



**Norad**



**TAX JUSTICE  
NETWORK  
AFRICA**



**POLICY BRIEF**

**STUDY ON TAX FAIRNESS AND THE FINANCING  
OF LOCAL DEVELOPMENT IN CAMEROON**

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# INTRODUCTION

How to achieve the financial autonomy of Decentralised Territorial Collectivities (DTCs) by activating the levers of local taxation through tax equity and efficiency on the one hand, and other sources of funding (loans, donations, legacies, etc.) on the other?

This is a difficult question to answer, but one that can be understood by examining the structure of a local authority's financial resources.

A **local authority** is considered to be a legal entity under public law with administrative and financial autonomy to manage local affairs in the following six areas: social, education, health, economic, cultural and sporting affairs. The local authority (municipality, region) administers its affairs through elected bodies (the deliberative body and the executive body).

The aim of sharing powers between the State and the local authorities is to promote grassroots development, encourage the involvement of local people in local management, and promote democracy and good governance. This sharing of power relieves congestion in the State and improves the speed with which public affairs are managed. For the sake of coherence, the municipal development strategy is aligned with the regional development strategy, which is harmonised with the national development strategy. This is why the same issues managed at national level are found in the same terms but at a more reduced level at regional and municipal level: programme budget, gender-sensitive budget, participatory budget, environment, etc. The strategies of these three levels of the territory are based respectively on the PCD (Communal Development Plan), the PRD (regional development plan) and the SND30 (National Development Strategy 2020-2030). Each of these documents is a reference framework for all development actions. One of the four pillars of the SND30 is ***Governance, decentralisation and strategic management of the State***. **The country therefore considers it a priority to speed up decentralisation and local development.**

The implementation of a local authority's powers requires the mobilisation of resources. These resources come from local taxation, grants and subsidies as well as other resources (loans, donations,

legacies, resources from public-private partnerships (PPP), etc.). The aim is for the local authority to become financially autonomous, i.e. to be able to finance its own local public policies with minimal recourse to other entities.

We begin by analysing the difficulties encountered on the ground with local taxation as a means of financing decentralisation from the perspective of tax equity and efficiency. We then analyse the difficulties associated with other sources of funding for local development.



## I- SUMMARY OF THE NOTE

This study focuses on **tax fairness and the financing of local development in Cameroon**. The general objective of the study is to identify the problems linked to the mobilisation of local resources by highlighting tax equity and efficiency. Tax equity refers to the obligation for all citizens to pay tax in order to contribute to public expenditures. It is divided into vertical and horizontal equity. With regard to vertical equity, everyone must pay tax according to their ability to pay. Horizontal equity means that everyone should pay tax according to their ability to pay, but also taking into account their personal circumstances. Tax efficiency means collecting the tax revenue provided for by laws and regulations while respecting the rights of taxpayers. Financing local development in Cameroon means financing the municipalities and regions. These two entities are legal persons under public law with financial and administrative autonomy to freely manage local affairs in the following areas: health, social, education, economy, culture and sport. There is never enough money to finance public policies at both national and local level, especially in the context of developing countries.

**Our approach is to identify the issues raised by tax equity and efficiency** in the context of local resource mobilisation. We are also examining **the problems of other sources of funding, such as the general decentralisation grant**. We remember that the transfer of powers is financed at least by local taxation and the grant. As part of our questioning, we check how equity is applied on the ground, particularly vertical equity, which is easier to measure in the context of our study.

Vertical equity connects the municipality directly to its taxpayers. For example, depending on a taxpayer's tax category, they may pay more or less tax. This notion of vertical equity therefore has a direct link with tax revenues and therefore with the financing of local development. The notion of horizontal equity, on the other hand, is very indirectly linked to the mobilisation of tax revenues. An individual's personal situation induces a certain level of purchasing power vis-à-vis the tax-paying merchant, who himself ultimately pays the tax.

In addition, we look at tax efficiency through three dimensions from the point of view of both the DTC tax administration and taxpayers: the simplicity of taxation, the simplicity of procedures and respect for taxpayers' rights. In other words, we question the degree of understanding on the part of the DTC employee and the taxpayer; we also question the degree of adaptation of the dematerialisation of tax procedures on the part of the

DTC employee and the taxpayer; finally we question the degree of respect for the taxpayer's rights. The difficulties of local funding sources other than local taxation are also reviewed.

