Direction Générale des Impôts
Directorate General of Taxation

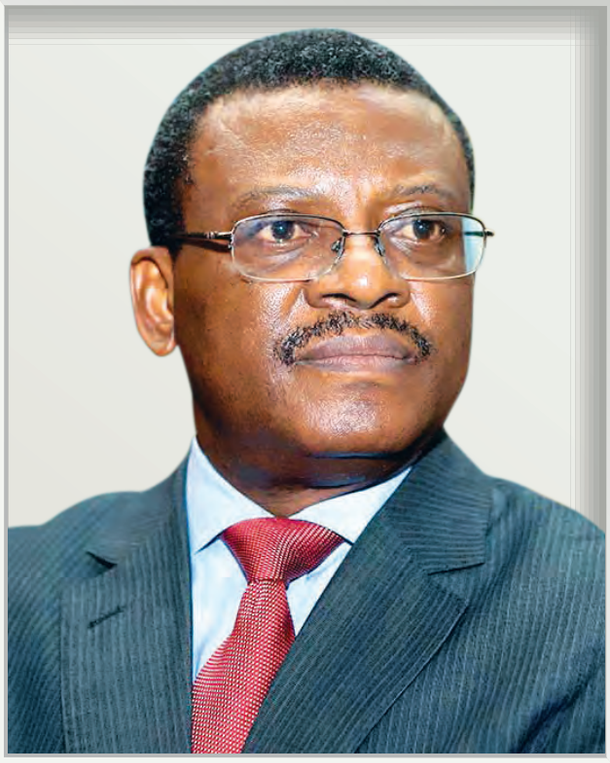
DOUANES CAMEROUNAISES
CAMEROON CUSTOMS

# TAX EXPENDITURE REPORT
## FOR THE 2019 FISCAL YEAR

MINISTÈRE DES FINANCES | MINISTRY OF FINANCE

# H.E. PAUL BIYA

President of the Republic of Cameroon



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# RAPPORT SUR
# LES DEPENSES FISCALES

EXER CICE 2019

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# CONTENT

# CONTENT

# TABLE OF INDEX

# LIST OF GRAPHS

# ABREVIATIONS

| | |
|---|---|
| **APME** | Small and Medium-sized Enterprises Investment Promotion Agency |
| **CCC** | CEMAC Customs Code |
| **CEMAC** | Economic and Monetary Community of Central Africa |
| **CREDAF** | Centre de Rencontres et d'Etudes des Dirigeants des Administrations fiscales |
| **DA** | Excise duties |
| **DDI** | Customs import duties |
| **DE** | Registration duties |
| **DGD** | Directorate General of Customs |
| **DGT** | Directorate General of Customs |
| **ECAM 4** | 4th Household Consumption Survey |
| **FCFA** | Francs FCA |
| **FERDI** | Foundation for the Study and Research on International Development |
| **GTC** | General Tax Code |
| **INS** | National Institute of Statistics |
| **IPA** | Investment Promotion Agency |
| **IPC** | Consumer price index |
| **IRPP** | Personal income tax |
| **IS** | Company tax |
| **LTO** | Large Tax Office |
| **MTO** | Midium Size Tax Payers Office |
| **RLA** | Regional and Local Authorities |
| **STR** | Statistical and tax return |
| **TE** | Tax expenditure |
| **TO** | Turnover |
| **MINFI** | Ministry of finance |
| **MIds** | Biliions |
| **NIU** | Tax identification number |
| **OCDE** | Organisation for economic development and corporation |
| **GDP** | Gross domestic product |
| **BTS** | Benchmark tax system |
| **TEC** | Common external tariff |
| **VAT** | Value added tax |
| **VI** | Taxable value |
| **CAMCIS** | Cameroon Customs Information System |

# LETTER FROM THE MINISTER OF FINANCE

The evaluation of the tax expenditure and the publication of the related report have now institutionalised in Cameroon with the release of the fifth study on tax expenditures. The initiative undertaken since 2015, is founded on section 7 of Law N°2018/012 of 11 July 2018 on the fiscal regime of the State and other public entities, which requires the government to append to the finance bill, the amount of tax expenditure. This requirement is designed to modernize public financial management in order to contribute to the attainment of our country's development objectives. To fully enshrine this process in the tradition of budgetary transparency rules, Cameroon has set up a committee in charge of studying and evaluating tax expenditures.

The objective of this study is to measure and publicize tax expenditures in the same way as budgetary expenditures tracked by the public accounts and published through finance and settlement laws. Given the fact that their cost is not always defined and the ceiling for their allocation is not always known, it is essential to measure their relevance in terms of their impact on the population.

However, the 2019 evaluation is special in that it highlights the amount of revenue losses resulting from the system of externally or jointly financed contracts, which, although do s not constitute a tax expenditure in the strict sense of the term, are nevertheless a source of revenue loss given the amounts of uncollected taxes not covered. This underscores the relevance of the reform undertaken in this area by the 2019 Finance law.

It is equally imperative to actually carry out an impact analysis of the incentives granted to the metal industry as well as those provided for in the law of 18 April 2013 on incentives for private investment in Cameroon. This report therefore provides insight on the evaluation of reforms undertaken in the investment sector. Drawing lessons from previous evaluations, we have undertaken to strengthen the evaluation instruments through the introduction of the economic component to the already existing social component, with a focus on the metal industry, and companies benefiting from the tax advantages of the law of 18 April 2013.

**Louis Paul MOTAZE**
**Minister of Finance**

# ANALYTICAL SUMMARY

The main objective of this study is to evaluate tax expenditures with a view to improve tax efficiency and better governance of tax and customs regimes, both common law (general tax code and customs code) and derogatory (regime for development) projects, incentives for private investment, free trade zones, economic zones, etc.). It is funded by the budget of the Ministry of Finance and is conducted through the Directorates General of Taxation and Customs with the support of the National Institute of Statistics and MINEPAT.

This is the fifth tax expenditure report produced by the Ministry of Finance, the first was done in 2016 with the support of FERDI for the 2015 fiscal year. This report covers the 2019 fiscal year. It builds on the experience of previous years and is intended to continue and improve the tax expenditure evaluation process, aiming for maximum completeness and reliability.

The study covers all direct and indirect taxes and analyses the equity of the VAT and DA tax expenditure based on data from the 4th Cameroonian Household Survey (ECAM4). It also analyses the impact of exemptions granted in terms of direct and indirect taxes on the creation of new businesses and the development of existing ones as well as on jobs, in a nutshell, on economic growth with the law of 18 April 2013 on incentives for private investment and the specifications of the metallurgy sector as a benchmark. Three hundred and eighty (380) measures constituting tax expenditure were identified as follows: two hundred and eighty (280) for VAT, twenty (20) for customs duties, four (04) for excise duties, twenty-nine (29) for corporate income tax, twenty-six (29) for the personal income tax and eighteen (18) for registration duties. The measures identified can be classified into total or partial, temporary or permanent exemptions, allowances, deductions and exemptions. They can be found both in the ordinary law system as well as in specific schemes.

It should be pointed out that not all the measures that constitute the tax expenditures identified have been evaluated. Only the most significant ones have been evaluated, and some of these have been partially evaluated due to the lack of data in the Statistical and Tax Returns (DSF) or the absence of imports from at the level of the customs department.

For this year, the evaluation has made significant progress in terms of socio-economic impact analysis with specifications for the metallurgy sector, and the law on incentives for private investment.

In addition, in the spirit of transparency, the revenue losses generated by the care scheme, although not identified as tax expenditures, have been evaluated, thus justifying the reform undertaken in the framework of the 2019 budget law.

A draft assessment of the measures to be streamlined was also proposed. The results of the analyses show the contribution of the exemptions to the development of the metallurgy sector and private investment, thus justifying their usefulness. Their scope should, however, be rationalized in general.

In all, out of the 380 measures identified, 371 have been evaluated, i.e. a percentage in relative value of 97.6%. On this basis, the total amount of tax expenditure assessed amounts to FCFA 584,693,831,294.

From the study conducted, conclusions were drawn along with recommendations to streamline tax expenditures and ensure that they are strictly monitored. In this regard, it is suggested that :. The following suggestions are put forward :

- assess the impact of derogatory regimes and specific codes to make them compatible with revenue mobilisation policies ;
- To link all agreements and other specifications to the law of 18 April 2013 for better monitoring and for more equity between the different economic operators;
- better targeting of tax expenditure aimed at the most disadvantaged households, considering that that the item «food, non-alcoholic beverages», which receives 46% of tax expenditure in terms of VAT, benefits only 5.8% of disadvantaged households, compared with 40.8% for the richest households; household. As a matter of fact, consumption expenditure is a function of the level of consumption.

In terms of monitoring tax expenditure, it would be advisable to :

- Pursue the synergy of actions between the customs and tax administrations ;
- Automate the evaluation of the tax expenditure through a customized software solution;;
- Finetune the collection of statistics according to the derogatory or ordinary law regimes for tax expenditure;
- Propose a timetable for the abolition of derogatory measures with no definite impact in relation to the objectives set for the year 2022.

# INTRODUCTION

The cameroonian tax system continues to be characterised by many derogations in the form of exemptions, suspensive regimes, reductions, rebates or preferential rates. These derogations represent an important budgetary stake. They are called tax expenditures because their impact on the state budget is comparable to that of real expenditures.

Controlling the cost of tax expenditure is becoming an imperative for better financial transparency of the State budget and for greater rationalisation in the allocation of resources. This is why the annual report on tax expenditure is an appendix to the draft budget bill for the financial year.

The objective of this study is to evaluate the tax expenditure for the year 2019. It was carried out by the Directorates General of Taxation and Customs in collaboration with the INS. The contributions of all members of the project team were relevant and very useful.

It is important to reiterate that tax expenditure can take various forms. These can include :

- ✓ Exemptions: amounts excluded from the tax base;
- ✓ Rate reductions: reduced tax rates applied to a category of taxpayers or taxable transactions;
- ✓ exemptions, suspensive regimes, and other rate reductions.

However, any measure involving a loss to the State budget is not necessarily a tax expenditure. Qualifying a measure as a tax expenditure implies referring to basic legislation from which it would derogate, which is why the prior determination of the reference tax regime is the key to identifying the tax expenditure. Thus, only tax provisions (derogations) that deviate from a previously defined reference system constitute tax expenditures.

The analysis of the tax expenditure in particular for VAT (both internal and customs), customs and excise duties, income tax and registration duties aims at improving the collection of direct and indirect tax revenues. It contributes to the rationalisation of the said taxes by estimating the financial cost to the Cameroonian State of the derogatory measures granted. This analysis also makes it possible to assess the relevance of tax expenditures in terms of their objectives, especially those of a social and economic nature which aim at encouraging investment, creating jobs, supporting purchasing power, promoting agriculture, alleviating the cost of health care, facilitating access to housing by seeking a reduction in the price of certain goods and services consumed as well as equipment for investment.

This report provides an assessment of the tax expenditure relating to Cameroon's domestic and gate VAT, customs duties, excise duties, corporate income tax (CIT), personal income tax (PIT), registration fees, and assesses their fairness and impact based on the latest available household survey, the results of the evaluation of the Private Investment Incentives Act in terms of actual investment and employment generated, as well as those of the metallurgy sector.

It is structured around a presentation of the budgetary evaluation of the tax expenditure (Part I), with a presentation of the conceptual and methodological framework (Chapter 1) and a detailed analysis of tax expenditure according to all possible criteria (Chapter 2), before proceeding to their actual evaluation (Chapter 3), with a view to a study of the economic and social impact of the tax expenditure (Part II), in particular that of current consumer goods (Chapter 1), of the metallurgy sector benefiting from the specifications (chapter 2), as well as that of the companies benefiting from the approval agreements within the framework of the law on incentives for private investment (chapter 3).

It is complemented by a study of the economic and social impact of the tax expenditure (part two), in particular that relating to current consumer goods (chapter 1), and the economic incentives granted to the metallurgy sector and companies accredited to the Private Investment Incentives Law (chapter 2). The purpose of this impact assessment is to measure the effectiveness and relevance of tax expenditures with a view to better guiding public policy.

PART ONE

# EVALUATION OF THE BUDGETRY IMPACT OF TAX EXPENDITURES

# CHAPITRE I CONCEPTUAL FRAMEWORK AND METHODOLOGY

## I. DEFINITION OF CONCEPTS

### A. Tax expenditures

Tax expenditures are special measures derogating from the reference tax system (SFR) that generate revenue losses for the State, with the aim of encouraging a particular economic behaviour on the part of taxpayers, or of subsidising certain social groups . Consequently, tax expenditures result in a reduction in the tax burden of taxpayers compared to that which would have resulted from the application of the norm, i.e. the general tax provisions applicable in Cameroon.

The concept of tax expenditures therefore refers to derogations from the tax norm which would have an effect equivalent to that of budgetary expenditures. The State generally makes use of them to promote an operation, activity or behaviour, in a word for incentive purposes.

### B. Reference standard

Talking about derogatory measures or referring to a norm and general principles of tax law raises the question of the existence of such a norm. However, by virtue of the principle of the legality taxes, the schemes applicable in tax matters, both for general principles and for possible derogatory measures, are in principle laid down by law.

The departure from a benchmark tax system is therefore a tax expenditure.

### C. Benchmark tax

Tax expenditure has been identified both in the General Tax Code (CGI) and in the CEMAC Customs Code (CD), which constitute the basis of ordinary law, and in the regimes that derogate from it, consisting of Community or international legislative texts containing provisions with tax or customs implications.

In order to assess deviations from the norm, it is important to determine a general taxation system (the rates and bases) that constitutes the reference for each tax. The application of any other tax rates or bases thus gives rise to a tax expenditure that it is important to understand.

### D. Determination of the benchmark tax system

Determining the benchmark tax system system for assessing variations from the standard entails defining the benchmark tax rates and tax bases applicable to each category of tax (see Appendix 1).

The Legislation sub-group has thus defined the BTS for each tax. It proposed the Cameroonian BTS for VAT based on its structure as described in the General Tax Code (CGI) taking into account its base, i.e. domestic final consumption, its rate (19.25% general rate and 0% for exports), and its threshold. It also integrates in the BTS Cameroon's international commitments that impact on VAT. The supra-national provisions included in the BTS are those contained in international conventions, essentially detailed in the Customs Code (CDD), to which the CGT refers, and the CEMAC directives relating to VAT.

With regards to customs duties (CET), the BTS selected takes into account the regional nature of the Customs Code which governs its implementation for the collection of customs duties, the conventions, agreements, regulations, acts and other international commitments of the Customs Code which are integrated into it and of which Cameroon is a signatory or adherent member. In the sense of customs, not all derogatory regimes constitute fiscal expenditure. As a matter of fact, the duty free admission of goods scheme is not considered a source of tax expenditure. Examples of such duty free importations not considered tax expenditures include the exemption regime applicable to diplomatic missions, humanitarian consignments, educational materials and documents within the framework of the florence convention, equipment related to civil aviation, etc. It should be noted that the rates vary between 5 and 20% depending on the nature of the imported goods.

