Is there a right time for fiscal decentralization in a developing country: a case study of Cameroon

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Is there a right time for fiscal decentralization in a developing country?

A case study of Cameroon

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Abstract: This article aims at identifying the preconditions for the implementation of fiscal decentralization in a developing country by studying the case of Cameroon. The observation of the graphical elements made for this purpose shows that there is a positive correlation between the evolution of the decentralization process and that of two key economic indicators, namely the economic growth rate and the level of public debt. A set of other indicators such as population size, literacy rate and socio-political stability are also important in deciding on the implementation of the fiscal decentralization process in a developing country. The quality of the indicators mentioned above can either accelerate or limit the implementation of the decentralization process in a developing country.

Keywords: fiscal decentralization, developing country, socioeconomic indicators

JEL Classification: H, H7, O1, O17
Introduction

The limitations of "top down" economic development models have led many countries to focus on decentralization since the 1980s. Given its positive implications for resource allocation, redistribution and stability of economic activity (Oates, 2005), several countries around the world have adopted it as a new mode of governance. Through its principle of subsidiarity, decentralization makes it possible to designate at the closest level of proximity what can be done more efficiently. From this point of view, decentralization implies the transfer of competences, responsibilities and political decision-making to legal entities governed by locally elected officials. These local elected representatives acquire significant decision-making power to mobilize their own financial resources and define their spending policy and area of competence (Caldeira and Rota-Graziosi, 2014).

In the 1990s, several developing countries embarked on a process of decentralization to redefine the role of the state and reform the public sector. However, while it can be observed that the decentralization process has been slow to take off in most Central African developing countries, it should be noted that the macroeconomic environment in these countries has not improved significantly in recent years. In Cameroon, the objective of achieving an average economic growth rate of 5.5% per year remains a real challenge. However, in the decentralization model where power is delegated to local governments by law (decentralized unitary state), the operationalization of the decentralization process still requires support in terms of competences and resources from the central government. In such a context, it is questionable whether the implementation of the decentralization process can be effective in an unattractive macroeconomic environment.

In the literature, most of the work analyzes the impact of decentralization on economic performance by improving the allocative efficiency of the decentralized state, precisely through the principles of proximity (Hayek, 1948; Seabright, 1996) and competition (Tiebout, 1956; Oates, 1972; Salmon, 1987; Besley and Case, 1995). To this end, Brueckner (2006) observes that greater fiscal autonomy can be associated with higher output per unit of labor and higher growth rates. Empirically, the results remain mixed. Some studies show that decentralization promotes improvements in a number of socio-economic indicators such as access to education and health (Galiani et al, 2008; Enikolopov and Zhuravskaya, 2007), poverty reduction (Alderman, 2002; Bardhan and Mookherjee, 2006; Ravallion, 1999). However, other studies show that decentralization has negative effects on economic growth (Gemmell et al., 2013; Davoodi and Zou, 1998; Rodriguez-Pose and Ezcurra, 2011; Rodriguez-Pose and Kroijer, 2009). But none of these studies examine the preconditions for the introduction of decentralization, particularly in developing countries where financial resources are scarce.

Indeed, it should not be forgotten that decentralization remains above all a territorial construction project whose realization requires the mobilization of enormous resources (financial, material, human, etc.). For example, the inadequacy of the technical, administrative or fiscal capacities of local authorities can strongly limit the positive effects expected from decentralization. However, the availability of these resources is strongly linked to the socio-economic situation of the country or the quality of its macro-economic indicators. In other words, a heavily indebted poor country with a low GDP growth rate, for example, will be unable to easily implement its decentralization project. On this point, Bardhan and Mookherjee, 2006
show that in low-income countries, levels of literacy and political awareness among citizens are generally low.

According to Oates (2005), decentralization can have positive effects on resource allocation, redistribution and economic stability. But the question now is when it can be implemented effectively. Can the quality of macroeconomic or socio-economic indicators play an important role? In other words, what are the preconditions for fiscal decentralization?