This leads us to our findings and recommendations for achieving or approaching financial autonomy. The **main recommendation** is to give the governing body the latitude to dismiss the entire executive body (chief executive and his deputies) in the event of insufficient results. This is a kind of fixed-term contract (CDD) renewable each year at the time of the review (administrative account and annual performance report). There will also be a question of improving collaboration with the State (equalisation criteria, consultation with the State's tax departments, and periodic repayment of local taxes). In most local authorities, taxation accounts for a relatively small proportion of revenue. The road to financial autonomy requires ingenuity. The other recommendations are aimed at generating and encouraging the creation of wealth and jobs on the territory of the DTC: for example, the creation of semi-public companies (SEM), attracting investors. Of course, there is no question of neglecting basic social infrastructures such as access to drinking water, electricity and healthcare.

## II- ANALYSIS OF THE DECENTRALISATION FUNDING POLICY: ISSUES AND CHALLENGES FOR LOCAL DEVELOPMENT

*Law 2009/019 of 15 December 2009 on local taxation sets out the taxes, duties and fees levied for the benefit of the local authorities. Local taxation is the set of compulsory levies carried out by the State Tax Administration or by the collection services of the DTCs for the benefit of the latter. This text authorises the DTC to collect "local taxes". Local taxation is set out in the General Tax Code (CGI).*

We analyse local taxation as a means of financing decentralisation, from the point of view of tax equity and efficiency. We also analyse other resources for financing decentralisation. These analyses are based on field observations.

## 1- Tax revenue: local taxes/local taxation

### Tax fairness analysis

The concept of equity has two dimensions: vertical equity and horizontal equity. The vertical equity dimension concerns taxpayers under the flat-rate tax system. This equity is directly linked to the mobilisation of local resources, and therefore to the financing of local development.

This system verifies the effectiveness of the application of the contribution to public charges made by individuals on the basis of their ability to pay.

77.77% of taxpayers claim that they were not involved in the classification into various A, B, C, D categories. Only 41.66% of taxpayers claim that this classification does not reflect their real level of activity, and therefore had to be classified in lower categories. If the assessment of a taxpayer's tax situation is not objective, there is a risk that they will be assigned to a category that does not correspond to their economic reality.

An outclassed taxpayer will always feel a sense of tax injustice. To do themselves justice, such taxpayers will tend to underestimate the tax they have to pay. They will feel that the State is robbing them of the fruits of their efforts; in short, they may develop all kinds of deviant behaviour. Hence the famous phrase coined by the American economist Arthur LAFFER: "too much tax kills tax". The formula implies that a tax rate above a certain level becomes counter-productive, leading to a drop in the State's tax revenues. The taxpayer will perceive the State not as a tax partner but as a predator. All this is detrimental to the mobilisation of local resources.

The classification into various categories is influenced by the skills and ethics of the agent responsible for classification. There are cases where the taxpayer tries to bribe the grading officer to under-classify him or her, in order to pay less tax later; the opposite case occurs where the proposal comes from the grading officer. In all cases, the taxpayer must be classified in the category that best suits him, based on his verifiable characteristics.

The lack of cooperation between the local council and the CDI is also an obstacle to the proper application of vertical equity. 71.4% of municipalities state that they do not have access to the CDI's taxpayer file. For the same purpose, each of these administrations may carry out parallel actions that may either contradict or overlap. The taxpayer then hears several different things and has the feeling that he or she is just a victim.

### **Tax efficiency analysis**

Tax efficiency is analysed from three angles: the simplicity of taxation, the simplicity of procedures and the strengthening of taxpayer guarantees.

The field findings set out below indicate that the potential for improving tax efficiency remains high. The mobilisation of tax resources is still far from optimal, which has an unfavourable effect on the financing of local development.

#### **- The simplicity of taxation**

54.3% of municipalities consider that the various local tax charges are fairly easy to understand. However, 37.1% felt that the taxes were not easy to understand. This makes it difficult to determine the tax to be paid. There is likely to be over- or under-taxation or arbitrary taxation. This may explain why 54.3% consider the level of skills of the tax assessment and collection department to be average, while 40% consider their level to be insufficient.

12.76% of taxpayers still find it easy to understand taxes and 10.20% find it easy to calculate them. These taxpayers deplore the multiplicity of tax contacts. On the other hand, 100% say they have not received any information about the nature of the taxes to which they are liable.