With regard to excise duties, it has been noted that the legislator did not explicitly provide for exemptions, but three derogatory measures constituting tax expenditure have been identified in the GTC and one measure in the customs code. These include the 25% reduction in the tax base for soft drinks, the exclusion of products distributed for commercial purposes from the tax base of excise duties (capped at 3% of the overall production), and the exclusion of production losses from the tax base of excise duties (capped at of 1% of the overall volume of production). Regarding excise duties, section 142 of the CGI provides for three rates: a general rate of 25%, a reduced rate of 12.5% and a super-reduced rate of 2%. The general rate applies to the goods and services listed in Annex II to Title I of the GTC, other than vehicles and mobile telephone communications and Internet services. The reduced rate applies to passenger vehicles with combustion engines more than 10 years old as well as commercial vehicles and road tractors more than 15 years old. The super-reduced rate, applies to the turnover of mobile telephone communications and internet service companies. See attached list.

Concerning the company tax (CT), the Cameroonian BTS was proposed based on the configuration of the said tax as defined in sections 5 to 13 of the General Tax Code, taking into account its base, i.e. all profits obtained by the companies operated or on the operations carried out in Cameroon, its rate, liable person, as well as deductible expenses for determining the result. It also incorporates Cameroon's conventional commitments that impact the provisions of the GTC, including those contained in specific codes, as well as all derogatory schemes, incentives, and international agreements referred to by GTC on income tax. The CIT rate (additional council tax inclusive) is set at 33% save for companies with a special incentive tax regime for which the rate remains at 38.5%.

As for the Personal Income Tax, the definition of the BTS was based on the provisions of the GTC relating to the base of the various taxes covered (i.e. salaries, pension and annuity salaries, income from personal capital, industrial and commercial profits, property income, agricultural profits and non-commercial profits). This is generally the income acquired, that is, the income on which the beneficiary can avail himself of a certain right even if the fact that it has not yet been made available has not yet occurred, the tax thresholds, the various tax rates and the flat-rate allowances for expenses. The BTS also took into account the measures contained in specific codes and derogatory and special tax regimes, as well as international conventions. With respect to the PIT, the tax liability on wage income is calculated by applying the following scale on net income, i.e. deducting professional expenses of 30%, 2.8% representing social contributions and a sum of 500,000 CFA francs on the net basis as follows: from 0 to 2,000,000 .... 10%, from 2,000,000 to 3,000,000..... 15%, from 3,000,000 to 5,000,000.....25%, more than 5,000,000.....35%.

For business income and non business income, the rate is 30%, while that for capital gains is 15%.

Finally, registration duties, the BTS takes into account the liable persons, the deeds concerned and the applicable rates. It also considers Cameroon's conventional commitments that impact on provisions of GTC, including those contained in the specific codes as well as all derogatory schemes, incentives, and the harmonised legislation at the CEMAC level to which GTC refers to in matters concerning the registration duties.

# II. THE METHODOLOGY

This section discusses the scope of evaluation, identifying data requirements and sources, describing the data collection process, its processing, and defining the estimation method.

## II.1. METHODOLOGY DEPLOYED BY THE DGT

### A. Scope of assessment

The question is to clarify:

- the target, i.e. the category of taxpayers concerned: taxpayers attached to the specialized structures of the DGT namely the LTO, MTO, CSIPLI and the CSI EPA CTD OM;

**Comment:** Regarding VAT, restricting to study to this category of taxpayers covers all taxpayers who are enabled to invoice VAT. On the other hand, with respect to other taxes, this restriction underestimates the tax expenditure because some taxpayers liable to these taxes fall under the divisional tax offices. However, this sample is quite significant as it accounts for more than 95% of revenues collected by the DGT.

- The taxes and taxes covered by the assessment that may give rise to a numerical estimate. With regard to the IMB, the taxes that are included in this study consist of indirect duties, namely: VAT, excise duties (DA); and direct rights in this case the Corporate Tax (IS), the Physical Persons Income Tax (IRPP) and registration fees (ED);
- tax schemes to be taken into account in the assessment of the expenditure. These tax schemes are legislative, regulatory, conventional or de facto. As part of this study, these schemes were grouped into four major groups:
  - ✓ Common law schemes (basic necessities, agricultural products and equipment, pharmaceuticals, equipment and equipment for the exploitation of VAT-exempt solar and wind energy, excise duty base on certain products, Certified Management Centre (CGA), stock market sector);
  - ✓ Sectoral provisions (incentives for private investment, free zones, oil code, gas code, mining code, conventions and specifications);
  - ✓ National customs provisions (total or partial exemption from import duties, ad hoc/express exemption, abatement of the taxable import base);
  - ✓ Specific codes (gas code, duty of imports of capital goods for gas transport, distribution, storage and processing activities).
- Finally, the different types of derogatory measures identified as tax expenditures and which can quantified.

**Comment:** Not all tax expenditures can be quantified due to the difficulty in collecting the data or the unavailability of the data; companies are not required to report this information. Some of this data is supposed to be provided in statiscs and tax returns (STR), but companies generally do not provide them.

Of the 568 derogatory measures identified, 380 were identified as tax expenditures. Of these derogatory measures identified as tax expenditures, 09 measures were not evaluated, either because of the lack of information in the STR or because it was not possible to link the existing data to a specific derogatory measure.

## B. The selected estimation method

There are three methods for estimating tax expenditures:

- ✓ The final revenue gain method: the gain in tax revenue that would result from the elimination of a tax expenditure is measured by taking into account the change in taxpayer behavior;
- ✓ The expenditure equivalent method: the amount of direct expenditure that would be required to give a benefit to the taxpayer equivalent to that of the tax expenditure is assessed;
- ✓ The revenue loss method: the reduction in tax revenue resulting from the adoption of the exemption is assessed, ex-post, on the assumed that this adoption has no effect on taxpayers' behaviour. Assuming that the exemptions do not induce any change in economic behaviour among taxpayers, the question is to make the difference between the theoretical tax that taxpayers would have paid if the measure had not been adopted and the tax actually paid.

The revenue loss» method shall be used to estimate tax expenditures in this study.

**Comment:** Comments: In order to harmonize and to compare results, the «revenue loss» method was advocated by FERDI to CEMAC and ECOWAS countries. This method is relatively easy to exploit, although it overstates tax expenditures.

However, the revenue loss method provides only a limited view of the economic and budgetary effects of the measure, since the estimate does not take into account the behavioural changes it induces (incentive effects), much less the impact of the measure on other revenues or on the level of activity.

## C. Identification of data requirements and their sources

This step is fundamental for optimal data collection. It ensures the accuracy of estimates, which in turn depend on the STR FILING rate and the availability of information in the said STRs.

Identifying data needs involves:

- identifying the variables or information needed for the evaluation, their source and their reference in the STR, if necessary.
- identifying and list the companies affected by the tax system.

Precisely, the following taxpayers' sub-files were compiled with their tax ID number and their tax offices.

With regard to common law exemptions on VAT, companies producing the products or services concerned must be identified beforehand. Another way to do this is to eliminate companies that report zero exempt local turnover.

The DGT data used in this study comes from STRs, tax offices, the Investment Promotion Agency (IPY) and other jurisdictions. As for the DGT, they come from the new Cameroon Customs Information System (CAMCIS).

The results are analysed by tax regime and for economic analysis, by beneficiary, by size of beneficiary companies, by objective, and even by sector of activity.

## D. Tax expenditure estimation formula

The aim is to calculate the difference between the tax revenues that should have been collected by the State if the product or service sold locally was not subject to a derogatory measure, and the tax revenues actually collected by the state.

For each tax, after the definition of the benchmark tax system, the tax base and the benchmark rate by the legislation team, the DF is easily calculated with respect to the method of evaluation chosen:

Mathematically, **TE = (tax that should have been paid if there was no exemption) - (tax actually paid)**

Concretely, **TE= Taxes, duties and taxes theoretically due - Taxes and taxes actually collected.**

Mathematically, **DF =** $DF^{TVA} + DF^{DD} + DF^{DA} + DF^{DE} + DF^{IS} + DF^{IRPP}$

Where : DF (TE) is the tax expenditurense fiscale ;

$DF^{TVA}$, $DF^{DD}$, $DF^{DA}$, $DF^{DE}$, $DF^{IS}$ et $DF^{IRPP}$ are tax expenditures relating to VAT, customs duties, excise duties, registration fees, CIT and PIT respectively.

- Data estimation formula used by the DGT
  - For VAT

Vat tax expenditure is the difference between the VAT that should have been collected if there were no exemptions and the VAT actually collected, the current VAT rate being 19.25%.

$DF^{TVA}$ = **( (VAT that should have been collected if there were no exemptions) - (VAT actually collected)**

We obtain : **:** $DF^{TVA} =$ Tax exempt turnover *19,25% -$TVA\ déductive^{exo}$ (1)

Where exempt CA is exempt revenue on local sales or services and is deductible VAT exempt

**Comments:** Comments: Exempt deductible VAT is the VAT that would have been deducted if the derogation measure had not been adopted. This assumes that the adoption of the derogation measure has resulted in the exemption of VAT on certain inputs or investment property. In other words, this assumes that the removal of the derogation measure on a product or service would be done simultaneously with the removal of exemptions on its inputs.

In the event that the VAT exemption on products has not resulted in the exemption on certain inputs, . This is the case, for example, with social water and electricity units, life and health insurance contracts and commissions, etc.

Dans le cas où l'exonération de TVA sur les produits n'a pas entrainé l'exonération sur certains intrants, $TVA\ déductive^{exo}$ **= 0**. C'est le cas par exemple des tranches sociales d'eau et d'électricité, des contrats et commissions d'assurances vie et maladie, etc.

In general, information on exempt deductible VAT is estimated because it is not available. In order to approximate it, one solution is to assume that the ratio between VAT charged (VAT paid out of withholding tax) and deductible VAT is constant. Thus, the ratio between exempt deductible VAT and exempt VAT is equal to the ratio between VAT billed on taxable turnover and effective deductible VAT. This translates mathematically as follows:

$$\frac{TVA\ déductive^{exo}}{TVA^{exo}} = \frac{TVA\ déductible}{TVA\ facturée}$$

On déduire : $TVA\ déductive^{exo} = \frac{TVA\ déductible}{TVA\ facturée} \times TVA^{exo}$

In fine, we obtain : = Exempt TO*19,25%

The VAT ratio paid to VAT collected must be between 0 and 1. The use of this ratio poses a problem if the company only produces or sells products that are completely exempt from VAT. In this case, the VAT paid out and the VAT charged are zero and this ratio becomes absurd.

Moreover, the assumption of the consistency of the VAT ratio charged to deductible VAT assumes that the value added per unit produced would be the same in all industries or for all products.

Given the above considerations and the absence of information, we assume that $TVA\ déductive^{exo}$ = 0.

Formula (1) becomes: $DF^{TVA} = CA^{exo}$ **X 19,25%.**

This formula is appropriate for the assessment of certain tax expenditures in cases where there is no exemption on inputs although it overestimates the tax expenditure otherwise. This is the case, for example, with electricity, water, life and health insurance contracts and commissions.

However, in order to reduce the overvaluation of commercial enterprises, tax expenditures in that branch are estimated by:

$DF^{TVA}$ **= (Marge commerciale brute) X 19,25%** (1').

- For excise duties

$DF^{DA}$ = **(excise duties which should have been paid if there were no exemptions) - (excise duties actually paid)** **(2)**

The excise duty derogation measures relate to the tax-base allowances with the exception of one measure which relates to the total exemption from the specific excise duty on new beverages produced and packaged exclusively from local raw materials. In the latter case, we have:

**TE on Specific excise duties = The quantity of products sold × amount of specific on the BTS.**

Where: the BTS excise duty amount is the amount of BTS's specific excise duties per unit.

With regard to the reduction of the tax base, we record

$DF^{DA}$ =**((Amount of tax base allowances) × excise duty rate of BTS))**

In the end, we get:

$DF^{DA}$ = **(Amount of tax base allowances)× + Quantity of products sold × excise duty rate of the BTS.**

where : $DF^{DA}$ is the tax expenditure on excise duties.

$taux_{DA}$ is the tax expenditure on excise duties.

- For registration duties

Fixed registration duties are distinguished from proportional registration duties. Fixed registration duties are applied to legal instruments , regardless of the pecuniary interest at stake. They express themselves by means of a monetary amount set by deed. While proportional registration fees tax the value of property or property recognized in the legal deed. They express themselves by means of a rate multiplied by the value of real estate or real estate.

$$DF^{DE} = DE_{théorique} - DE(effc) \qquad (3)$$

Where $DE(effc)$ is the registration fee actually paid on the deed to be registered.

For fixed registration duties, we have:

$DE_{théorique\ fixe}$ **= ((Number of deeds) x (Amount of registration duties on the BTS).**

For proportional registration duties we have :

$DE_{théorique\ proportionnel} = BASE * taux_{DE}$.

Where BASE represents the tax base of the deed to be registered and $taux_{DE}$ is the rate of registration duties of the BTS which can vary from 15% (high rate), 10% (intermediate rate), 5% (average rate), 2% (reduced rate) or 1% (super reduced rate).

- For the company tax (CT)

The cit is a tax based on taxable corporate income. In Cameroon's tax system, it is accompanied by the minimum tax collected (MT). The minimum tax collected refers to the minimum amount to be paid. The base used to calculate the minimum collection is generally the overall turnover or gross margin plus the rewards and commissions of any kind received for the margin-administered sectors (flour, petroleum products and domestic gas, pharmaceuticals and the press).

$$DF = IS_{théorique} - IS(effc) \qquad (4)$$

$$avec\ IS_{théorique} = \text{Max}\ (BF * T_{is}; BMP * T_{MP}) \text{ et } IS(effc) = \text{Max}\ (IS; MP)$$

Where $T_{MP}$ is the rate of the theoretical minimum tax, BMP is the basis of the minimum tax collected, BF = taxable profitt, $IS(effc)$ is the CIT actually paid by the company $T_{is}$ and is the theoretical CIT rate which is 33%. However, for companies benefiting from a derogatory tax system or a special incentive tax system, the applicable rate is that in force as of January 1, 2014, i.e. 38.5% including additional council taxes.

For companies under the common law scheme, the BMP is the overall turnover and $T_{MP}$ is 2.2% for taxpayers under the actual system of assessment, and 5.5% for taxpayers under the simplified system of assessment.

For companies in the margin-administered sectors, the minimum collection base is the gross margin plus bonuses and commissions of any kind received for the margin-administered sectors and its reference rate is 15.4%, including the CACs. However, companies in this sector may opt for a common law regime. In this case, the basis is the overall turnover and the tax rate is 2.2% for taxpayers under the real plan, and this rate is 5.5% for taxpayers under the simplified scheme.

The tax expenditure for the company tax is largely the result of the basic deduction from the reinvestment scheme. Other tax regimes benefit from IS tax expenditures, such as CGAs, free zones, disaster zones, stock market regimes, oil, gas and mining codes. The same is true for the IRPP.

- For the personal income tax (PIT)

In this study, salaries and salaries were excluded from the scope of assessment.

$$DF^{IRPP} = IRPP_{théorique} - IRPP(effc) \qquad (5)$$

$$avec\ IRPP_{théorique} = \text{Max}\ (BF * T_{irpp}; BMP * T_{MP})$$

Where BF refers to the taxable profit and $T_{irpp}$ is the tax rate of theoretical artisanal profits, commercial and non commercial profits. This rate is 33% for commercial and non commercial profits, agricultural profits, land income and artisanal profits; and 16.5 for income from capital gains.