By arguing that the implementation of the decentralization process in developing countries depends on the quality of their macroeconomic and even socio-economic indicators, this paper aims at identifying the preconditions for decentralization in a developing country. This study is carried out for the case of Cameroon, which is a unitary and decentralized State since 1996, and where the implementation of the decentralization process is gradual. While some argue that the decentralization process has not progressed sufficiently in Cameroon since 1996, they are not interested in the objective factors behind these delays. But they simply suggest that it is only a question of political will. In fact, we believe that the analysis should go beyond this and focus on the influence of the macroeconomic environment that has prevailed to date, as well as the role of certain socio-demographic factors.

The article is structured around three key points. The first section presents some stylized facts about the decentralization process in Cameroon. The second section makes a correlational analysis between the evolution of certain macroeconomic indicators and the resources transferred by the State to the Decentralized Territorial Collectivities (CPT). Some policy implications are presented in section 3 before concluding.

1. Some stylized facts

The implementation of the decentralization process in Cameroon is gradual, both at the institutional and legislative levels and in terms of the transfer of resources from the central government to local authorities.

1.1 The evolution of Cameroon’s institutional and legislative framework

In the early 1980s, the inability of states to manage the increasingly important and changing needs of individuals in terms of freedom and democratic expression, favored the emergence of new modes of governance essentially based on local dynamics. This will lead to major institutional reforms in many governments around the world. It is in this context of demanding economic and democratic performance that Cameroon became a decentralized unitary state following the constitutional reform of January 18, 1996. However, as mentioned by Ngam and Kaze (2020), the beginning of local governance was already present in the organization of traditional societies in Cameroon and during the colonial period with the indirect system of government in Western Cameroon (*indirect rule*).

However, in the 1990s, like most developing economies in Central Africa, the Cameroonian economy was marked by serious disruptions at the macroeconomic level, due to the adverse consequences of the deep economic crisis that occurred between 1987 and 1994. It is therefore understandable that Cameroon has entered into a logic of progressiveness in the implementation of certain mechanisms of its fundamental law in general, and decentralization in particular.

The first laws on decentralization in Cameroon, following the 1996 constitutional reform, were enacted in 2004. These include Law No. 2004/017 of July 22, 2004 on the orientation of
decentralization, Law No. 2004/018 of July 22, 2004 establishing the rules applicable to the Councils, and Law No. 2004/019 of July 22, 2004 establishing the rules applicable to the Regions. Five years later, Law No. 2009/011 of July 10, 2009 on the financial regime of local jurisdictions was promulgated. In terms of regional planning and sustainable development, Law no. 2011/011 of May 6, 2011 establishes local authorities as actors alongside the State. Another decisive step will be initiated in the operationalization of the decentralization process with the promulgation of the General Code of Regional and Local Authorities (GCRLA) on December 24, 2019. In January 2020, the National School of Local Administration (NASLA) will be created to produce human resources with appropriate skills in local governance.

The local authorities in Cameroon are the regions and councils. The Region is a Territorial Collectivity composed of several Departments. It covers the same territorial jurisdiction as the Region, namely the administrative district. It has a general mission of economic and social progress. The Council is the basic Territorial Collectivity. It has a general mission of local development by improving the environment and the living conditions of its inhabitants. In this study, we are only interested in the Councils since the creation of the Regions is not yet fully operational.

Since reaching the completion point of the Heavily Indebted Poor Countries (HIPC) Initiative in April 2006, the Cameroonian economy has made a "new start" in the implementation of its many development projects, using resources from the cancellation of a large part of its external debt. Thus, between 2010 and 2019, despite a context characterized by security shocks and socio-political tensions, most of Cameroon's macroeconomic indicators (GDP growth rate, inflation rate, level of public debt) are in the green. It is against this backdrop that The Senate, which represents local jurisdictions, was established in 2013 and Cameroon's first ever senatorial election was held thereafter. Seven years later, precisely on December 6, 2020, the very first regional election in Cameroon took place.