#### **- The simplicity of procedures**

64% of municipalities say that collection staff, and by extension tax assessment staff, are unable to declare and pay flat-rate tax online. This is due to a lack of technical skills. Similarly, 35.41% of taxpayers find it difficult to declare their tax, and therefore experience the same difficulties for the same technical reasons. As a result, some taxpayers continue to pay this tax in cash.

Until recently, the flat rate tax was paid in cash. The evolution of the regulations in its process of tax dematerialisation now requires its declaration and payment online.

### - **Strengthening taxpayer guarantees**

The taxpayer's charter is a document that informs taxpayers of their rights and duties with regard to tax.

41.7% of municipalities find that their collection staff have insufficient knowledge of the Taxpayer's Charter. For 52.8% of municipalities, the staff in charge of collection have only an average knowledge of the charter. Practice therefore takes precedence over regulation. Ignorance, taking advantage of the prerogatives of public power, can turn the municipal administration/taxpayer relationship into one of oppressor/oppressed.

Taxpayers' lack of knowledge of the legislation does not help their situation. 81.63% of taxpayers say they are unaware of the existence of the Taxpayer's Charter. Furthermore, in the event of a tax dispute, 73.46% would not try to assert their rights on the grounds that:

- Not only would it be a waste of time,
- But you'll never win your case with the authorities.

Finally, if you make yourself stand out in a 'negative' way like this, you're likely to get into trouble later, and unnecessarily so. In any case, the authorities have every means at their disposal to do them harm. Some shopkeepers deplore the municipality's obligation to charge them for temporary occupation of the public highway (OTVP). At the same time, they are forbidden to display their goods, subject to confiscation. The bottom line is that the relationship between the taxpayer and the municipality is not one of partnership, as announced in the official discourse.

## 2- **Budget resource: General Decentralisation Grant**

The general decentralisation grant (DGD) represents a fraction of State revenue that is transferred to the local authorities to partially finance decentralisation. It is divided into an investment DGD and an operating DGD. The investment DGD includes all the resources transferred for public investment. It is by far the main source of funding for investment by the local authorities. The transfer of the DGD to the local authorities depends on the State's projection of balanced and harmonious development.

85.3% of DTCs think that there is no equity in the distribution of transferred resources; 71.4% even consider this distribution to be arbitrary.

The amount of funding granted to the local authorities is determined by the State. The distribution keys for these allocations are not clearly defined. As a result, there may be significant disparities. Over three financial years (2019, 2020, and 2021), four communes have received more than one billion each in transferred resources:

- Garoua 1: CFAF 2,017,565,000 (two billion seventeen million five hundred and sixty-five thousand),
- Yaoundé 4: FCFA 1,800,224,163 (one billion eight hundred million two hundred and twenty-four thousand one hundred and sixty-three),
- Commune of Kaélé: FCFA 1,791,801,950 (one billion seven hundred and ninety-one million eight hundred and one thousand nine hundred and fifty),
- Commune of Meyomessala: FCFA 1,721,739,038 (one billion seven hundred and twenty-one million seven hundred and thirty-nine thousand and thirty-eight).

Over the same period 2019-2021, four communes will receive less than FCFA 500 million: Douala 1 district commune, Dja commune, Darak commune, Akoeman commune, etc.

### **3- Others**

#### **- Profitability of FEICOM-funded projects**

FEICOM is not only a body for equalising State revenues with a view to their distribution to the DTCs. It is also the "bank of the communes". Funding for communal and inter-communal projects, as well as its own funding, comes from the 20% of the additional municipal levies. FEICOM finances utility equipment, income-generating infrastructure, and so on. These infrastructures are financed by the "Income-generating projects window".



80% of municipalities believe that the revenue-generating projects financed by FEICOM generate insufficient revenue to repay the FEICOM loan. FEICOM recovers its loan through deductions at source. However, the operating activities of such projects should generate sufficient revenue to repay the debt servicing (principal and interest).

- **Alternative financing: Loan-donation and legacy public-private partnership (PPP)-Resources from decentralised cooperation**

85.7% of town halls have not taken out a loan in the last three years. It would appear that local councils do not yet have the necessary experience to manage the high level of requirements and constraints of a loan from a commercial bank. This is consistent with the inability of projects to generate sufficient cash flow to service the debt set out in the FEICOM loan amortisation schedule.