**For the specific case of the special income tax,** $TSR_{théorique} = B_{tsr} * T_{tsr}$ où $B_{tsr}$ is the tax base consisting of the gross amounts of royalties and other remuneration paid to companies domiciled outside Cameroon. $T_{tsr}$ is the TSR rate which can take values 16.5% (general rate), 11% (average rate), 5.5% (reduced rate) and 2.2% (super reduced rate).

**Regarding the particular case of the measure relating to the 50% abatement granted to members of accredited management centers on the basis of calculating the advance tax on sales (PSA) by some large companies,** the latter is not a tax expense for companies under the simplified system of assessment or the actual system of assessment because their PSAs are deducted from the final tax liability.

As such, TE - 50% - (Purchases made by companies under the simplified tax assessment scheme from large companies entitled to make this discount) rate.

Where rate is the PSA rate which is 5% for taxpayers of the simplified tax assessment.

The variable «Purchases made by companies under the IL scheme...» is determined by estimating the average turnover of this category of taxpayer, which is multiplied by the number of CGA members under the IL plan.

Given the intricacies of assessing certain registration fee, IS and IRPP derogations, the details of calculating tax expenditures by derogation are attached.

## II.2. METHODOLOGY OF THE DIRECTORATE GENERAL OF CUSTOMS

- Data estimation formula of the DGC

As a reminder, the assessment of tax expenditure relates to the following duties and taxes: the Import Duty (DDI), the Excise Duty (DA) and the Value Added Tax (VAT). The question will be to calculate the difference between the value of each tax that should have been liquidated if the import was not subject to a derogatory measure, and the value that was effectively liquidated.

The method of calculating duties and taxes that should have been liquidated is as follows:

### ▪ For import duties

$DF^{DD}$ = MDD – DD = $taux_{DD}$ * VI – DD

Où : $DF^{DD}$ est la dépense fiscale sur les droits de douane à l'importation ;

MDD est le montant des droits de douane à l'importation qui aurait dû être liquidé ;

DD est le montant des droits de douanes effectivement liquidé ;

VI est la valeur imposable ;

$taux_{DD}$ est le taux des droits de douane pouvant prendre les valeurs 0%, 5%, 10%, 20% ou 30%.

### ▪ For excise duties

$DF^{DA}$ = MDA – DA = $taux_{DA}$ x (VI+MDD) – DA

Where : $DF^{DA}$ is the tax expenditur eon import duties ;

MDD is the amount of import tariffs that should have been assessad;

DD is the amount of customs duties actually assessed;

VI is the taxable value;

$taux_{DA}$ is the rate of custom duties which vary from 0%, 5%, 10%, 20% ou 30%.

### ▪ For VAT

$DF^{TVA}$ = MTVA-TVA = $taux_{TVA}$ * (VI+MDD+MDA) – VAT

Where: MTVA est le montant de la TVA qui aurait dû être liquidé ;

$taux_{TVA}$ is the VAT rate set at 19,25%

$DF^{TVA}$ is the tax expenditure on VAT ;

TVA is the amont of VAT actually collected.

The estimation of the tax expenditure is done based on the scope validated by the legislative subgroup and the evaluation method proposed above. It is done from the SYDONIA file.

# CHAPTER II REVIEW OF MESURES WHICH CONSTITUTE TAX EXPENDITURES

This report identifies 380 tax measures that are derogatory to the benchmark tax system that is the standard. These measures are thus considered to be tax expenditures.

## I. PRESENTATION OF MEASURES WHICH MAKE UP TAX EXPENDITURES

Tax expenditures are divided into two. The first are deemed to be common law measures constructed from the derogatory provisions of the CGT or the cutoms code. The second so-called derogatory regime is the compendium of all the derogatory provisions contained in specific texts. Thus, the sectoral codes (oil, gas and mining), the free zone, the law providing incentives for private investment, public-private partnership contracts, the economic zones law, conventions and specifications, external financing contracts (FINEX) will be placed in the latter.

Out of a set of 380 measures, 292 are the result of the common law and most of them are derived from the GTC, with the customs code provided only 13 measures.

The list of measures constituting tax expenditures is included in Appendix 2.

**Table 1: distribution of measures by tax scheme and tax type**

| Tax | VAT | Customs | Excise | CIT | PIT | Registration duties | TOTAL |
|---|---|---|---|---|---|---|---|
| Commoin law system | 269 | 10 | 4 | 1 | 5 | 3 | **292** |
| Derogatory measures | 11 | 11 | 0 | 28 | 24 | 14 | **88** |
| **Total** | **280** | **21** | **4** | **29** | **29** | **17** | **380** |

### A. Common law schemes

Common law measures are contained in both the GTC and the CEMAC customs code. The measures contained in the GTC concerned are those relating to total exemptions, allowances and basic exclusions. Act 2/98 of the Customs Code provides for the benefit of exemption from customs duties and taxes on consumables and spare parts intended for mining or oil exploration and research activities. These exemptions are granted to mining and petroleum companies holding a permit for exploration and/or research in this field. Also included in this list are total or partial exemptions and rate reductions.

### B. Derogatory schemes

#### Law of 18th april 2013 on the promotion of private investment

Under the law of 18 April 2013, some provisions of which have been amended through the law of 12 July 2017, Cameroon has resolved to further encourage private investment in line with the economic and social policy options adopted by the Growth and Employment Strategy Paper (GESP), the DSCE. For the record, Ordinance No. 90/007 of November 8, 1990 on the Investment Code of Cameroon, from which the law of 2013 derives, already indicated the way forward through the promotion of productive investments oriented towards the development of national natural resources and the increase in exports of manufactured products.

This tax regime grants promoters of new and existing companies facilities that enable them to create or expand their existing investments in the twelve (12) priority sub-sectors set by the law of 18 April 2013.

#### The Conventions and agreements scheme

These are the commitments made by the Government through specific texts aimed at sectors that require technical expertise and significant financial resources. The incentives contained in these texts are now governed by the legislation in force.

#### The Sectoral code schemes

The sectoral code regimes include the oil code, the gas code and the mining code. Incentives related to these sectors are intended to promote research, exploration and exploitation of soil and subsoil resources. These sectors are characterised by studies, research work and the importation of equipment and heavy equipment which benefit from the facilities.

### The defrayment of VAT and customs duties on externally funded

Duties and taxes related to contracts with external or joint financing are the responsibility of the successful bidders. However, where, for a public contract with external or joint financing, the financing agreement does not provide for VAT to be covered, it is supported by the counterpart funds provided for in the budget of the contracting authority or the beneficiary ministry; only, in practice the insufficiency of the resources provided for under these counterpart funds, combined with the exceptional facilities granted by the high authorities in the context of the urgent execution of certain projects, does not allow for the coverage of the all the taxes defrayed. Moreover, the consumption for other purposes (real expenditure) of the resources reserved for duties and taxes for budgets concluded inclusive of all taxes (VAT) is a source of revenue loss. Thus, the coverage by the State tends to become a tax expenditure.

### The anchor project scheme

This special tax regime was introduced for the benefit of structuring projects carried out by large companies and SMEs in 2008. Although abolished since 2015, regularisations that were a source of tax expenditure continued until June 2017.

### The economic zone scheme

Law No. 2013/011 of 16 December 2013 governing economic zones in the Republic of Cameroon, sets the general framework for the creation, development and management of economic zones, and constitutes a tool for encouraging and/or promoting investment, exports, competitiveness, employment, economic growth and land development. The incentives provided under this scheme correspond to those of the 2013 law.

### Public-private partnership contracts scheme

The tax regime for partnership contracts provides that the budget of the contracting public entity bears the Value Added Tax (VAT) on imports and local purchases of equipment. In addition, the contracting party benefits from the free registration of agreements and deeds entered into both during the implementation phase of the investment project and during its operation. The tax expenditure in this context arises when the incentives are granted without confirmation of the availability of the counterpart funds supposed to cover them. Furthermore, as in the case of FINEXT above, the allocation of funds earmarked to cover VAT and customs duties for other purposes gives rise to the tax expenditure.

### Economic disaster zone scheme

Governed by the provisions of sections 121 and 121 bis of the CGI and the terms of Decree n°2019/3178/PM of 02 September 2019, the regime of economically disaster areas simultaneously grants tax advantages to new and existing companies that carry out new investments in an economically disaster area, as well as to those that proceed to the reconstitution of their production tool. The incentives granted are related to the exemption, for a period of 10 years, from corporate income tax, the patent contribution, VAT on the acquisition of goods and services, registration duties on real estate transfers related to the project, as well as employers' tax charges on salaries paid to staff. As for those who carry out the restoration of their production tool, they benefit from a tax credit of 30% of the expenses incurred, capped at FCFA 100 million and chargeable within the limit of three closed financial years, following the one in which the expenses were incurred.

### Accredited management center (AMC) scheme

Established by the 1996/1997 finance law, AMC's were organised by two decrees issued by the Prime Minister, all of which set out the tax benefits granted to members of the said centres. With the 2016 finance law, the benefits have been extended to promoters. The AMC is a private body accredited by the Minister of Finance to provide assistance in the management, supervision and execution of tax and accounting obligations to taxpayers, individuals or legal entities whose turnover is less than or equal to F CFA 100 000 000. The promotion of SMEs is the main objective of CGAs and is reflected in measures to reduce the tax burden, from their creation to their maturation. The facilities thus granted both to the promoters of CGAs and their members constitute tax expenditure as long as they derogate from the general principles of taxation concerned by the said facilities.

The investment incentives and promotion of the sectors governed by the specific codes thus presented have been classified as tax expenditure for the following reasons:

- They are contrary to the provisions of Article 7 of the CEMAC VAT Directive n° 07/11-UEAC-028-CM-22 of 19 December 2011 which stipulates that «no exemption or exemption is granted by Member States in the framework of incentives for business creation and investment, in the framework of measures or provisions targeting specific sectors, or in the framework of special agreements»;
- They create losses of revenue at the time of subscription of the declaration of release for consumption, because no revenue is collected, it is the same in the exploitation phase, the taxes and duties due being paid only on a portion of the income.
- They are part of the State's support mechanism to the economy.

### Special derogations

The special derogations are the result of various custom exemptions enacted by finance laws, as well as discretionary measures granted by the Government. They may be total or partial, temporary or permanent. some of these include:

- Measures to reduce customs duties and taxes relating to the renewal of the national vehicle fleet and the promotion of sea fishing (30% reduction on the taxable value of imported outboard engines, 20% reduction on the taxable value of new imported tyres, reduction of excise duties on the taxable value of imported vehicles up to 7 years old, finance law for 2011);
- Reduced customs duty rate of 5% on the import of capital goods intended for investment, (2007 Finance Law);
- Total exemption from customs duties and taxes for imported medicines, (1994-1995 finance law);
- Measures to fight against high prices: total exemption from customs duties and taxes on certain basic necessities (fish, rice and wheat); (Ordinance of 2008, finance law of 2009; progressive reduced rates of customs duty on the said products (finance law 2016).
- The application of reduced rates of customs duty of 10% on cement and 5% on clinker respectively, instead of 20% and 10%.
- The application of a reduced customs duty rate of 5% on imported crude oil;
- The express discretionary measures of the Government (implementation of Special Import Programmes, various total and partial exemptions.

## II. GENERAL PRESENTATION OF TAX EXPENDITURES

The tax expenditure selected can be classified using several criteria: the type of tax, the tax system, the beneficiary, the sector of activity, the objective or purpose and the size of the company.

### A. Presentation of tax expenditures by tax type

All of the tax expenditure measures identified relate to both direct and indirect taxes.

**Table 2 : distribution of measures identified per tax type and in percentage**

| Impôts | VAT | Custom duties | Excise duties | CIT | SIT | PIT | Registration duties | TOTAL |
|---|---|---|---|---|---|---|---|---|
| Measures identified | 280 | 21 | 04 | 29 | 03 | 29 | 17 | **380** |
| Percentage | 73,7% | 5,5% | 1,0% | 7,6% | 0,8% | 7,6% | 4,5% | **100%** |

### B. Presentation of tax expenditures from derogatory schemes

Out of a total of 380 measures, 88 are the result of derogations from ordinary law. These schemes relate to codes, laws or regulations that contain provisions with tax implications, such as to result in the application of a more favourable tax rate or tax base than that provided for under ordinary law.

Most of the measures resulting from the derogatory regimes come from specific codes, incentives for private investment, free trade zones scheme, conventions and specifications, structuring projects and other specific texts.

**Table 3 : distribution tax expenditures per tax type**

| Derogatory scheme | VAT | Custom duties | Excise duties | CIT | PIT | Reg. duties | TOTAL |
|---|---|---|---|---|---|---|---|
| Incentives for private investment | 3 | 0 | 0 | 12 | 8 | 8 | **31** |
| Petroleum Code | 2 | 5 | 0 | 0 | 1 | 0 | **8** |
| Gas code | 1 | 2 | 0 | 2 | 2 | 4 | **11** |
| Mining code | 1 | 2 | 0 | 1 | 3 | 0 | **7** |
| Free zones | 0 | 1 | 0 | 5 | 5 | 1 | **12** |
| CGA | 1 | 0 | 0 | 2 | 3 | 0 | **6** |
| Economically depressed areas | 1 | 0 | 0 | 1 | 1 | 0 | **3** |
| Stock exchange sector | 0 | 0 | 0 | 6 | 1 | 0 | **7** |
| Agreements and specifications | 1 | 2 | 0 | 1 | 0 | 2 | **6** |
| Public-private partnership contract | 0 | 1 | 0 | 0 | 0 | 1 | **2** |
| **Total** | **11** | **10** | **0** | **28** | **24** | **14** | **88** |

## C. Presentation of tax expenditures per beneficiary

The measures identified mainly benefit businesses (73.9%) and households (26.1%), although some benefit households and businesses simultaneously, such as those relating to the agricultural, fishing and livestock sectors.

**Tableau 4 : distribution of tax expenditures per beneficiary**

| Beneficiary | 2016 | | 2017 et 2018 | | 2019 | |
|---|---|---|---|---|---|---|
| | Number | Percentage | Number | Percentage | Number | Percentage |
| Companies | 153 | 55% | 254 | 62,7% | 281 | 73,9% |
| Households | 118 | 42% | 149 | 36,8% | 99 | 26,1% |
| International organisations | 8 | 3% | 2 | 0,5% | 0 | 0% |
| **Total** | **279** | **100%** | **405** | **100%** | **380** | **100%** |

## D. Distribution of tax expenditures per type of derogation

This report identifies 380 derogating tax measures summarised in Table 7, and also presents them in the form of total, partial or temporary exemptions, reductions, allowances, deductions, flat-rate taxation and various facilities.

In 2019, 368 total and partial exemptions have been identified, representing 96.8% of all derogations constituting tax expenditure. Diplomatic exemptions and exceptional customs measures represent 1.6% and basic allowances or reductions up to 1.6%.