Beyond this significant legislative and institutional development, another evolution can be observed in terms of the allocation of financial resources to local jurisdictions. In Cameroon, the State finances the implementation of the decentralization policy through three main channels: tax revenues from Local and Regional Authorities (LRA), the general decentralization grant and financial resources transferred to local authorities. The last channel of financing is considered here.

1.2 The financial resources allocated to Local jurisdictions

According to the General Code of Local and Regional Authorities (CGCRL), the devolution of powers to a local authority must be accompanied by the transfer, by the State to the local authority, of the resources and means necessary for the effective exercise of those powers (Article 21). It is with this in mind that the transfer of financial resources to the Councils begins in 2010, for the exercise of the 61 powers provided for by the GCRLA (Articles 156-163). Thus, between 2010 and 2018, 18 ministries transferred financial resources totalling approximately 334.3 billion CFA francs, an average of 37.15 billion CFA francs per year. As shown in Figure 1, the volume of these resources follows an upward trend in a generally stable macroeconomic environment over the period under consideration.
However, the volume of resources transferred differs from one department to another. According to Figure 2, the largest amounts were transferred by the Ministry of Basic Education (MINEDUB) and the Ministry of Public Works (MINTP). Transfers from MINEDUB are mainly directed toward the construction, equipment, upkeep and maintenance of the Commune’s nursery, primary and pre-school schools; participation in the acquisition of school materials and supplies (minimum package), the recruitment of support staff and their care, and the fight against illiteracy. For the MINTP, the resources transferred are mainly aimed at the creation and maintenance of unclassified rural roads, the construction and management of crossing bins, and the road cantons, among others.

Next come the Ministry of Health (MINSANTE), the Ministry of Agriculture and Rural Development (MINADER), and the Ministry of Water and Energy (MINEE). The resources of the former are earmarked for the construction, equipment, maintenance and management of integrated health centers (CSI) and district medical centers (CMA). The resources allocated by the second ministry are intended to promote agricultural production and rural development activities. The latter, for its part, transfers its resources to the communes so that they can supply the population with drinking water and contribute to the electrification of needy areas.

The exploitation of non-concessional mineral substances offers municipalities opportunities to mobilize their own resources. However, as shown in Figure 2, the financial resources needed to exercise this competence have not yet been transferred from the Ministry of Mines and Technological Development (MINMIDT). The same situation is observed with the Ministry of Transport (MINT), even though efficiency in terms of the organization and management of urban public transport has been proven at the local level. It is also at the local level that micro-projects can be effectively supported. However, the Ministry of Small and Medium Enterprises, Social Economy and Handicrafts (MINPMEESA) transferred only CFAF 3.178 billion between 2010 and 2018. As for MINPMEESA, the volume of resources transferred by the other ministries is still low.
In addition to State resources, Local Authorities also benefit from resources allocated by support organizations such as the Special Council Support Fund for Mutual Assistance (FEICOM). Here we present some statistics on the evolution of FEICOM support between 2006 and 2018.

### 1.3 The resources allocated by the Special Council Support Fund for Mutual Assistance (FEICOM)

FEICOM's interventions are mainly aimed at financing projects carried out by the Local Authorities in sectors such as education, governance, industries and services, infrastructure, the rural sector, health and the social sector (excluding education). Between 2006 and 2018, FEICOM has contributed to the realization of projects for a total amount of about 249.5 billion FCFA with an average of 19.2 billion FCFA per year. As shown in Figure 3, the evolution of these resources shows an upward trend from 2006 to 2018.
Figure 4 shows that the density of FEICOM interventions is not the same in all sectors. The Local Authorities seem to be mainly interested in the development of local infrastructure. For this reason, projects in this sector received the most funding between 2006 and 2018. The "Infrastructure" sector includes the implementation of projects related to electrification, road maintenance, telecommunications, transport, buildings for local utilities, and land affairs among others. This is followed by the "Industry and Services", "Education" and "Social" sectors. The last three sectors - Governance, Health, and Rural - received on average less than one billion each from 2006 to 2018. However, the dynamics of resource transfer to the Local Authorities is not insensitive to the quality of the socio-economic environment facing Cameroon.