Of the 28.6% of municipalities that regularly receive donations, only 52.9% include them in their budget. The remaining 47.1% of town halls that do not include donations in their budgets forget or are unaware of their legal obligation to do so.

In reality, a donation received must be included in the budget, taking care to attach the following documents:

- Receipt order,
- Deed of donation,
- Approved deliberation,
- Revenue slip/credit advice.

The DTC would do well to inform its citizens about the possibility of bequeathing their assets to them. This could be in the form of money or goods in kind (land, IT equipment, etc.), as is done in the West.

72.7% of local authorities state that they have not initiated a PPP process to finance a major project. PPP contracts are complex projects that require the support of an expert body such as CARPA. Even at State level, contracts are still struggling to be fully mastered and implemented on the ground.

66.7% of the local authorities stated that they had not financed a project with decentralised cooperation resources over the last three years. This source of funding is clearly unexplored. To work more effectively in the field of international cooperation, local authorities would benefit from acquiring skills in international relations.

## - DTCs with a communal forest

This section checks compliance with Law 94/01 of 20 January 1994 on the forest, wildlife and fisheries regime. The communal forest is a natural resource that the DTC is trying to make the most of. There are a number of problems undermining the full enjoyment of this resource, in particular stakeholders' understanding of the rules governing its operation.

According to articles 48, 52, 79 and 80 of the forestry law, the communal forest is managed on behalf of the commune:

- either by direct management ;
- or by means of logging permits, the allocation of which is defined by the local authority. These permits are: timber sales, logging permits, personal logging authorisations, etc.

The titles mentioned above are issued by the Mayor. However, the exploitation of a communal forest is governed by a management plan drawn up by the commune and approved by the Minister of Forests and Fauna (MINFOF).

For 45.5% of town councils, the DDMINFOF with territorial jurisdiction still draws up the management plan for communal forests; for 30% of town councils, the DDMINFOF approves the management plan; and for 70% of town councils, the DDMINFOF issues logging permits..

In reality, the development plan must be drawn up by qualified staff from the local council and approved by the MINFOF. The mayor issues logging permits.



### III- RECOMMENDATIONS

- **Accountability of heads of local authority executives, with the possibility of dismissal by the governing body on the basis of annual performance.**

We recommend that the governing body be able to **reserve the right to dismiss the entire executive based on its annual performance**. The deliberative assembly may usefully rely on article 172 (1) of the CGCTD. Elected in 2020, a mayor in the North region was removed from office in 2022. Most of the municipal councillors blamed him for the poor management of the municipality.

**The executive body becomes a kind of signatory to a fixed-term contract (CDD) for one year, renewable on the basis of the results** recorded in the administrative account and the annual performance report (RAP).

- **Improving tax fairness and efficiency**

Improving tax management involves the following actions:

- Create a framework for consultation between the DTC and the CDI with a view to creating a single taxpayer file;
- Update the taxpayers' file jointly (DTC/State tax departments);
- Make a permanent plea to the State's tax departments to obtain the periodic repayment of foreseeable amounts;
- Involve taxpayers in the classification of income tax into categories A, B, C and D;
- Inform taxpayers and make them aware of their tax rights and obligations;
- Comply with the budget implementation procedure for revenue (prior issue of the revenue order by the authorising officer, then transmission to the accounting officer for collection, etc).

## - **Strengthening the results-based management (RBM) culture**

RBM is an approach based on performance and achieving results. Everyone at every level, from the Chief Executive to the lowest-ranking DTC employee, must feel that they are taking up a challenge or fulfilling a noble mission on a daily basis. Everyone must constantly question the relevance of their actions. For example, by quickly issuing a civil status document (birth certificate, marriage certificate, death certificate), the civil status unit is aware that it is taking an action in line with the objective of providing a quality service to users.

The internal audit and management control service of the DTC or what takes the place of it contributes to achieving the three families of objectives that make it possible to assess the effectiveness of the public service:

- Socio-economic efficiency objectives (from the citizen's point of view),
- Quality of service objectives (from the user's point of view),
- Management efficiency objectives (from the taxpayer's point of view).

Internal audit helps to control activities, while management control helps to steer performance.

## - **Focus on land acquisition**

In order to build community facilities (socio-cultural areas, socio-sports infrastructure, etc.), the DTC must acquire land. The State's private domain may be transferred to the DTC; this domain may also be the subject of an agreement with a view to its use (articles 29 and 30 of the CGCTD). In addition, the DTC may register land in the national domain (article 36 of the CGCTD).