**Table 5 : distribution of tax expenditures per type of derogation**

| Type | 2015 | | 2016 | | 2017 | | 2018 | | 2019 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Nbr | % | Nbr | % | Nbr | % | Nbr | % | Nbr | % |
| Total or partial exemptions (VAT/customs) + IS, IRPP and DE | 223 | 98,24% | 251 | 89,96% | 390 | 96,3% | 390 | 96,3% | 368 | 96,8% |
| Tax base rebates | 3 | 1,32% | 7 | 2,51% | 9 | 2,2% | 9 | 2,2% | 6 | 1,6% |
| DDI Franchise | 0 | 0% | 15 | 5,38% | 5 | 1,2% | 5 | 1,2% | 3 | 0,8% |
| Exceptional measures | 1 | 0,44% | 6 | 2,15% | 1 | 0,3 | 1 | 0,3 | 3 | 0,8% |
| **Total** | **227** | **100%** | **279** | **100%** | **405** | **100%** | **405** | **100%** | **380** | **100%** |

## E. Distribution of tax expenditures per sector of activity

Incentives target virtually all sectors of activity. The agricultural sector (agriculture, fisheries and livestock farming) ranks first, with 151 derogatory measures identified, i.e. 39.7% of all measures. Activities linked to household consumption benefit from 13.7% of the number of derogations. As for health and social action, it benefits from derogations, i.e. 9.7% of the number of derogations.

**Table 6 : distribution of tax expenditures per sector of activity**

| Sectors | 2019 | | |
|---|---|---|---|
| | Measures identified | Measures evaluated | Share /Measures identified |
| Health and Social Action | 37 | 36 | 9,7% |
| Agriculture, Livestock and Fisheries | 151 | 150 | 40,4% |
| Household food | 52 | 52 | 14,0% |
| Electricity, Gas, Oil, Mining | 41 | 39 | 11,1% |
| Education | 6 | 6 | 1,6% |
| Other sub-sectors | 93 | 88 | 23,7% |
| **Total** | **380** | **371** | **100%** |

## G. Distribution of tax expenditures per their objectives

It should be noted that the derogatory measures identified mainly concern the development of the agricultural sector (agriculture, livestock farming, fishing) with around 150 measures corresponding to 39.5%, followed by those destined to boost the purchasing power of households, including the health sector with 80 measures, i.e. 21.1%, the promotion of investment through incentives for private investment and the promotion of sectors covered by the sectoral codes with 66 derogatory measures representing 17.4%. The number of measures to promote education, youth employment and social housing remains low.

**Table 7 : distribution of tax expenditures per economic, social and cultural purposes**

| Type d'activité | 2016 | | 2017 & 2018 | | 2019 | |
|---|---|---|---|---|---|---|
| | Nbre | Part | Nbre | Part | Nbre | Part |
| Activités Economiques | 108 | 38,70% | 252 | 62,2% | 281 | 73,4% |
| Activités Socioculturelles | 171 | 61,29% | 153 | 37,8% | 99 | 26,6% |
| **Total** | **279** | **100%** | **405** | **100%** | **380** | **100%** |

## A. Répartition des mesures dérogatoires selon leur objectif

On remarque que les mesures dérogatoires recensées concernent principalement le développement du secteur agricole (agriculture, élevage, pêche) avec environ 150 mesures correspondant à 39,5%, ensuite vient le soutien du pouvoir d'achat des ménages y compris le volet santé avec 80 mesures soit 21,1%, la promotion des investissements à travers les incitations à l'investissement privé et la promotion des secteurs relevant des codes sectoriels avec 66 mesures dérogatoires représentant 17,4%. Le nombre de mesure visant à promouvoir l'éducation, l'emploi jeune et le logement social reste faible.

**Table 8 : distribution of tax expenditures per their objectives**

| | 2015 | 2016 | 2017 | 2018* | 2019 | | |
|---|---|---|---|---|---|---|---|
| Objective | Measures identified | Measures identified | Measures identified | Measures identified | Measures identified | Percentage | Measures evaluated |
| Facilitating access to housing | 0 | 2 | 4 | 4 | 3 | 0,8% | 3 |
| Developing green (solar) energy | 27 | 27 | 28 | 28 | 28 | 7,4% | 28 |
| Mobilising Internal Savings | 0 | 2 | 2 | 2 | 4 | 1,1% | 4 |
| Developing the agricultural sector (agriculture, fisheries and livestock) | 108 | 108 | 167 | 167 | 151 | 39,5% | 150 |
| Alleviating the cost of health care | 21 | 23 | 53 | 53 | 28 | 7,4% | 28 |
| Supporting purchasing power | 52 | 56 | 44 | 44 | 52 | 13,7% | 51 |
| Encouraging investment | 0 | 17 | 71 | 71 | 54 | 14,2% | 50 |
| Promoting culture and leisure | 0 | 2 | 0 | 0 | 0 | 0% | 0 |
| Promoting education | 5 | 11 | 7 | 7 | 6 | 1,6% | 6 |
| Promoting youth employment | 1 | 4 | 1 | 1 | 1 | 0,3% | 0 |
| Developing the oil and gas mining sector | 0 | 13 | 16 | 16 | 12 | 3,2% | 10 |
| Promoting SMEs (AMC) | 1 | 1 | 5 | 5 | 6 | 1,6% | 6 |
| Other objectives | 12 | 13 | 7 | 7 | 35 | 9,2% | 34 |
| **Total** | **227** | **279** | **405** | **405** | **380** | **100%** | **371** |

# CHAPTER III EVALUATION OF THE BUDGETRY COST OF TAX EXPENDITURES

## I. PRESENTATION OF TEH TAX EXPENDITURES EVALAUTED

Not all tax expenditure measures identified were evaluated, due to the unavailability of data for certain circumstances Out of a total of 380 measures identified, 371 were actually evaluated, i.e. an evaluation rate of 97.6%.

**Table 9 : distribution of tax expenditures per tax type**

| Tax type | 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | VAT | Custom duties | Excise | CIT | PIT | Reg. duties | Total |
| **Measures identified** | 280 | 20 | 04 | 29 | 29 | 18 | **380** |
| **Measures evaluated** | 280 | 20 | 04 | 28 | 27 | 12 | **371** |
| **Percentage** | 100% | 100% | 100% | 96,6% | 93,1% | 66,6% | **97,6%** |

The presentation of tax expenditures by type of tax, by sector and by objective allows the evaluation of tax expenditures to be based on the Government's fiscal policy and economic orientations.

### A. Tax expenditure per tax type

The breakdown of the tax expenditure assessed by type of tax makes it possible to specify the share of expenditure relating to each tax and its share in the tax's own revenue. The distribution is as follows:

**Tableau 10 : tax expenditure per tax type per year**

| Tax | 2017 | | 2018 | | 2019 | |
|---|---|---|---|---|---|---|
| | Evaluation | Share | Evaluation | Share | Evaluation | Share |
| VAT | 277 588 934201 | 45,8% | 316 799 852 356 | 58,1% | 399 585 726 297 | 68,3% |
| Customs | 107 160 651952 | 17,7% | 150 289 427 087 | 27,6% | 147 238 053 303 | 25,2% |
| Excise | 12 356 102597 | 2,0% | 24 989 279 723 | 4,6% | 16 826 305 624 | 2,9% |
| CIT | 84 278 877812 | 13,9% | 10 828 407 368 | 2,0% | 16 299 691 216 | 2,8% |
| PIT | 53 611 886438 | 8,9% | 12 970 018 187 | 2,4% | 2 126 721 054 | 0,3% |
| Total | 70 565 289575 | 11,7% | 29 267 243 876 | 5,4% | 2 617 333 799 | 0,4% |
| **Total** | **605 561 742 576** | **100%** | **545 144 228 598** | **100%** | **584 693 831 294** | **100%** |

The most important tax expenditure concerns VAT with 280 derogatory measures estimated at FCFA 399 585 726 297 in 2019. They are followed by income tax with 55 measures evaluated for loss of revenue estimated at 18 426 412 270 FCFA, i.e. 16 299 691 216 FCFA for the SI (2.8%) and 2 126 721 054 FCFA for the IRPP (0.3%). Tax expenditure on registration fees amounts to FCFA 2 617 333 799 for 12 measures evaluated.

With an amount of FCFA 147 238 053 303, customs duties account for 25.2% of total tax expenditure and concern food products as well as capital goods for projects. The tax expenditures related to excise duties amount to FCFA 16 826 305 624 and represent 2.9% of the total tax expenditures.

**Table 11 : Distribution of tax expenditures per administration (in billions)**

| Year | Administration | VAT | Customs | Excise | CIT | PIT | Reg duties | Total | % |
|---|---|---|---|---|---|---|---|---|---|
| 2019 | DGC | 201,2 | 147,2 | 2,9 | | | | 351,3 | 60,1% |
| | DGT | 198,4 | | 13,9 | 16,3 | 2,1 | 2,6 | 233,4 | 39,9% |
| | Total | 399,6 | 147,2 | 16,8 | 16,3 | 2,1 | 2,6 | 584,7 | 100% |
| 2018 | DGC | 177,3 | 150,3 | 13,8 | 0 | 0 | 0 | 341,4 | 62,6% |
| | DGT | 139,5 | 0,0 | 11,2 | 10,8 | 13,0 | 29,3 | 203,8 | 37,4% |
| | Total | **316,8** | **150,3** | **25,0** | **10,8** | **13,0** | **29,3** | **545,2** | **100%** |

**Table 12 : Evaluation of tax expenditures as a proportion of tax yield (in billions)**

| Désignation | 2018 | | | 2019 | | |
|---|---|---|---|---|---|---|
| | Tax yield | Tax expenditure | Expenditure / revenue | Tax yield | Tax expenditure | Expenditure /revenue |
| TVA : | 1 160,9 | 316,8 | 27% | 1 139,8 | 399,6 | 35,1% |
| - internal VAT | 780,4 | 139,5 | 17,9% | 739,3 | 198,4 | 26,8% |
| -Customs VAT | 380,5 | 177,3 | 46,6% | 400,5 | 201,2 | 50,2% |
| Customs | 353,9 | 150,3 | 42,5% | 346,0 | 147,2 | 42,5 |
| Excise : | 202,3 | 25,0 | 12,4% | 251,4 | 16,8 | 6,7% |
| - DA interne | 185,6 | 11,2 | 6,05% | 205,1 | 13,9 | 6,8% |
| - DA à l'import | 16,7 | 13,8 | 82,63% | 46,3 | 2,9 | 6,3% |
| Non oil CIT | 354,9 | 10,8 | 3,1% | 354,9 | 16,3 | 4,6% |
| PIT | 357,6 | 13,0 | 3,6% | 368,3 | 2,1 | 0,6% |
| Registration duties | 53,7 | 29,3 | 54,5% | 61,4 | 2,6 | 4,2% |
| **TOTAL (VAT+Customs+ excise + CIT + PIT+Reg duties + SIT)** | **2 483,3** | **545,2** | **22,0%** | **2 521,8** | **584,7** | **23,1%** |

The tax expenditure related to total VAT compared to the tax revenue generated by this same tax represents a proportion of 35.1%.

The weight of tax expenditure relating to customs import duties on the revenue generated by this same tax in 2019 is 42.5%.

For corporation tax, the tax expenditure amounts to 4.6% of the revenue collected, compared with 0.6% for the IRPP. The loss of revenue due to exemptions from registration fees is estimated at 4.2% of the yield from this tax.

## A. Tax expenditure per beneficiary

**Table 13 : amount of tax expenditure per beneficiary**

| | VAT | Customs | Excise | CIT | PIT | Reg. duties | TOTAL | Percentage |
|---|---|---|---|---|---|---|---|---|
| Entreprises dont : | 99,7 | 45,0 | 2,9 | 16,3 | 2,1 | 2,6 | 168,6 | 28,8% |
| - Large | 82,7 | 37,3 | 2,1 | 15,3 | 0,7 | 0,8 | 138,9 | 82,4% |
| - Meduim | 11,6 | 4,6 | 0,3 | 0,9 | 0,0 | 1,6 | 19,0 | 11,3% |
| - Small | 5,4 | 3,1 | 0,5 | 0,1 | 1,4 | 0,2 | 10,7 | 6,3% |
| - Total | 99,7 | 45,0 | 2,9 | 16,3 | 2,1 | 2,6 | 168,6 | 100% |
| Household | 299,7 | 102,1 | 13,9 | 0,0 | 0,0 | 0,0 | 415,7 | 71,1% |
| Others | 0,2 | 0,1 | 0,0 | 0,0 | 0,0 | 0,0 | 0,3 | 0,1% |
| **Gross total** | **399,6** | **147,2** | **16,8** | **16,3** | **2,1** | **2,6** | **584,6** | **100%** |

Tax expenditures benefit households to the tune of 71.1% compared against 28.8% for companies. Only 6.3% of tax expenditures for businesses benefit small businesses compared to 82.4% for large businesses. The proportion of tax advantages granted to medium-sized companies is 11.3% of the total tax expenditure granted to companies.

## B. Tax expenditures per sector of activity

The evaluation of expenditure by sector of activity allows the assessment of the importance of the incentive scheme to be measured and provides for comparisons between different sectors.

The distribution of the CFAF 168.6 billion of tax expenditure benefiting companies is as follows by sector of activity in Table 14 below.

It follows that the major part of the tax expenditure in favour of companies were granted to the agro-food industry sector for an amount of FCFA 30.7 billion, i.e. 18.2%.

**Tablea 14 : tax expenditure per sector of activity and tax type (in billions)**

| Beneficiary branch of activity | VAT | Customs | Excise | CIT | PIT | Reg. duties | TOTAL | % |
|---|---|---|---|---|---|---|---|---|
| Agriculture, Livestock and Fisheries | 15,63 | 1,49 | 0,00 | 0,04 | 0,00 | 0,06 | 17,23 | 10,2% |
| Food industry | 15,04 | 9,51 | 0,23 | 5,19 | 0,01 | 0,72 | 30,70 | 18,2% |
| Metal industry | 17,82 | 11,70 | 0,06 | 0,01 | 0,00 | 0,07 | 29,67 | 17,6% |
| Cement works | 2,51 | 2,22 | 0,00 | 1,02 | 0,00 | 0,01 | 5,76 | 3,4% |
| Chemical industry | 5,75 | 4,74 | 0,00 | 0,32 | 0,00 | 0,05 | 10,86 | 6,4% |
| Wood industry | 2,02 | 0,14 | 0,00 | 0,00 | 0,00 | 0,11 | 2,27 | 1,3% |
| Other industries | 0,62 | 0,30 | 0,00 | 6,46 | 0,37 | 0,17 | 7,93 | 4,7% |
| Printing | 0,07 | 0,21 | 0,00 | 0,00 | 0,00 | 0,00 | 0,28 | 0,2% |
| BTP | 1,43 | 0,26 | 0,00 | 1,11 | 0,00 | 0,00 | 2,80 | 1,7% |
| Electricity | 1,35 | 0,76 | 0,00 | 0,00 | 0,00 | 0,01 | 2,12 | 1,2% |
| Solar and wind energy | 8,19 | 3,00 | 2,1 | | | | 13,29 | 7,9% |
| Hotels | 1,12 | 1,14 | 0,00 | 0,00 | 0,00 | 0,90 | 3,17 | 1,8% |
| Real estate | 0,05 | 0,06 | 0,00 | 0,00 | 0,00 | 0,37 | 0,48 | 0,3% |
| Oil, gas and mining | 20,93 | 8,21 | 0,30 | 0,38 | 0,33 | 0,00 | 30,16 | 17,9% |
| Telecommunications | 0,07 | 0,01 | 0,00 | 0,00 | 0,00 | 0,00 | 0,07 | 0,0% |
| Tourism and leisure | 1,43 | 1,17 | 0,00 | 0,00 | 0,00 | 0,00 | 2,60 | 1,5% |
| Health and Social Action | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,00 | 0,0% |
| Press and newspaper publishing | 1,76 | - | - | | | | 1,76 | 1,0% |
| Accredited management ceners (AMC) | 0,00 | - | - | | | | 0,00 | 0,0% |
| General trade | 1,07 | 0,33 | 0,00 | 1,71 | 1,39 | 0,12 | 4,62 | 2,7% |
| Education | 0,00 | 0,00 | 0,00 | 0,02 | 0,00 | 0,00 | 0,02 | 0,0% |
| Other services | 2,79 | 0,11 | 0,00 | 0,03 | 0,00 | 0,02 | 2,95 | 1,7% |
| **Total** | **99,66** | **45,04** | **2,91** | **16,30** | **2,09** | **2,62** | **168,64** | **100%** |

### 1) Food insdustry

The agro-food industry is the sector which benefits most from tax expenditure due to the exemption from VAT on basic necessities and their inputs. Tax expenditure in this sector concern all taxes because they also benefits from specific derogatory regimes.

