

# PEP impact brief

## Cameroon

### Impact of labor and tax policies on the informal sector in Cameroon

2014-2015

#### Project milestones

- May 2014 Initial consultations between the research team and key policy actors, including from the Ministry of Labor and the Ministry of Economy
- May 2014 Selection of project for PEP support under the PAGE initiative
- June 2014 Consultation with representatives of two government programs (PIAASI, PAGER-U) to ensure the research will address key issues
- June 2014 Consultation with the Ministry of Labor to discuss how findings may feed policy making
- April 2015 Research findings shared with key policy actors
- Summer 2015 Ministry of Labor confirms intention to extend social security to informal-sector workers
- June 2016 Team organizes PEP national policy conference in Yaoundé, to share findings with a broader (policy and public) audience

#### Context

Around 40% of Cameroon's population lives in poverty, a figure that the government aims to address using various economic policies within the national poverty-reduction strategy. Current measures reduce taxes on essential products and aim to increase job opportunities in the formal sector (particularly in the public sector). However, a nationwide employment study found that the poverty rate is closely linked to the dominance of the informal sector, which employs more than 80% of the labor force. Wages in the informal sector are very low – approximately 50% of formal sector wages – and not secure, meaning that households face permanent instability.

Among heads of households, the poverty rate is 9.6% for those in the formal private sector, whereas the rate is 23% in the informal non-agricultural sector and 59.6% in the informal agricultural sector. In order to address this issue, the government is prioritizing efforts to migrate employment opportunities from the informal to the formal sector.



#### Local research team

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#### PEP mentors and trainers

Christian Arnault Emini

#### PEP publications

Working paper 2016-04  
 Policy brief 137



# Producing a reliable evidence base to inform current policy debates

*Fair wages are more important than formalization for poverty reduction in Cameroon*

In light of this situation, a team of local researchers was awarded PEP funding and support to evaluate the impact of the informal sector on the Cameroonian economy and the impact of the employment and tax policies affecting the informal sector and poverty. The team aims to use these results to identify the best policies for achieving the government's growth and well-being objectives.

## Key findings...

Refer to grey box to the right. Results of the analysis indicate that:

- moving labor from the informal to the formal sector (simulation 1) would lead to an increase in GDP
- however taxation policies (simulations 2 and 3) would have no significant effects on the informal sector.

In terms of the population's well-being (indicated by revenue and poverty levels) the team's analysis shows that:

- simulations 1 and 3 both see an increase in household revenue, by 1% and 0.7% respectively.
- simulation 2, on the other hand, reduces household revenue by 0.45%.

Simulation 1 also significantly reduces the national poverty rate (by 2.32%) and is especially effective in urban areas with a 6.15% reduction. Simulation 3 also reduces the poverty rate but to a lesser extent than simulation 1. However, simulation 2 increases the poverty rate by 3.38% in urban areas and by 0.46% nationally.

Using data from the 2010 national accounts, the research team built a social accounting matrix (SAM) for Cameroon. The SAM fed into a CGE model of Cameroon's economy, allowing the team to simulate three situations and examine their (macro) economic and social impact:

### Simulation 1:

Increasing skilled labor in the formal sector by 12.6%, with labor that has migrated from the informal sector

### Simulation 2:

Taxing informal sector products and produce

### Simulation 3:

Reducing tax on essential items purchased by poor households.

## ...and conclusions

This study's findings demonstrate that taxation of the informal sector will not improve household well-being nor the poverty level in Cameroon.

They also show that the wage gap between formal and informal employment has a significant impact on household purchasing power and thus on household well-being.

These results suggest that reducing poverty is not necessarily dependant on reducing the informal sector, as a wage increase in the informal sector would significantly increase growth and well-being.

Based on these results, the research team recommends that a minimum wage be established and enforced.



## Building and promoting new tools and expertise for policy analysis in Cameroon

### CGE modeling and policy simulation techniques

In order to produce such high quality evidence, the team first built a national-level social accounting matrix (SAM) of Cameroon. Using the macro-level SAM, they also created a household-level SAM, both of which fed into a computable general equilibrium (CGE) model of Cameroon's economy (structure, features, constraints, etc.) that the research team used as a laboratory for their simulations.

The CGE model allowed the team to assess the different effects that their three policy scenarios would have on a variety of outcomes in Cameroon.

Both the SAM and the CGE model were made available to the public so that other researchers in Cameroon can benefit from these important tools for development research and policy analysis.



In addition to funding, all PEP-supported research project teams benefit from intensive training activities (at the onset of the project), access to related resources (recommended readings, training materials, software tools, etc.), a unique international peer-review experience, as well as ongoing mentoring and technical support provided by PEP mentors (world leading experts in relevant research methods/areas) all throughout the project lifecycle.

Furthermore, the team shared their expertise during a seminar organized by the National Statistics Institute in Mbalmayo, Cameroon, on December 4-5, 2015. The seminar was on how a SAM had been constructed for the Cameroonian economy in 2010. The research team then shared their experience of CGE modeling, and of using the PEP model 1-1 SAM. Following the event, researchers at the National Statistics Institute expressed their intention to use CGE modeling in place of econometric modeling to simulate the effects of economic policy in Cameroon and promote evidence-based policymaking.

That the research team not only increased their own expertise in using the CGE methodology but that they are also already working to share this knowledge represents an important step forward for the scientific community in Cameroon.

*"The head of my department at the National Statistics Institute was very impressed by our use of CGE modeling. Following our success with the technique, the department will use a CGE model for future simulations when testing economic policies in Cameroon."*

- Serges Rodrigue Ngouana Koudjou

# Engaging with key policy makers, advisors and stakeholders

## PEP findings influence government decision to extend social security eligibility

Prior to selection of their project for PEP support, the research team began preliminary consultations with national organizations responsible for employment and, particularly, the informal sector. These meetings allowed the team firstly to guarantee high-level interest in the project, and secondly to ensure the project would address the particular concerns (youth, informality etc.) of the various policy actors. Indeed, following discussions with resource persons at the Ministry of the Economy, the project was oriented specifically towards the impact of the employment and tax policies on the informal sector, instead of a more general socioeconomic analysis of the sector.

The team presented their preliminary findings to a representative of the Ministry for Labor, the Ministry being particularly interested with regard to the implications for social security. Following the meeting, the representative confirmed the Ministry's intention to extend social security to self-employed workers as well as the informal sector.

In June 2016, the team organized a national policy conference in Yaoundé where they presented their findings to representatives of the Ministries for Labor and Social Welfare, for Youth, for Employment, and of the Economy and Planning, as well as the National Institute of Statistics and the National Employment Fund. There was also a strong public, academic and media presence. The conference provided the team with the opportunity to discuss and engage with key policy actors and stakeholders regarding their results.

Reports by three newspapers, a television channel, and a radio station meant that the team was able to reach out to the sectors of the population with which the project is most concerned. Furthermore, following the conference, researchers and representatives of government organizations approached the team for support and collaboration on future projects.

A secondary effect of the research project was that the findings allowed one of the consulting organizations, PIAASI (Programme intégré d'appui aux acteurs du secteur informel) to evaluate their own actions and aims as they help informal workers move into the formal sector. Based on the team's results and recommendations, PIAASI should also advocate for a minimum wage for informal sector workers.



June 2014

Consultation meetings between the research team and representatives of government ministries and programs



June 2016

Team organizes a national policy conference in Yaoundé, attended by government ministries and organizations, national media, as well as members of the academia and the general public



Summer 2016

Team members are approached for further collaborations with national government programs and other academics