameroon's sizable efficiency gap. Addressing this shortfall requires a sustained, system-wide reform effort that consolidates earlier gains, institutionalizes best practices, and aligns tax reforms and administration improvements with broader governance and institutional objectives emphasized in the authorities' strategy. Over time, broader base-broadening and modernization efforts—supported by improved digital infrastructure and data integration—would reduce reliance on high statutory rates and support the development of a more efficient, equitable, and resilient tax system. Experience from other countries suggests that comprehensive reforms of this nature, tailored to local context, could deliver the largest and most durable revenue impact—potentially up to 3-5 percent of GDP over several years.

Box 1. What the Literature Says About Revenue Gains from Tax Reform

Adan et al. (IMF, 2023) find that targeted tax administration reforms—such as improving compliance, establishing Large and Medium Taxpayer Offices, and removing clearly unjustified exemptions—can yield rapid but modest revenue gains, typically in the range of 0.5 percent of GDP within 1–2 years. Benitez et al. (IMF, 2023) similarly report that early administrative and legal "quick wins" can lift collections relatively quickly, especially when part of a broader reform plan.

For more systematic, medium-term reforms, Amaglobeli et al. show that base-broadening measures in PIT, CIT, excises, and property taxes generally have stronger and longer-lasting revenue effects than rate changes alone, with gains of about 2 percent of GDP over 2–3 years. Acosta-Ormaechea et al. find that raising VAT revenue through higher C-efficiency—by reducing exemptions and improving enforcement—is more effective and growth-friendly than increasing the standard rate.

For comprehensive, institutionalized reform packages, Adan et al. show that sustained, economy-wide tax administration reform episodes are linked to revenue gains exceeding 3 percentage points of GDP by year 6 in several countries. Awasthi et al. highlight the significant revenue potential from property tax modernization, including cadaster and valuation upgrades. Benitez et al. document that holistic, institution-based approaches—sequencing policy, administration, IT, and legal reforms—are associated with larger and more durable revenue mobilization, with gains up to 5 percent of GDP over five years in some cases.

G. Risks and Monitoring

27. Implementing tax expenditure reforms involves risks—such as stakeholder resistance, reform fatigue, and capacity constraints—that require proactive management and clear communication to sustain progress. As reflected in the authorities' emphasis on formal risk management, transparency around objectives, consistent engagement, and demonstrating tangible benefits help build public trust and reinforce reform sustainability. Effective monitoring using key performance indicators (e.g., VAT C-efficiency, CIT and PIT productivity, tax expenditure outturns, e-filing and e-invoicing coverage, arrears, and liquidity) supports timely adjustments, and strengthens public confidence in the reform process. Regular governance reviews and structured reporting, as emphasized in the authorities' monitoring and evaluation framework, strengthen transparency and public confidence in the reform process.

H. Conclusion

28. Cameroon's path to fiscal resilience and inclusive growth will depend on its ability to mobilize greater domestic revenues in a sustainable and equitable manner. The analysis in this paper highlights persistent efficiency gaps within the country's tax system, but also significant opportunities to address them. While recent reforms, as reflected in the authorities' medium-term revenue mobilization strategy, have laid an important foundation, recent policy developments highlight the need for continued vigilance. Significant potential remains—particularly through rationalizing tax expenditures, broadening the tax base, and modernizing tax administration. International experience suggests that a sequenced approach—starting with targeted quick wins and advancing toward more comprehensive reforms, consistent with the authorities' reform trajectory—can help build momentum and deliver meaningful fiscal benefits over time. Realizing these gains will require effective implementation, strong governance, and continued stakeholder engagement.

Annex I. Estimating Tax Potential

The stochastic Frontier Model for Tax Revenue is Specified as:

$$\ln(TaxRev_{it}) = \beta_0 + \beta_1 \ln(X_{it}) + v_{it} - u_{it}$$

where:

- $\ln(TaxRev_{it})$ is the natural logarithm of the tax-to-GDP ratio in country i and year t.

- $X_{it}$is a vector of explanatory variables influencing tax capacity, including the share of agriculture in value added, broad money, final consumption expenditure, inflation and natural resource rents.

- v_{it} is a two-sided symmetric error term capturing random shocks and measurement error. It is assumed to be independently and identically distributed as $v_{it} \sim \mathcal{N}(0, \sigma_v^2)$.

- u_{it} is a one-sided, non-negative inefficiency term representing shortfalls in tax collection relative to the estimated frontier, reflecting factors such as tax evasion, exemptions, informality, and technical inefficiencies. The inefficiency term is allowed to vary systematically with governance and informality indicators, capturing cross-country differences in tax administration capacity. It is assumed to follow a truncated-normal distribution, allowing for country-specific heterogeneity in tax efficiency: $u_{it} \sim \mathcal{N}^+(\mu, \sigma_u^2)$.