The tax expenditure from which this sector benefited for the 2019 financial year is estimated at CFA F 30.7 billion. VAT, estimated at CFA F 15 billion, is the tax with the highest tax expenditure. This amounts to about 50% of the total expenditure. Customs duties represent 31% of the sub-sector's total expenditure.

### 2) Oil gas and mining sector

The tax expenditure conceded by the state to this sector for the 2019 fiscal year is estimated at F CFA 30.2 billion of which F CFA 20.9 billion for VAT; F CFA 8.2 billion for customs duties and F CFA 1.1 billion for other taxes. With 17.9% of tax expenditure benefiting companies, this sector is the second sector of activity which benefits the most from tax expenditure

### 3) The metalurgical industry

The tax expenditure for this sector is estimated at CFA F 29.7 billion, or 17.6% of the tax expenditure benefiting companies for the 2019 financial year. This sector benefits from conventions and specifications and the bulk of its tax expenditure is inherent to the exemption from VAT and DDI on equipment and capital goods in this sector. VAT tax expenditure is estimated at F CFA 17.8 billion (60% of the sector's tax expenditure) and F CFA 11.7 billion (39.4%) for custom duties.

### 4) Agricultural, fisheries and livestock industries

The tax expenditure relating to agriculture, animal husbandry and fishing is estimated at F CFA 17.2 billion, i.e. 10.2% of the tax expenditure benefiting companies. The main part concerns VAT, the amount of which is F CFA 15.6 billion, i.e. 90.7% of the total tax expenditure relating to this sector. It is the fourth sector which benefits most from the tax expenditure due to the exemption of VAT on inputs, materials and agro-pastoral equipment.

In short, the sectors of activity which benefit most from the tax expenditure are the oil, gas and mining sector; industries, the agro-pastoral sector, the solar and wind energy sector, general trade for the construction of large shopping centres, the hotel industry, the development of electricity and public works.

It should be emphasised that in the case of indirect taxes (VAT, custom duties, excise duties), the beneficiary of the exemptions is not the seller of the product or service but the final consumer. This is why, although tax expenditure on health and social welfare is significant, the gain for companies in this sector is almost nil.

## C. Tax expenditure per objectif

Estimating tax expenditure by objective makes it possible to assess the meaning taken by the derogatory regimes and their adequacy with the Government's economic, financial and social policy guidelines.

**Table 15 : the evaluation of tax expenditures per objectif (in billions)**

| Objectives | VAT | Customs | Excise | Others | Total | % |
|---|---|---|---|---|---|---|
| Encouraging local wood processing | 1,7 | 0,0 | 0,0 | 0,0 | 1,7 | 0,3% |
| Encouraging youth employment | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0% |
| Encouraging savings | 2,5 | 0,0 | 0,0 | 0,0 | 2,5 | 0,4% |
| Facilitating access to education | 0,1 | 0,0 | 0,0 | 0,0 | 0,1 | 0,0% |
| Facilitating access to basic necessities for households | 261,3 | 92,4 | 0,0 | 0,0 | 353,7 | 60,5% |
| Facilitating access to health care | 11,8 | 1,3 | 0,0 | 0,0 | 13,1 | 2,2% |
| Promoting research and innovation | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0% |
| Promoting the development of the green economy | 8,1 | 4,2 | 2,1 | 0,0 | 14,4 | 2,5% |
| Promoting the stock exchange sector | 0,0 | 0,0 | 0,0 | 0,1 | 0,1 | 0,0% |
| Promoting the gas sector | 2,9 | 0,9 | 0,0 | 1,0 | 4,8 | 0,8% |
| Promoting the mining sector | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0% |
| Promoting the oil sector | 25,0 | 7,3 | 0,3 | 0,0 | 32,5 | 5,6% |
| Promoting private investment | 45,1 | 30,6 | 0,3 | 18,3 | 84,9 | 14,5% |
| Promoting public investment | 1,9 | 0,5 | 0,0 | 0,0 | 2,5 | 0,4% |
| Supporting household consumption | 10,2 | 0,0 | 13,9 | 0,0 | 24,1 | 4,1% |
| Supporting the promotion of CGAs | 0,0 | 0,0 | 0,0 | 1,6 | 1,6 | 0,3% |
| Supporting the acquisition of social housing | 1,9 | 1,7 | 0,0 | 0,0 | 3,6 | 0,6% |
| Supporting the acquisition of new vehicles | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0% |
| Supporting the agropastoral sector | 15,6 | 1,5 | 0,0 | 0,0 | 17,1 | 2,9% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Supporting the postal service | 0,4 | 0,0 | 0,0 | 0,0 | 0,4 | 0,1% |
| Supporting the disabled | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0% |
| Supporting press and newspaper publishing companies | 1,8 | 0,0 | 0,0 | 0,0 | 1,8 | 0,3% |
| Other (not determined) | 9,2 | 6,8 | 0,2 | 0,0 | 16,1 | 2,8% |
| **Grand total** | **399,5** | **147,2** | **16,8** | **21,0** | **584,7** | **100%** |

71.1% of tax expenditures go to households in terms of access to basic necessities (60.5%), access to health care (2.2%), consumption support (4.1%), support for the disabled and access to education, etc. This item is followed by tax expenditure arising from investment incentives with 14.5%, followed by the oil, gas and mining sector which benefits from 6.4% of tax expenditure. The other sectors benefit from 22.8% of fiscal expenditure for the 2019 financial year.

**Table 16 : tax expenditure per tax type and per tax (in billions)**

| Type of expenditure | VAT | Customs | Excise | CIT | PIT | Excise | SIT | Total | % |
|---|---|---|---|---|---|---|---|---|---|
| Economic measures | 96,5 | 40,8 | 0,6 | 16,3 | 1,4 | 2,6 | 0,7 | 158,9 | 27,1% |
| Social measures | 285,8 | 95,4 | 13,9 | | | | 0,0 | 395,1 | 67,6% |
| Environmental measures | 8,1 | 4,2 | 2,1 | | | | 0,0 | 14,4 | 2,5% |
| Others (ND) | 9,2 | 6,8 | 0,2 | | | | 0,0 | 16,1 | 2,7% |
| **Grand total** | **399,5** | **147,2** | **16,8** | **16,3** | **1,4** | **2,6** | **0,7** | **584,7** | **100%** |

The breakdown of tax expenditure according to their social, economic or environmental purpose shows that 67.6% of tax expenditure is for social objectives, compared with 27.1% for economic objectives and 2.5% for environmental objectives.

VAT tax expenditure for economic purposes represents 16.5% of tax expenditure, compared with 48.8% for social objectives.

As far as income tax (IS and IRPP) is concerned, its tax expenditure almost benefits economic concerns. The same is true of tax expenditure on registration fees, which fully contributes to economic objectives. With regard to excise duties, 82.7% of the tax expenditure on excise duties relates to social objectives.

## D. Tax expenditures per tax scheme

**Table 17 : tax expenditure per tax scheme**

| Tax scheme | VAT | Customs | Excise | CIT | PIT | Excise | SIT | Total | % |
|---|---|---|---|---|---|---|---|---|---|
| Common Law | 169,2 | 74,7 | 1,7 | 0,0 | 1,4 | 0,0 | 0,0 | 247,1 | 42,3% |
| Investment | 114,9 | 49,2 | 14,4 | 5,4 | 0,0 | 2,3 | 0,0 | 186,2 | 31,8% |
| Specifications and agreements | 1,8 | 2,2 | 0,0 | 1,0 | 0,0 | 0,0 | 0,0 | 5,0 | 0,9% |
| Free zone | 2,0 | 1,3 | 0,0 | 0,8 | 0,0 | 0,2 | 0,0 | 4,3 | 0,7% |
| Petroleum Code | 92,8 | 8,7 | 0,3 | 7,5 | 0,0 | 0,0 | 0,7 | 110,0 | 18,8% |
| Gas code | 3,7 | 1,4 | 0,0 | 0,2 | 0,0 | 0,1 | 0,0 | 5,4 | 0,9% |
| Mining code | 0,1 | 0,4 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,5 | 0,1% |
| Disaster area | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0% |
| Stock exchange regime | 0,1 | 0,0 | 0,0 | 0,1 | 0,0 | 0,0 | 0,0 | 0,2 | 0,0% |
| CGA | 0,1 | 0,0 | 0,0 | 0,2 | 0,0 | 0,0 | 0,0 | 0,3 | 0,0% |
| Others | 17,8 | 9,3 | 0,4 | 1,1 | 0,0 | 0,0 | 0,0 | 25,6 | 4,4% |
| **Grand total** | **399,6** | **147,2** | **16,8** | **16,3** | **1,4** | **2,6** | **0,7** | **584,7** | **100%** |

Le tableau 17 ci-dessus présente la dépense fiscale par base légale. La dépense fiscale globale s'élève à F CFA 584,7 milliards et représente 21% de recettes fiscales non pétrolières de l'exercice 2019 chiffrées à 2 784,6 milliards de FCFA. Pour mémoire, la dépense fiscale de l'année 2018 s'élevait à F CFA 545,2 milliards et représentait 19,3% de recettes fiscales non pétrolières de l'exercice 2018 chiffrées à F CFA 2 831 milliards.

Par rapport au PIB de 2019 projeté à 22 692,0 milliards de FCFA, la dépense fiscale globale représente 2,6% contre 2,5% en 2018 soit une hausse 0,1 points.

## E. Tax expenditure per legal babis

Table 18 : tax expenditure per legal basis in 2019

| Legal base | VAT | Customs | Excise | Others | Total | % | % GDP | % Tax yield |
|---|---|---|---|---|---|---|---|---|
| GTC | 306,9 | 77,5 | 14,2 | 18,8 | 417,4 | 71,4% | 1,8% | 15,0% |
| National customs provisions | 2,8 | 5,5 | 0,0 | 0,0 | 8,3 | 1,4% | 0,0% | 0,3% |
| Community customs provisions | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0% | 0,0% | 0,0% |
| Oil, Gas and Mining Code | 27,9 | 8,2 | 0,3 | 1,0 | 37,4 | 6,4% | 0,2% | 1,3% |
| Agreements and specifications | 0,7 | 1,0 | 0,0 | 0,0 | 1,7 | 0,3% | 0,0% | 0,1% |
| VAT Ordinance 2008 | 40,3 | 42,4 | 0,0 | 0,0 | 82,6 | 14,1% | 0,4% | 3,0% |
| VAT circular 2012 | 8,1 | 4,2 | 2,1 | 0,0 | 14,4 | 2,5% | 0,1% | 0,5% |
| Free zone | 1,8 | 1,1 | 0,0 | 1,2 | 4,1 | 0,7% | 0,0% | 0,1% |
| Others | 11,1 | 7,3 | 0,2 | 0,0 | 18,6 | 3,2% | 0,1% | 0,7% |
| **Grand total** | **399,5** | **147,2** | **16,8** | **21,0** | **584,6** | **100%** | **2,6%** | **21,0%** |

Most of the measures that give rise to a tax expenditures are in the GTC ( 71.4% of the total expenditure evaluated). It should be noted that most of the products for which customs duties and taxes were suspended in the 2008 ordinance were already exempt from VAT in the CGI. Tax expenditures in the GTC account for 71.4% of all evaluated TAX expenditures. It should be noted that most of the products for which customs duties and taxes were suspended in the 2008 ordinance were already exempt from VAT in the CGI. Fiscal expenditure in the Oil, Gas and Mining Codes accounts for 6.4% of the total expenditure evaluated. The «other» category includes exemptions for other products not linked to a legal basis, in particular those granted exceptionally through administrative channels, and those included in special agreements (structuring projects, CAN markets, etc.).

**Table 18 below outlines the situation of VAT and customs duties and taxes on externally or jointly financed contrats.**

Table 19 : taxes not collected on foreign or jointly funded contracts

| Heading | 2016 | 2017 | 2018 | 2019 | Total |
|---|---|---|---|---|---|
| VAT/invoices | 33,5 | 71,6 | 34,0 | 38,6 | 179,7 |
| VAT/attestation for coverage | 5,9 | 3,8 | 16,5 | 10,8 | 37,0 |
| Customs VAT | 39, 3 | 30,3 | 39,1 | 32,2 | 140,9 |
| Customs duties | 77,3 | 59,5 | 76,4 | 67,6 | 280,8 |
| clearance for DGT | 30 | 25,7 | 40 | 10 | 105,7 |
| Clearance for DGD | 41,5 | 52,9 | 16,1 | 8,5 | 119 |
| Outstanding DGT | 9,4 | 49,7 | 10,5 | 39,4 | 109 |
| Outstanding for DGC | 75,1 | 36,9 | 99,4 | 91,3 | 211,4 |
| **Total Outstanding** | | | | | **320,4** |

Introduced by the 2014 Finance Act, the tax incentives resulting from the tax defrayment scheme, although not considered as tax expenditure, generate huge losses of revenue in the achievements of the administrations concerned. This regime provides for the coverage of duties and taxes related to externally or jointly financed contracts by the budgets of the contracting authorities or beneficiary ministries, when the financing agreement provides otherwise. However, the inadequacy of the resources intended to cover the coverage granted generates huge losses of revenue which will never be recovered by the tax authorities. This justifies the relevance of the reform of this regime which institutes the signing of the financing agreements

tax inclusive. For projects in progress, the contracting authorities, the project owners, should provide sufficient budgetary appropriations to effectively cover the amounts of the facilities granted.

Table 20 below presents the tax expenditure by category of exempt goods. Tax expenditure on food products and health represents about 11% of tax revenue, or CFAF 302.5 billion. The cost of tax expenditure to support the agricultural sector is estimated at CFAF 17.0 billion, or 0.61% of tax revenue.