**Figure 4. FEICOM: average amounts of financing granted to Local Authorities for the implementation of socioeconomic projects between 2006 and 2018 (in billions of CFA francs)**

Source: author, FEICOM data (2019)

In the following section, it is shown that the decentralization process has kept pace with the evolution of a number of socio-economic indicators which have the particularity of being perceived as a set of preconditions for the implementation of decentralization.

2. **Analysis of correlation degree between some economic key indicators and the level of fiscal decentralization in Cameroon**

In deciding to implement fiscal decentralization, it is important to consider the state of certain variables that may promote or limit the takeoff of the process. Some of them have been highlighted: population size, literacy rate, economic growth rate, poverty rate and public debt level. The country's political stability is also important.

2.1 **The influence of demographic weight**

One of the challenges of fiscal decentralization is a better understanding of the needs of individuals at the grassroots level, when their numbers increase considerably. Figure 5 shows that, year after year, Cameroon's population continues to grow. However, from a certain level,
problems of imbalance, marked in particular by security shocks and economic and political crises, have begun to arise.

Indeed, it is easier to govern from above when the size of the population is limited. However, when the demographic weight becomes higher, redistribution problems arise and their resolution also becomes more complex if the mode of governance is not adjusted. Governing from above then becomes less and less efficient. To avoid solutions that do not take sufficient account of local specificities, it is important to decentralize.

**Figure 5. Cameroon: demographic evolution and emergence of crises between 1960 and 2019**

Figure 5 allows us to see that with less than ten million inhabitants, certain problems were not yet acute in Cameroon (socio-economic integration after studies, for example). But as the population grows, new socio-economic problems emerge and the strategy of seeking solutions from above (centralization) becomes less and less effective. Hence the constitutional reform of January 1996, which made Cameroon a unitary and decentralized state. However, its implementation has been delayed and these delays cannot be dissociated from the quality of the macroeconomic environment that prevailed until then.

### 2.2 The role of economic growth

Fiscal decentralization remains a project whose implementation requires the availability of enormous resources, and it is in this sense that the level of wealth production plays a decisive role. Indeed, fiscal decentralization consists in the transfer by the central State to local authorities of specific competencies and appropriate means. If the State records an insufficient level of wealth production in a context of economic crisis, the objectives of transferring skills and resources will be difficult to achieve.

More often than not, in a context of economic crisis, the State's resources are limited and the few resources available are mainly intended for projects of national interest. For fiscal decentralization to take shape, the rate of economic growth would have to be positive over a fairly long period of time. This is an indicator that the state has sufficient resources not only to fulfill its sovereign missions, but also to promote development, democracy and good governance at the local level. Over the last ten years, the Cameroonian economy has grown by...
an average of about 4.6%. It can also be observed that there is a positive correlation between the resources transferred since 2010 and Cameroon's economic growth rate (Figure 5). This suggests that the level of economic growth recorded by Cameroon over the last ten years is favorable to the effective implementation of fiscal decentralization.

**Figure 5: Cameroon: correlation between economic growth rate and resources transferred by the central government**

![Graph showing correlation between economic growth rate and resources transferred by the central government.](image)

The line equation is $y = 1.2179x + 31.606$.

**Note:** RT = resources transferred (billions of CFA francs); Growth = economic growth (percentage)

*Source: author, MINDEVEL (2019) and WDI (2020) data*

If a country has positive growth rates over a long period of time, care must also be taken to ensure that much of this wealth is not used to pay the public debt.