As a fixed asset, land can be used to build various infrastructures. In addition, as part of the formation of the share capital of a semi-public company (SEM), a DTC may make a contribution in kind in the form of land. *The contribution in kind is the transfer of ownership (of rights) of the assets made available to the commercial company as part of the formation of its share capital.*

- **Focus on wealth creation through the creation of SEMs**

An SEM is a private limited company whose share capital is shared between public and private entities. Article 56 of the CGCTD authorises the DTC to hold a maximum of thirty-three per cent (33%) of the SEM's share capital.

We recommend that priority be given to investment in the agricultural sector, such as planting material. Producing and marketing seeds in quantity and quality would be of enormous benefit to farmers and future agricultural entrepreneurs. For example, there are many benefits to be gained from producing and marketing oil palm seedlings alone:

- Encourage local producers to become involved in the sector;
  - Organise growers into cooperatives to improve control over production;
  - Reduce growers' production costs;
  - Specialise growers (to avoid growers having to set up nurseries for which they have no expertise);
  - Build the capacity of local players;
  - Rapidly develop a production basin;
  - Create a related market (crop protection products market with the sale of fertilisers, insecticides, etc.).
- **Focusing on wealth creation through regional attractiveness**

This territorial attractiveness or territorial marketing is any action aimed at presenting the DTC in its best assets with a view to attracting a pre-defined target. A DTC will highlight:

- a rich subsoil,
- proximity to major cities
- one or more developed industrial sites,
- a production basin,
- etc.

The main objective must be to attract national and foreign companies to set up in the DTC area. Another target could be to attract tourists on the basis of its assets.

- **Decentralised cooperation**

Decentralised cooperation can be understood as any *partnership relationship between two or more local authorities or their groupings, with a view to achieving common objectives*. When a local authority enters into a relationship with a foreign local authority, it can attract capital flows or benefit from specific know-how that can be exploited at a later date. For example, we can benefit from technical assistance to refine our project set-ups. We must be careful not to portray a miserable image. On the contrary, we want to show them that such cooperation is mutually beneficial.

- ***Public-private partnership (PPP) approach***

We recommend that DTCs be assisted in the PPP process, and that related projects be focused on the economic sector, as it creates wealth and jobs.

- ***Improve FEICOM's allocation of municipal taxes subject to equalisation (ICSP)***

- Consideration should be given to a system of equalisation (as already practised in France) based on the following criteria for a local authority: population, surface area, costs and resources, tax potential, etc.;
- Disseminating equalisation criteria.

- ***Exploring the financing of green funds by DTCs***

The Green Fund finances projects that help reduce greenhouse gas emissions in developing countries.

The Green Fund provides financing in the form of grants, loans, equity investments or guarantees.

## CONCLUSION

At the end of our study, we recall that decentralisation is a transfer of powers and resources from the State to the local authorities. These are made up of regions and municipalities. They are legal entities under public law with financial and administrative autonomy to manage local affairs. Financing these local affairs means financing decentralisation. **The challenge for local authorities is to achieve financial autonomy, i.e. to finance decentralisation.** To achieve this, the local authorities rely on local taxation and other sources of funding to meet their commitments.

But the expectations of the population remain insufficiently met in terms of access to basic social services and as a catalyst for job and wealth creation. The DTCs would gain by:

- Being part of a process of continuous improvement in their financial governance (broadening and securing tax revenues, etc.);
- Significantly improving relations with the State (framework for consultation, sharing of files, periodic repayment of tax revenues, improvement and dissemination of equalisation criteria, etc.);
- Creating semi-public companies (SEM);
- Encouraging and facilitating the establishment of commercial and/or industrial companies.

The rendering of accounts should not simply be an exercise in complying with the legal timetable. We therefore strongly recommend that the **governing body be able to reserve the right to dismiss the entire executive based on its annual results.** The deliberative assembly can usefully rely on article 172 (1) of the CGCTD. Elected in 2020, a mayor in the North region was removed from office in 2022. Most of the municipal councillors blamed him for the poor management of the municipality.

**The executive body becomes a kind of signatory to a fixed-term contract (CDD) for one year, renewable on the basis of the results recorded in the administrative account and the annual performance report (RAP).**