True random effects are employed, allowing for time-invariant country heterogeneity that is assumed to be uncorrelated with the explanatory variables. Standard errors are clustered at the country level to account for serial correlation within countries. Time effects are controlled for using year dummy variables to account for common global shocks and trends affecting tax performance.

The stochastic frontier represents the maximum attainable tax-to-GDP ratio given a country's structural characteristics. Predicted values from the frontier provide an estimate of tax potential.

Tax Effort is computed as:

$$Tax\ Effort_{it} = \exp^{-u_{it}}$$

where values closer to 1 indicate higher efficiency in tax collection relative to potential.

1. **The estimated coefficients—reflecting structural relationships across the full country panel— largely align with economic intuition, reinforcing the credibility of the model's structure.** The results (Table 1) indicate that a higher share of agriculture in value added is

associated with lower tax revenue, consistent with the difficulty of taxing this sector due to high informality and extensive exemptions. Inflation is negatively associated with tax revenue, reflecting the erosion of real tax bases, lags in tax administration and collection, and the tendency for high-inflation environments to amplify compliance challenges. Final consumption expenditure is positively and significantly associated with tax revenue, reflecting the importance of consumption-based taxation such as VAT. The coefficient on financial deepening—proxied by broad money relative to GDP—appears negative, an empirical pattern that reflects characteristics of the sample rather than a structural relationship. In particular, several countries with relatively high broad-money ratios also exhibit low non-resource tax effort, which may drive the observed correlation.[1] Finally, the variance decomposition shows that inefficiency is the dominant driver of cross-country differences in tax performance, with an estimated γ close to one (0.995), indicating that most deviations from the frontier are attributable to revenue-collection inefficiencies rather than underlying economic fundamentals.

[1] It is important to interpret the negative association between financial deepening—proxied by broad money—and tax revenue with caution. Broad money primarily reflects liquidity in the economy and may not fully capture the quality or depth of financial intermediation. In some contexts, increases in broad money may be driven by factors unrelated to formal financial development—such as monetary expansion or higher cash holdings—which do not necessarily facilitate tax collection. Robustness checks using alternative proxies for financial deepening (e.g., private-sector credit) and alternative model specifications yield similar qualitative results, but further research is warranted to disentangle these effects.

Table 1. Cameroon: Stochastic Frontier Model Estimates

Variables			**Model**
Final consumption expenditure (% of GDP)			0.006***
			(0.002)
Inflation, consumer prices (annual %)			-0.0009
			(0.001)
Broad money (% of GDP)			-0.00005***
			(0.000007)
Agriculture, value added (% of GDP)			-0.03206***
			(0.0032)
Total natural resources rents (% of GDP)			0.00327
			(0.0059)
Constant			3.11***
			(0.175)
Year dummy_2	-0.083**	Year dummy_14	-0.054
	(0.033)		(0.043)
Year dummy_3	-0.088*	Year dummy_15	-0.052
	(0.046)		(0.042)
Year dummy_4	-0.078**	Year dummy_16	-0.076*
	(0.038)		(0.043)
Year dummy_5	-0.095**	Year dummy_17	-0.094**
	(0.038)		(0.046)
Year dummy_6	-0.061	Year dummy_18	-0.063
	(0.039)		(0.044)
Year dummy_7	-0.046	Year dummy_19	-0.084*
	(0.041)		(0.046)
Year dummy_8	-0.052	Year dummy_20	-0.071
	(0.042)		(0.046)
Year dummy_9	-0.038	Year dummy_21	-0.091**
	(0.043)		(0.045)
Year dummy_10	-0.012***	Year dummy_22	-0.051
	(0.042)		(0.044)
Year dummy_11	-0.095**	Year dummy_23	-0.036
	(0.042)		(0.045)
Year dummy_12	-0.060	Year dummy_24	-0.056
	(0.043)		(0.046)
Year dummy_13	-0.056	Year dummy_25	-0.067
	(0.042)		(0.047)

Observations	2981
Number of groups	138
σ_u	3.28***
σ_v	0.22***
λ	14.6***
γ	0.995***

Note: Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1.

Limitations: As with any cross-country panel analysis, the results may be affected by data quality issues, measurement error, or omitted variables that are not captured in the model. Potential endogeneity between some explanatory variables and tax revenue cannot be fully ruled out. While the use of country and year effects, as well as robustness checks, helps mitigate these concerns, the findings should be interpreted as indicative rather than definitive. Future work could explore these limitations in greater detail.

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