### 2.3 The influence of public debt rate

The level of a country's public debt very often has an impact on the achievement of economic performance. To this end, the literature points to a non-linear causal relationship between public debt and economic growth. When public debt is contained between 35 and 40% of GDP or between 160 and 170% of exports, it has a positive effect on economic growth. Beyond this threshold, however, public debt begins to have negative effects on economic growth (Krugman, 1988; Sachs, 1989; Pattillo et al., 2002). However, the burden of public debt, which has weighed on the Cameroonian economy from the end of the 1980s until the substantial reductions granted in favor of reaching the completion point of the HIPC initiative, has had the particularity of jeopardizing the realization of long-term projects, including the implementation of decentralization. However, since reaching the completion point in April 2006, Cameroon has regained control of its public debt level. This then gives it significant leeway to continue implementing long-term projects. The level of Cameroon's public debt is currently sustainable (38.6% of GDP at the end of April 2020 according to statistics from the Autonomous Sinking Fund), and is positively correlated with the transfer of resources to decentralized local authorities since 2010 (Figure 6). This suggests that the level of public debt recorded by Cameroon over the last ten years is favorable to the effective implementation of fiscal decentralization.
Figure 6. Cameroon: correlation between the level of public debt and resources transferred by the central government between 2010 and 2018

\[ y = 0.0073x + 3 \times 10^7 \]

<table>
<thead>
<tr>
<th>DETPUBEXT</th>
<th>RT</th>
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<tbody>
<tr>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>5E+09</td>
<td>5E+09</td>
</tr>
<tr>
<td>1E+10</td>
<td>1E+10</td>
</tr>
<tr>
<td>1.5E+10</td>
<td>1.5E+10</td>
</tr>
</tbody>
</table>

**Note:** RT = resources transferred (U.S. dollars); DETPUBEXT = external public debt (U.S. dollars)

*Source: author, MINDEVEL and WDI data (2020)*

In addition to the level of public debt, the level of inflation also matters.

### 2.4 The influence of inflation rate

The stability of Cameroon’s macroeconomic environment is also visible in monetary terms. The ultimate objective of the new monetary policy of the Bank of Central African States (BEAC) is monetary stability, i.e. foreign currency hedging and low inflation. With regard to inflation, Figure 8 shows that the level of inflation in Cameroon follows a downward trend from 2008 to 2018.

Figure 8. Cameroon: evolution of the inflation rate between 2008 and 2018

*Source: author, WDI data (2020)*
While there is evidence that decentralized countries have lower inflation rates (King and Ma, 2001), it is nevertheless necessary to ensure that the level of inflation that precedes the implementation of fiscal decentralization is at least compatible with the objective of monetary stability. Indeed, in some cases, fiscal decentralization may jeopardize macroeconomic performance, leading to higher inflation levels and fiscal imbalances (Wibbels, 2000). This is likely to have a negative impact on the supply of educational services, for example.

2.5 The influence of literacy level

Successful decentralization also requires that the main beneficiaries (i.e., the population) be fully aware of the challenges of decentralization and the role they must play if it is to have a positive impact on their socioeconomic well-being. However, only education can really promote ownership of the concept of decentralization by citizens. This is why the level of literacy (the number of people aged 15 and over - in percentage - who can read and write in a population), will play a fundamental role in the process of fiscal decentralization.

Indeed, fiscal decentralization gives citizens the opportunity to take charge of their own socioeconomic future, and thus to be at the heart of their own development process. The more educated the population is, the more aware it will be of its level of responsibility in the decentralization process and the greater the positive effects expected from fiscal decentralization in terms of local economic development.

Figure 9 shows that the literacy rate was still low in Cameroon before the 2000s. However, since almost 2007, the literacy rate has evolved significantly. The level of literacy that Cameroon has experienced over the last ten years allows it to effectively enter the most advanced phase of fiscal decentralization. For the majority of the population is predisposed to fully understand the challenges of decentralization in terms of local development. This means that Cameroon has now entered the phase where the acceleration of the fiscal decentralization process is necessary.

Figure 9. Cameroon: change in the literacy rate between 1976 and 2018 (as a % of individuals aged 15 and over)

Source: author, WDI data (2020)

Accelerating the implementation of fiscal decentralization could still considerably improve this literacy rate of Cameroon because, according to some authors (Enikolopov and Zhuravskaya, 2001).
fiscal decentralization has a positive effect on access to education and health, in addition to its positive influence on the quality of governance.