Table 20 : tax expenditure per category of goods in 2019

| Type od good or service | VAT | Customs | Excise | Others | Total | % tax yield |
|---|---|---|---|---|---|---|
| Basic necessities | 219,6 | 46,2 | 0,0 | 0,0 | 265,8 | 9,55% |
| Rice | 42,4 | 44,8 | 0,0 | 0,0 | 87,3 | 3,13% |
| Wheat | 46,8 | 0,0 | 0,0 | 0,0 | 46,8 | 1,68% |
| Wheat, wheat and other meats | 27,4 | 14,3 | 0,0 | 0,0 | 41,7 | 1,50% |
| Fish | 33,2 | 25,6 | 0,0 | 0,0 | 58,8 | 2,11% |
| Beef and veal | 0,5 | 0,0 | 0,0 | 0,0 | 0,5 | 0,02% |
| Roosters, hens and their meat | 0,5 | 0,0 | 0,0 | 0,0 | 0,5 | 0,02% |
| Eggs | 0,3 | 0,0 | 0,0 | 0,0 | 0,3 | 0,01% |
| Bread and similar products | 3,9 | 0,0 | 0,0 | 0,0 | 3,9 | 0,14% |
| Milk and cream | 6,7 | 0,5 | 0,0 | 0,0 | 7,2 | 0,26% |
| Raw salts | 2,1 | 0,0 | 0,0 | 0,0 | 2,1 | 0,08% |
| | | | | | | |
| Oil and gas products | 66,9 | 2,9 | 0,0 | 0,0 | 69,8 | 2,51% |
| crude petroleum oils | 24,8 | 0,0 | 0,0 | 0,0 | 24,8 | 0,89% |
| Lamp oil | 4,5 | 0,0 | 0,0 | 0,0 | 4,5 | 0,16% |
| liquefied butanes or household gas | 37,7 | 2,9 | 0,0 | 0,0 | 40,6 | 1,46% |
| | | | | | | |
| Other agri-food products | 5,4 | 4,2 | 13,9 | 0,0 | 23,6 | 0,85% |
| Water and electricity social section | | | | | | |
| Social section of electricity | 10,0 | 0,0 | 0,0 | 0,0 | 10,0 | 0,36% |
| Social section of water | 8,9 | 0,0 | 0,0 | 0,0 | 8,9 | 0,32% |
| Tranche sociale d'eau | 1,1 | 0,0 | 0,0 | 0,0 | 1,1 | 0,04% |
| | | | | | | |
| Health and Social Action | 11,8 | 1,3 | 0,0 | 0,0 | 13,1 | 0,47% |
| examinations, consultations and hospital care | 3,4 | 0,0 | 0,0 | 0,0 | 3,4 | 0,12% |
| Medical materials and equipment, pharmaceuticals and their inputs | 8,4 | 1,3 | 0,0 | 0,0 | 9,7 | 0,35% |
| | | | | | | |
| Inputs, equipment and agro-pastoral materials | 15,5 | 1,5 | 0,0 | 0,0 | 17,0 | 0,61% |
| Fertilizers and pesticides | 4,6 | 0,4 | 0,0 | 0,0 | 5,0 | 0,18% |
| Fertilizers | 2,3 | 0,3 | 0,0 | 0,0 | 2,6 | 0,09% |
| Pesticides | 2,3 | 0,1 | 0,0 | 0,0 | 2,4 | 0,09% |
| Provendes | 4,7 | 0,0 | 0,0 | 0,0 | 4,7 | 0,17% |
| Semences | 2,2 | 0,0 | 0,0 | 0,0 | 2,2 | 0,08% |
| Agricultural machinery and equipment | 3,7 | 0,9 | 0,0 | 0,0 | 4,6 | 0,16% |
| Fishing materials and equipment | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,00% |
| Livestock materials and equipment | 0,3 | 0,2 | 0,0 | 0,0 | 0,5 | 0,02% |
| | | | | | | |
| Solar and wind energy materials and equipment | 8,1 | 4,2 | 2,1 | 0,0 | 14,4 | 0,52% |
| Capital goods and investment-related materials | 74,9 | 39,4 | 0,6 | 2,6 | 117,5 | 4,22% |
| Press and newspaper publishing | 1,8 | 0,0 | 0,0 | 0,0 | 1,8 | 0,06% |
| Books and other textbooks | 0,1 | 0,0 | 0,0 | 0,0 | 0,1 | 0,00% |
| Social housing | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 0,00% |
| Postal Service | 0,4 | 0,0 | 0,0 | 0,0 | 0,4 | 0,02% |
| Urban public transport | 0,2 | 0,0 | 0,0 | 0,0 | 0,2 | 0,01% |
| Cements and clinker | 1,9 | 1,7 | 0,0 | 0,0 | 3,6 | 0,13% |
| Others | 13,4 | 6,8 | 0,2 | 18,4 | 38,8 | 1,39% |
| **Grand total** | **374,3** | **147,2** | **16,8** | **21,0** | **559,4** | **20,09%** |

Le tableau 20 ci-dessus présente les dépenses fiscales par catégories de biens exonérées. Les dépenses fiscales concernant les produits alimentaires et la santé représentent environ 11% des recettes fiscales, soit 302,5 milliards de FCFA. Le coût des dépenses fiscales de soutien au secteur agricole est estimé à 17,0 milliards de FCFA, soit 0,61% des recettes fiscales.

Table 21 : tax expenditures in order of importance

| Type of good and service | VAT | Customs | Excise | Others | Total | % tax yield |
|---|---|---|---|---|---|---|
| Capital goods and investment-related materials | 74,9 | 39,4 | 0,6 | 2,6 | **117,5** | **4,22%** |
| Rice | 42,4 | 44,8 | 0,0 | 0,0 | **87,3** | **3,13%** |
| Oil and gas products | 66,9 | 2,9 | 0,0 | 0,0 | **69,8** | **2,51%** |
| Fish | 33,2 | 25,6 | 0,0 | 0,0 | **58,8** | **2,11%** |
| Flour | 46,8 | 0,0 | 0,0 | 0,0 | **46,8** | **1,68%** |
| Wheat, wheat and other meats | 27,4 | 14,3 | 0,0 | 0,0 | **41,7** | **1,50%** |
| liquefied butanes or domestic gas or LPG | 37,7 | 2,9 | 0,0 | 0,0 | **40,6** | **1,46%** |
| crude petroleum oils | 24,8 | 0,0 | 0,0 | 0,0 | **24,8** | **0,89%** |
| Other agri-food products | 5,4 | 4,2 | 13,9 | 0,0 | **23,6** | **0,85%** |
| Solar and wind energy materials and equipment | 8,1 | 4,2 | 2,1 | 0,0 | **14,4** | **0,52%** |
| Medical materials and equipment, pharmaceuticals and their inputs | 8,4 | 1,3 | 0,0 | 0,0 | **9,7** | **0,35%** |
| Social section of electricity | 8,9 | 0,0 | 0,0 | 0,0 | **8,9** | **0,32%** |
| Milk and cream | 6,7 | 0,5 | 0,0 | 0,0 | **7,2** | **0,26%** |
| Provendes | 4,7 | 0,0 | 0,0 | 0,0 | **4,7** | **0,17%** |
| Agricultural machinery and equipment | 3,7 | 0,9 | 0,0 | 0,0 | **4,6** | **0,16%** |
| Lamp oil | 4,5 | 0,0 | 0,0 | 0,0 | **4,5** | **0,16%** |
| Bread and similar products | 3,9 | 0,0 | 0,0 | 0,0 | **3,9** | **0,14%** |
| Cements and clinker | 1,9 | 1,7 | 0,0 | 0,0 | **3,6** | **0,13%** |
| Examinations, consultations and hospital care | 3,4 | 0,0 | 0,0 | 0,0 | **3,4** | **0,12%** |
| Fertilizers | 2,3 | 0,3 | 0,0 | 0,0 | **2,6** | **0,09%** |
| Pesticides | 2,3 | 0,1 | 0,0 | 0,0 | **2,4** | **0,09%** |
| Semences | 2,2 | 0,0 | 0,0 | 0,0 | **2,2** | **0,08%** |
| Raw salts | 2,1 | 0,0 | 0,0 | 0,0 | **2,1** | **0,08%** |
| Press and newspaper publishing | 1,8 | 0,0 | 0,0 | 0,0 | **1,8** | **0,06%** |
| Social section of water | 1,1 | 0,0 | 0,0 | 0,0 | **1,1** | **0,04%** |
| Beef and veal | 0,5 | 0,0 | 0,0 | 0,0 | **0,5** | **0,02%** |
| Roosters, hens and their meat | 0,5 | 0,0 | 0,0 | 0,0 | **0,5** | **0,02%** |
| Livestock materials and equipment | 0,3 | 0,2 | 0,0 | 0,0 | **0,5** | **0,02%** |
| Postal Service | 0,4 | 0,0 | 0,0 | 0,0 | **0,4** | **0,02%** |
| Eggs | 0,3 | 0,0 | 0,0 | 0,0 | **0,3** | **0,01%** |
| Urban public transport | 0,2 | 0,0 | 0,0 | 0,0 | **0,2** | **0,01%** |

The evaluation of tax expenditure according to the scope chosen and the data available should be considered as a tool to assist in economic policy decisions. This exercise thus highlights the very significant budgetary impact of certain measures. Table 20 above presents, in order of importance, the measures for which tax expenditures are the most significant.

Exemption from VAT and customs duties on capital goods are the most costly measure. This is followed by rice, the oil and gas sector, wheat, fish, domestic gas, and solar energy. The justification of whether or not to maintain these measures, as well as other exemptions, remains a political choice behest on the authorities.

# CONCLUSION

The analysis shows a high level of tax expenditures of CFAF 584.7 billion, representing 21% of non-oil tax revenue for the financial year 2019, which amounts to CFAF 2,784.6 billion. As a reminder, tax expenditures for the year 2017 covered) the same direct and indirect taxes and amounted to CFAF 605.6 billion, representing 24% of non-oil tax revenue for the said financial year (CFAF 2 523 billion). Compared to the projected 2019 GDP of CFAF 22 692.0 billion, the overall tax expenditure represents 2.6% against 3.1% in 2017, i.e. a drop of 0.5 point.

It is obvious that in the expenditure evaluated, some of it is more accounting estimates than the actual revenue that the state could claim. However, there are still others that generate significant revenue shortfalls for the Public Treasury.

In addition, other tax expenditures should be monitored in view of their increasing cost. These include social exemptions, which amount to 395.1 billion (67,5% of total tax expenditures). Their continuation would only be justified by concrete results for the beneficiaries. Otherwise, they should be restricted to specific targets only.

As regards economic tax expenditure, they are generally reserved for a limited number of direct beneficiaries. The question that arises is whether the exemptions granted have induced effective investment and generated real jobs

The second part of the report provides a tentative answer to questions relating to the economic and social effects of tax expenditures.


SECOND PART

# STUDY ON THE SOCIO-ECONOMIC IMPACT OF TAX EXPENDITURES

Beyond the budgetary aspect, the evaluation of tax expenditure aims to guide decision-makers on the appropriateness and effectiveness of the exemptions granted.

This section of the study highlights the sectors that benefit from the high levels of tax expenditures with specific objectives in terms of economic and social development. The choice of sectors to be analysed was made on the basis of several criteria, including the importance of the incentives granted, the role in the economic and social fabric and the availability of relevant data for analysis.

As regards the daily consumer goods sector, while it is easy to justify tax expenditure on the basis of the need to support vulnerable groups by reducing costs through VAT exemption, it is equally appropriate to question the effectiveness of these measures, since the benefit depends on the level of consumption and not on the size of income.

The justification for the law on incentives for private investment lies in the need to evaluate this public policy 6 years after its implementation, given the diversity of the sectors of activity concerned, the importance of the exemptions granted in terms of amount and duration.

With regard to the metallurgical sector, the contribution of tax expenditure to the development of the sector must be evaluated, taking into account the volume of benefits granted by the specifications and their duration.

This section will therefore address the socio-economic impact of tax expenditures on households on the one hand and on businesses on the other.

# CHAPITER I

# IMPACT OF TAX EXPENDITURES ON THE CONSUMPTION OF HOUSEHOLDS

## I. CONTEXT

The derogatory taxation represents a greater loss of income for the State Budget every year. The question, which now comes to the fore, is whether these derogations have fully or partially achieved the objectives for which they were introduced, including the improvement of the purchasing power of households, particularly the most disadvantaged. This analysis is especially necessary as the proportion of tax expenditure increases each year. They now represent 21% of non-oil tax revenues.

In order to answer these questions, the project team used data from the 4th Cameroonian Household Survey (ECAM4) carried out by the INS for the year 2014 to assess the fairness of tax expenditure between the different income quintiles.

## II. METHODOLOGY

Assessing the fairness of VAT tax expenditure aims at determining the profile of the consumer who benefits most from it. Precisely, it aims to determine whether poorer households benefit more from VAT tax expenditure. This analysis uses data on household final consumption expenditure from the fourth Cameroonian household survey (ECAM4).

The first step was to project the matrix of final market and non-market consumption at current prices for 2014 from ECAM4, in order to estimate the matrix of final market and non-market consumption at current prices for 2017. This projection is based on the assumption that household consumption habits do not change significantly from one year to the next, especially in a context of income stability in Cameroon (2014-2017). Thus, the variation in final consumption (FC) would be attributable to the general level of prices (Household Final Consumption Price Index) and volume (population growth rate estimated at 2.7% on average between 2014 and 2017). The approach consists, for each product, of multiplying the current value of the FC of 2014 by the volume index (2.7%) to obtain the constant FC of 2015, this value is in turn inflated, i.e. multiplied by the CPI of 2015 of the corresponding product to have the current value of the FC of 2015. This procedure is repeated until the current CF of 2017 is obtained.

Subsequently, the list of household final consumption goods and services and the list of derogating measures were compared in order to determine the VAT-exempt household final consumption basket.

Finally, household final consumption expenditure for this VAT-exempt basket was aggregated according to expenditure items or product groups, household income quintile, etc. The results of this exercise are presented in the table below.

The analysis of tax expenditure will be made according to a «partial equilibrium» approach: the volume of household consumption and the pre-tax prices of goods and services are assumed to be constant. The only component that varies is the amount of VAT paid or not paid on the goods and services consumed, assuming «all other things being equal».

The assessment of the fairness of the VAT tax expenditure was carried out in 3 steps:

- ✓ the evaluation of the contribution of Cameroonian households to VAT receipts, according to their income quintile and consumption structure;
- ✓ the evaluation of the financial gain of the tax expenditure for households according to their income;
- ✓ the deduction of the impact of the abolition of VAT exemptions on household welfare.