Other indicators such as the poverty rate (Figure 10) and life expectancy have also improved significantly. In terms of poverty for example, studies show that the central government cannot effectively target the poorest jurisdictions (Bardhan and Mookherjee, 2006), whereas the implementation of poverty reduction programs following a decentralized approach makes it possible to effectively reach the most distressed localities (Ravallion, 1999).

![Figure 10. Cameroon: evolution of the monetary poverty rate](source)

In view of the above, it cannot be inferred that decentralization is a mode of governance that is inappropriately applied. The appropriateness of the implementation of the fiscal decentralization project in a decentralized unitary State can be measured using a number of socio-economic indicators, the quality of which provides information on the degree of feasibility of the project in question. These indicators can therefore be considered as a set of preconditions for fiscal decentralization in a developing country.

### 3. Some economic policy implications

Is there a right time for fiscal decentralization in a developing country? This question effectively assumes that there is a point at which top-down governance becomes increasingly laborious and inefficient, especially when the size of the population increases significantly. Citizens then increasingly express a deep desire to participate democratically in solving their own problems. Indeed, as population size increases, people's needs change, become more complex and top-down problem solving becomes difficult. This is why fiscal decentralization appears to be a necessity. However, it can only be operational if other indicators are favorable to its achievement, for example the literacy level of the population and a minimum of socio-economic stability.

In general, a literacy level of at least 50% remains favorable to the effective implementation of fiscal decentralization. This is because a large part of the population will be aware of the challenges and opportunities that decentralization will offer them in terms of local development. Therefore, the creation of schools specializing in local governance in order to equip human capital with specific skills should precede the completion of the fiscal decentralization process.
This will ensure that the allocative efficiency of decentralization is not limited by insufficient technical, administrative and fiscal capacities at the local government level.

Similarly, a stable macroeconomic environment marked by positive growth rates over a period of at least ten years is likely to be effective in lubricating the fiscal decentralization process through the availability of resources and their transfer to local jurisdictions. The availability of financial resources is fundamental because it will make it possible to put in place all the corresponding institutional infrastructure, as well as the organization of the first local elections.

Finally, a minimum of socio-political stability is necessary. Indeed, some socio-political crises reflect the ineffectiveness of the top-down model in terms of solving socioeconomic problems. Insufficient control of the socio-economic realities of local populations by the central state can lead them to demand more freedom, autonomy and participation in the management of their own affairs at the local level. Moreover, exogenous security shocks can, through their ideologies, fuel the discontent caused by the inefficiency of a redistribution policy elaborated from the top-down model. In this situation, local populations may succumb to violence if they are not sufficiently educated to understand the complexity of the problems behind the ideology of war and chaos.

However, when this type of crisis occurs in a unitary and decentralized state, it should rather be interpreted as a challenge to accelerate the effective implementation of the fiscal decentralization process. But the central government must always ensure that the intensity of such instabilities is sufficiently low or at least manageable.

**Conclusion**

The objective of this article was to try to answer the question of whether there is a right time for the implementation of fiscal decentralization in a developing country, by studying the case of Cameroon. Taking into account the evolution of a certain number of socio-demographic and economic indicators, it emerges that the appropriateness of fiscal decentralization depends on the quality of the socio-economic environment and the demographic weight. For example, we have observed a positive correlation between economic growth and the transfer of resources by the State to local authorities, as well as between the resources transferred and the level of Cameroon's public debt. Furthermore, analysis of the graphs showed that socio-economic tensions begin to be felt acutely when the size of the population reaches a certain level. The top-down resolution of socio-economic problems then becomes less and less efficient as the size of the population increases. At this point, fiscal decentralization in its fullest form becomes essential. But its feasibility will be more evident when the literacy level of the population is significantly high. For the main beneficiaries of fiscal decentralization (the population) must be able to understand the real issues at stake, so that they can participate much more effectively. From this we conclude that the effective implementation of fiscal decentralization in a developing country remains conditional on the quality of its main socio-economic indicators and a minimum of stability in the security plan.
Références