## III. THE FINDINGS

The analysis of the fairness of VAT tax expenditure is based on data from the fourth Cameroonian household survey (ECAM4). Out of the 941 goods and services that constitute the household final consumption basket, 169 are exempt from VAT according to the CGI in force in 2017. These VAT-exempt goods represent on average 32.5% of household market consumption expenditure. Although they consist mainly of 'priority' goods, it appears that the share of household expenditure allocated to these exempt products is relatively higher in poor households (38.7%) than in high-income households (29.7%). The richest households, which contribute the most (53.5% of VAT receipts), receive 47.0% of the tax expenditure related to this tax. The poorest households contribute 3.5% of VAT receipts and benefit from 4.6% of the tax expenditure related to this tax. The level of tax expenditure benefiting households increases with household income; this increase is the same for each item of expenditure. For example, with regard to the item «food and non-alcoholic beverages», which receives more than 46% of tax expenditure, it appears that: 20% of the poorest households (1st quintile) receive 5.8% of the tax expenditure allocated to this item, compared with 40.8% for the richest 20% of households. While this trend can be explained by the fact that household consumption expenditure increases with income level, this trend also reflects insufficient targeting of tax expenditure on the composition of specific expenditure intended for the poorest households.

When analysed from the perspective of the financial gain represented by tax expenditure in the household budget, it appears that Cameroonian households as a whole are making a gain of 6.3% of their market expenditure as a result of VAT exemptions. This relative gain, which decreases with the level of household income, from 7.5% for the poorest households (1st quintile) to 5.7% for the wealthiest, reflects a slight increase in VAT exemptions.

An assessment of the impact of the abolition of VAT exemptions on household welfare concludes this analysis. This impact, measured by calculating the loss of income or compensatory variation in income, is equivalent to the loss of the relative gain enjoyed by households as a result of VAT exemptions. Thus, if VAT exemptions are abolished, in order to maintain their consumption basket and therefore their level of well-being, households will have to increase their market consumption budget by a value at least equal to the relative gain that the household enjoyed as a result of the VAT exemptions. As this adjustment is difficult, if not impossible, for the poorest households, their welfare level would deteriorate further.

This analysis reflects the low equity of VAT expenditure resulting from insufficient targeting of tax expenditure on the structure of consumption expenditure specific to the poorest households. However, a removal of VAT exemptions would deteriorate the standard of living of households and further deteriorate the standard of living of the poorest households. On the other hand, better targeting of tax expenditure, more focused on the consumption structure of the poorest households, is necessary.

### 1) STRUCTURE OF HOUSEHOLD CONSUMPTION OF AND THEIR CONTRIBUTION TO THE TAX YIELD BASED ON THEIR REVENUES

The distribution of household final consumption expenditure by expenditure item allows us to assess the share of each product group in Cameroonian household expenditure, and the relative importance of VAT receipts by expenditure item.

The exploitation of data from the fourth Cameroonian household survey (ECAM4) has made it possible to identify the household final consumption basket. Among the 941 goods and services that make up this basket, 169 are exempt from VAT according to the CGI in force in 2016. The estimate of expected VAT receipts is based on the value of market consumption expenditure excluding VAT and aggregated by product group in order to assess the weight of each expenditure item in total VAT revenues.

#### a) Structure of household final market consumption and VAT revenue by expenditure items

Accounting for more than 32% of total market expenditure, food and non-alcoholic beverages are the largest item of expenditure. They are followed by transport (12.9%) and household housing (11.2%).

Concerning the structure of VAT receipts by product group, food and non-alcoholic beverages represent more than 25% of VAT receipts, followed by transport (18.3%) and clothing and footwear (13.9%). Expenditure on health and education, which are goods and services that are largely exempt from VAT, make only a small contribution to VAT receipts at 0.4% and 0.6% respectively.

The estimate of the effective VAT rate, which is the ratio between VAT revenue and market consumption expenditure, highlights the gap with the nominal VAT rate, which is 19.25%. Depending on the expenditure items, this gap is all the more important as the VAT exemptions relating to goods and services of the expenditure item considered are significant. The education and health items that benefit the most from VAT exemptions have the lowest effective rates.

Item of expenditure % expenditure in total market expenditure % VAT in total VAT Effective VAT rate

Table 22 : Structure of household final market consumption and VAT receipts

| Expenditure Item | % expenditure in total market expenditure | % VAT in total VAT | Effective VAT rate |
|---|---|---|---|
| Food and Non-Alcoholic Beverages | 31,8% | 25,5% | 9,58% |
| Alcoholic beverages, tobacco and drugs | 2,7% | 3,9% | 19,25% |
| Clothing and footwear | 9,4% | 13,9% | 19,25% |
| Housing, water, electricity, gas and others | 11,2% | 5,6% | 5,77% |
| Household equipment | 3,5% | 5,1% | 18,79% |
| Health | 5,5% | 0,4% | 0,81% |
| Transport | 12,9% | 18,3% | 18,42% |
| Communication | 4,8% | 7,0% | 19,23% |
| Leisure and entertainment | 2,2% | 1,8% | 10,12% |
| Education | 4,0% | 0,6% | 1,53% |
| Hotel and restaurant | 6,9% | 10,2% | 19,25% |
| Other goods and services | 5,2% | 7,7% | 19,17% |
| Total | 100,0% | 100% | 12,26% |

### b) Structure of total household consumption

The distribution of market and non-market consumption expenditure by quintile allows us to determine if the structure of consumption varies according to the strata of the population. This makes inable us to assess whether VAT exemptions can be used to relatively target the poorest strata.

Table 23 : Structure of consumer spending by item and income quintile

| Expenditure item | 1st Quatile | 2nd Quatile | 3rd Quatile | 4th Quatile | 5th Quatile | Total |
|---|---|---|---|---|---|---|
| Non-market consumption | 36,5% | 29,4% | 23,1% | 18,4% | 17,2% | 20,4% |
| Self-consumption | 33,1% | 25,4% | 18,8% | 14,2% | 12% | 15,7% |
| Transfers in kind | 3,4% | 4,0% | 4,3% | 4,2% | 5,3% | 4,7% |
| Market consumption | 63,5% | 70,6% | 76,9% | 81,6% | 82,8% | 79,6% |
| Food and Non-Alcoholic Beverages | 27,0% | 29,5% | 29,5% | 28,2% | 21,9% | 25,3% |
| Alcoholic beverages, tobacco and drugs | 1,0% | 1,6% | 1,8% | 2,2% | 2,4% | 2,1% |
| Clothing and footwear | 8,3% | 7,7% | 7,3% | 7,1% | 7,6% | 7,5% |
| Housing, water, electricity, gas and others | 4,6% | 6,2% | 7,6% | 9,4% | 10,0% | 8,9% |
| Household equipment | 3,8% | 3,4% | 2,9% | 2,7% | 2,6% | 2,8% |
| Health | 4,3% | 3,8% | 3,6% | 4,3% | 4,7% | 4,4% |
| Transport | 4,2% | 6,2% | 8,0% | 9,4% | 12,6% | 10,3% |
| Communication | 1,3% | 2,0% | 2,8% | 3,5% | 4,8% | 3,8% |
| Leisure and entertainment | 1,8% | 1,7% | 1,8% | 1,7% | 1,7% | 1,7% |
| Education | 2,1% | 2,6% | 3,6% | 3,6% | 3,1% | 3,2% |
| Hotel and restaurant | 1,7% | 2,5% | 4,2% | 5,5% | 6,8% | 5,5% |
| Other goods and services | 3,4% | 3,4% | 3,8% | 4,1% | 4,5% | 4,1% |
| Total consumption expenditure | 100% | 100% | 100% | 100% | 100% | 100% |

According to the previous table, the structure of consumer spending by expenditure item varies by household income quintile. The level of non-market consumption (self-consumption and transfers in kind) is higher for the poorest households (quintile 1, quintile 2), and decreases as the level of household income increases. With regard to market consumption expenditure, household behaviour is almost identical for so-called 'priority' goods: food and non-alcoholic beverages, clothing and footwear, health, education. However, differences are observed when it comes to so-called «non-priority» goods, in particular: alcoholic beverages, tobacco and drugs, communication, transport, hotels and restaurants. Their relative share in consumption expenditure is higher in the richest households, belonging to the fifth quintile. This share decreases progressively as the level of household income decreases.

### c) Composition of market consumption by VAT rate

The structure of consumption by VAT rate and by income quintile provides an overview of the share of VAT-exempt expenditures in each quintile.

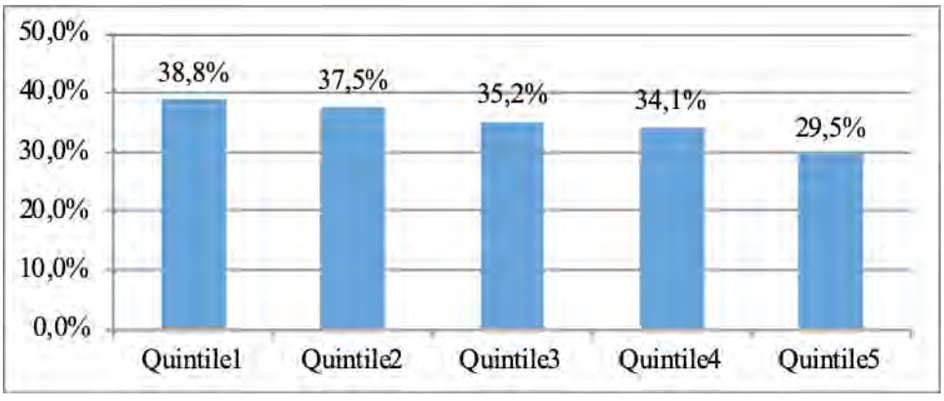
Overall, VAT-exempt products represent on average 32.4% of market consumption expenditure. Although these exempted products mainly concern 'priority' goods, it emerges that the share of household expenditure allocated to these products is relatively higher in poor households (38.8%). This share decreases as household income increases.

Table 24 : Structure of household purchases according to the VAT rate applied

| | 1st Quatile | 2nd Quatile | 3rd Quatile | 4th Quatile | 5th Quatile | Total |
|---|---|---|---|---|---|---|
| Full rated product (19.25%) | 61,2% | 62,5% | 64,8% | 65,9% | 70,5% | 67,6% |
| VAT Exempt Product (zero rate) | 38,8% | 37,5% | 35,2% | 34,1% | 29,5% | 32,4% |
| Total | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% | 100,00% |

Source : our calculation, ECAM4

Graph 1 : Share of household expenditure allocated to tax-exempt products according to income level

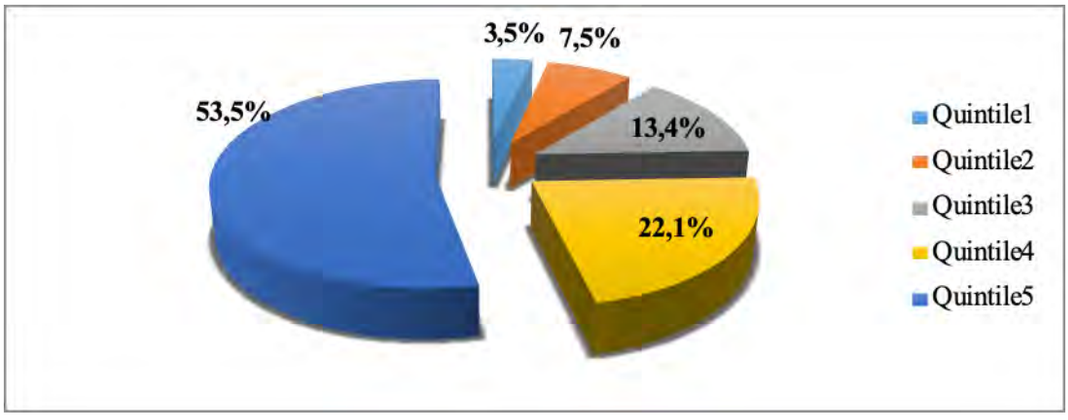



Source : our calculation, ECAM4

### d) Household contribution to VAT collected

As VAT revenues are paid on each good by all households, it is useful to know their distribution according to the different strata of the population (income quintile).

Graphique 2 : Contribution des ménages aux recettes de TVA




Source : our calculations and ECAM4 projections

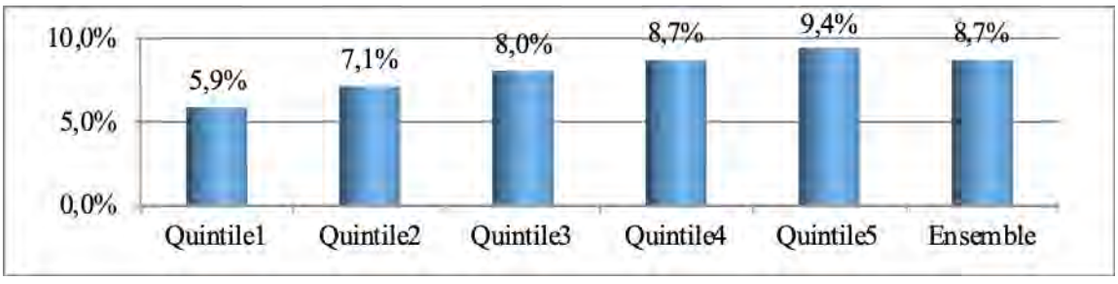
The contribution of households to VAT revenues is higher for the wealthiest households that belong to the fifth quintile. The latter contribute 53.5% to VAT revenues compared to 3.5% for the poorest households in the first quintile. This situation could be justified by two factors: (i) on the one hand, as Table 22 shows, the market consumption of the richest households (82.9%) is much higher than that of the poorest (63.5%); (ii) on the other hand, poor households consume relatively more exempted products (38.8%) than rich households (29.5%) (see Table 23).

### e) Tax effort by household income quintile

Tax effort is defined by the authors as the ratio between VAT revenue paid and total market consumption expenditure. It corresponds to the average effective tax rate presented in Table 1 per expenditure item.

According to several authors, a «fair» VAT policy results in a tax effort that increases with household income and tends to be closer to the standard VAT rate (19.25%) for the wealthiest households.

Graph 3 : Tax effort by household income quintile




As Figure 2 above illustrates, the tax effort increases with the level of household income, rising from 5.9% for the poorest households to 9.4% for the wealthiest. However, this growth remains rather low and the rate of 9.4% observed for the richest households is sufficiently lower than the expected standard rate of 19.25%, which reflects the fairness of a VAT policy.

### f) VAT progressivity index

The VAT progressivity index is the ratio between the relative share of each quintile in total expenditure and its contribution to VAT receipts. As its name suggests, it is used to assess the degree of progressiveness of VAT. If the index is equal to 1, the tax is distributed proportionally to income. If the index is greater than 1 for the lower quintiles, the tax is regressive because the share of taxes paid by the quintiles with the lowest incomes is higher than their share of income.

It can be seen that this index is directly correlated to household income (see Table 24). It is less than 1 for households in the first three quintiles and is equal to 1 for households in the fourth quintile, its value is 1.08, i.e. slightly more than 1 for the 20% of households in the wealthiest quintile. Thus, VAT in Cameroon is progressive, although this progressiveness remains fairly moderate.

Table 25 : VAT progressivity index in Cameroon

| | Quintile1 | Quintile2 | Quintile3 | Quintile4 | Quintile5 |
|---|---|---|---|---|---|
| VAT revenue structure | 3,5% | 7,5% | 13,4% | 22,1% | 53,5% |
| Structure of market expenditure | 4,9% | 9,1% | 14,5% | 22,1% | 49,4% |
| VAT progressivity index | 0,73 | 0,82 | 0,93 | 1,00 | 1,08 |

Source : Our calculations, ECAM projections

## 2) Distribution of the cost of the tax expenditure by income quintile

Tax expenditure here represents VAT exemptions. They can be seen as an indirect subsidy of household consumption. The cost of this subsidy depends on the quality and level of household consumption, and the higher the volume of household consumption of the exempted products, the higher the cost. Knowing the distribution of this tax expenditure by income quintile makes it possible to assess the fairness and quality of such a tax policy.

According to the expenditure items, it can be seen that the items «alcoholic beverages, tobacco and drugs», «clothing and footwear» and «hotels and restaurants» do not benefit from any tax expenditure. On the other hand, almost half (45.1%) of tax expenditure is allocated to the item «food and non-alcoholic beverages», followed by the consumption items «housing, water, electricity, gas and other fuels» (23.0%); «health» (16.2%); «education» (11.2%) (see Table 25).

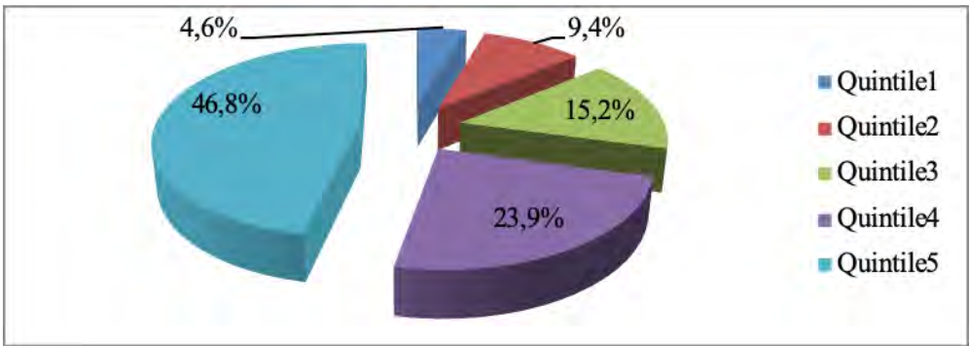
Table26 : Structure of tax expenditures by stratum according to product groups

| Product groups | Quintile1 | Quintile2 | Quintile3 | Quintile4 | Quintile5 | Ensemble |
|---|---|---|---|---|---|---|
| Food and Non-Alcoholic Beverages | 56,6% | 55,8% | 51,0% | 46,3% | 39,2% | 45,1% |
| Alcoholic beverages, tobacco and drugs | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |
| Clothing and footwear | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |
| Housing, water, electricity, gas and others | 14,8% | 16,7% | 19,4% | 22,2% | 26,6% | 23,0% |
| Household equipment | 0,6% | 0,4% | 0,3% | 0,2% | 0,1% | 0,2% |
| Health | 16,1% | 13,5% | 12,8% | 14,7% | 18,6% | 16,2% |
| Transport | 0,3% | 1,1% | 1,1% | 2,0% | 1,5% | 1,5% |
| Communication | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |
| Leisure and entertainment | 3,8% | 3,5% | 3,2% | 2,8% | 2,6% | 2,9% |
| Education | 7,8% | 8,9% | 12,2% | 11,9% | 11,2% | 11,2% |
| Hotel and restaurant | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |
| Other goods and services | 0,0% | 0,0% | 0,0% | 0,0% | 0,1% | 0,1% |
| **Total** | **100,0%** | **100,0%** | **100,0%** | **100,0%** | **100,0%** | **100%** |

Source : Our calculations, ECAM projections

In addition, the breakdown of tax expenditure by income quintile shows that the level of tax expenditure benefiting households increases with household income. Thus 4.6% of tax expenditure benefits the poorest (1st quintile) compared with 46.8% for the richest (5th quintile) (see graph 4). While this evolution can be explained by the fact that household consumption expenditure increases with income level, this structure also reflects an insufficient targeting of tax expenditure on the composition of expenditure specific to the poorest households.

Graph 4 : structure of the tax expenditure by income quintile




Source : Our calculations, ECAM projections

This structure is the same for each expenditure item (see Table 6). Concerning the item «food and non-alcoholic beverages», which receives more than 45% of the tax expenditure, it appears that: 20% of the poorest households (1st quintile) receive 5.8% of the tax expenditure allocated to this item, compared with 40.7% for the 20% of the richest households. This result could be explained by the differences observed in the consumption structure of households according to income quintiles (see Table 26). In fact, the volume of market consumption, and therefore of products benefiting from VAT exemption, is greater in rich households than in poor households. The latter supplement this difference with self-consumption, which is non-market production and cannot benefit from VAT exemptions. This structure is the same for each expenditure item (see Table 6). Concerning the item «food and non-alcoholic beverages», which receives more than 45% of the tax expenditure, it appears that: 20% of the poorest households (1st quintile) receive 5.8% of the tax expenditure allocated to this item, compared with 40.7% for the 20% of the richest households. This result could be explained by the differences observed in the consumption structure of households according to income quintiles (see Table 26). In fact, the volume of market consumption, and therefore of products benefiting from VAT exemption, is greater in rich households than in poor households. The latter supplement this difference with self-consumption, which is non-market production and cannot benefit from VAT exemptions.

Table 27 : Structure of Tax Expenditure by Expenditure Items and Strata

| Expenditure items | Quintile1 | Quintile2 | Quintile3 | Quintile4 | Quintile5 | Total |
|---|---|---|---|---|---|---|
| Food and Non-Alcoholic Beverages | 5,8% | 11,6% | 17,2% | 24,6% | 40,7% | 100% |
| Housing, water, electricity, gas and others | 3,0% | 6,9% | 12,9% | 23,1% | 54,2% | 100% |
| Household equipment | 13,1% | 17,6% | 21,8% | 21,5% | 26,1% | 100% |
| Health | 4,6% | 7,9% | 12,0% | 21,7% | 53,8% | 100% |
| Transport | 0,9% | 6,8% | 11,2% | 32,2% | 48,9% | 100% |
| Communication | 0,3% | 1,0% | 10,4% | 11,6% | 76,7% | 100% |
| Leisure and entertainment | 6,2% | 11,4% | 17,1% | 23,0% | 42,3% | 100% |
| Education | 3,3% | 7,5% | 16,6% | 25,4% | 47,1% | 100% |
| Other goods and services | 0,0% | 0,6% | 0,3% | 2,9% | 96,2% | 100% |
| Together | 4,6% | 9,4% | 15,2% | 23,9% | 46,8% | 100% |

In order to complete the analysis, it shall be interesting to evaluate the tax expenditure from the point of view of the financial gain that it represents in the budget of households according to their level of income.

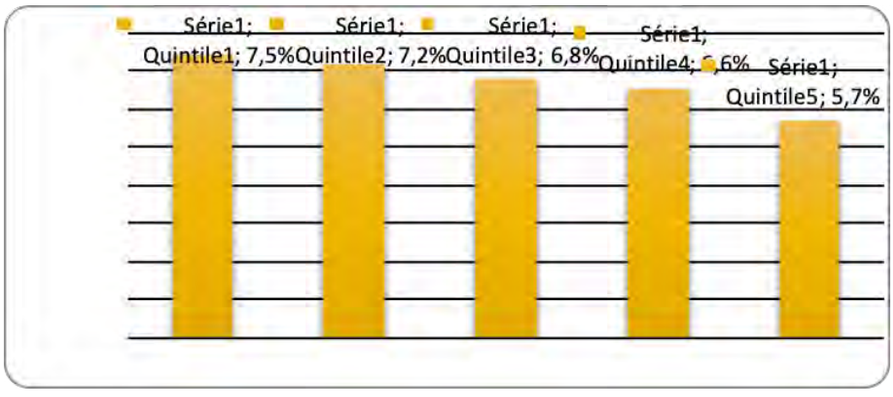
### 3) Distribution of the gains from VAT exemptions by household income

The relative gain here refers to the ratio of tax expenditure to household market consumption expenditure. It makes it possible to assess the importance of the financial gains of households due to VAT exemptions. Under a progressive VAT system, the household financial gain generated by tax expenditure should decrease as the level of household income increases.

#### a) Relative gain in tax expenditures by quintiles

As illustrated in Figure 4 below, as a whole, Cameroonian households realise a gain of 6.4% of their market expenditure as a result of VAT exemptions. Depending on income level, the gain made by the poorest households (1st quintile) represents 8.1% of their market expenditure compared with 5.7% for the wealthiest households (quintile 5). This progressive decrease in the gain with household income, although very slight, reflects the progressive nature of VAT exemptions. The differences in the ratio between the quintiles show a disparity in financial gain between the different strata of the population.

Graph 5 : Gain in tax expenditures from a household budget perspective by quintile




Source : our calculations, NIS-ECAM4

#### b) Relative gain in tax expenditures by expenditure item and quintile

The calculation of the relative gain per product group and stratum allows for a more refined analysis of the targeting of the tax expenditure. The objective is to know whether the derogating measure ensures a higher financial gain for the poorest households.

Depending on the expenditure items, it appears that tax expenditure on the items «communication» and «other goods and services» is relatively insignificant compared to the expenditure made by households on these items. On the other hand, for the items «health» and «education», households benefit from a gain of 18.3% and 17.4% respectively of their market expenditure on these items. It also emerges that, for these two items, the gains are evenly distributed between the different quintiles. Looking at the item «food and non-alcoholic beverages», it is clear that the relative gain in tax expenditure is indirectly correlates to household income, although the differences between the quintiles remain small (see table 27).

Table 28 : tax expenditure as a share of household market expenditure by product and stratum

| Produits | Quintile1 | Quintile2 | Quintile3 | Quintile4 | Quintile5 | Ensemble |
|---|---|---|---|---|---|---|
| Food and Non-Alcoholic Beverages | 9,9% | 9,7% | 9,0% | 8,8% | 8,4% | 8,8% |
| Alcoholic beverages, tobacco and drugs | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |
| Clothing and footwear | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |
| Housing, water, electricity, gas and others | 15,4% | 13,7% | 13,2% | 12,7% | 12,4% | 12,7% |
| Household equipment | 0,8% | 0,6% | 0,6% | 0,4% | 0,2% | 0,4% |
| Health | 17,5% | 18,1% | 18,4% | 18,1% | 18,4% | 18,3% |
| Transport | 0,3% | 0,9% | 0,7% | 1,1% | 0,6% | 0,7% |
| Communication | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |
| Leisure and entertainment | 10,2% | 10,7% | 9,4% | 8,7% | 7,2% | 8,3% |
| Education | 17,5% | 17,5% | 17,7% | 17,5% | 17,3% | 17,4% |
| Hotel and restaurant | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% | 0,0% |
| Other goods and services | 0,0% | 0,0% | 0,0% | 0,0% | 0,1% | 0,1% |
| Together | 7,5% | 7,2% | 6,8% | 6,6% | 5,7% | 6,2% |

### 4) Impact of eliminating VAT exemptions on household welfare

An assessment of the impact of the elimination of VAT exemptions on household welfare concludes this analysis on the equity of VAT tax expenditure. This impact will be measured by calculating the loss of income or compensatory change in income. Indeed, the abolition of the derogating measures leads to an increase in the All Taxes Included (including VAT) price of the products concerned and, consequently, in the level of market consumption expenditure if the household wants to maintain its consumption basket. The calculation of the compensatory income makes it possible to know the level of additional income that the household has to mobilise following the change in price including tax to maintain its consumption basket and therefore its level of utility/well-being. A positive compensatory variation means that there is a loss of well-being for the household.

This compensatory variation is equivalent to the loss of the relative gain enjoyed by households as a result of VAT exemptions. Thus, if VAT exemptions are abolished, in order to maintain their consumption basket and therefore their level of well-being, households will have to increase their market consumption budget by an average of 6.2% of their initial market consumption expenditure. This ratio in relative terms is higher in the poorest households (7.5%) than in the wealthiest households (5.7%) (see Table 27). According to the results of ECAM4 , monetary poor households are those whose income or total consumption expenditure (market and non-market) is below the poverty line, which is FCFA 339,715 per adult equivalent per year. These are people who are not able to dispose of 931 FCFA per adult equivalent per day to satisfy their basic needs, i.e. to feed themselves and meet their non-food needs.

They live from day to day, within the limits of their means; they have no savings. Putting them in conditions that would require them to increase their income to 7.5% of their market consumption expenditure would significantly reduce their level of well-being.

For example, abolishing VAT exemptions would worsen the standard of living of households and, to a greater extent, that of the poorest households. On the other hand, better targeting of tax expenditure, more focused on the consumption structure of the poorest households, is necessary.

# CHAPTER II

# SOCIAL AND ECONOMIC IMPACT OF INVESTMENT INCENTIVES, CONVENTIONS AND SPECIFICATIONS

This chapter is devoted to the assessment of the impact of private investment incentive schemes on economic activity, investment and employment. It presents the methodological approach, the presentation of data, the analysis of projections of the specifications, and finally the achievements of new and existing companies benefiting from the approval agreements under the law of 18 April 2013. Then an assessment of the socio-economic impact of these derogatory measures is carried out by comparing a group of companies benefiting from these derogatory schemes with a control group of companies that have not benefited from these advantages.

As in the case of the evaluation of the impact of the VAT exemptions on household consumption, it is a question, for the enterprises benefiting from the above-mentioned derogations, of evaluating the level of implementation of the commitments and the achievement of the targeted objectives. Also, it is a question of assessing the gains in relation to the cost of tax expenditure.

Within the framework of its private investment promotion policy, the State has adopted a legislative incentive mechanism, notably Law N°2013/004 of 18 April 2013 fixing the incentives for private investment in the Republic of Cameroon. The objective of this law was to encourage, promote and attract productive investments with a view to developing activities oriented towards the promotion of the national economy. This promotion, in line with the objectives of the DSCE, was to consolidate growth and have a direct impact on job creation. Incentives are based on the granting of significant tax and customs benefits to companies approved under the said law in return for their compliance with their scheduled investments and socio-economic commitments.

For reminder purposes, an initial evaluation of the implementation of Law N°2013/004 of 18 April 2013 fixing the incentives for private investment in the Republic of Cameroon, carried out in May 2017 by the DGI/DGD on 128 companies benefiting from the approvals, revealed mixed results. Among other things, it shows that

- ✓ 166.1 billion FCFA actually invested out of 3,018.2 billion FCFA projected, or 5.5% of projected investments;
- ✓ 5,667 jobs created out of 35,542 projected jobs, representing 15.9% of expected jobs ;
- ✓ The tax expenditure recorded over the period by the DGD services is CFAF 94.865 billion and CFAF 5.6 billion for the DGI; i.e. a total of CFAF 100.46 billion representing about 15.2% of the projected theoretical tax expenditure.

This evaluation must imperatively be updated. The present document proposes to do it in a progressive manner, targeting the companies which have benefited from these incentives by sector of activity. The metallurgy sector is targeted by the evaluation since it is the beneficiary of the derogatory measures granted by the specifications, with many well-founded expectations in return. Indeed, the metallurgy sector has an important impact on other sectors of the economy and on macroeconomic stability. The development of this sub-sector should reduce imports, improve the competitiveness of local companies, slow down the outflow of foreign currency, and improve the balance of trade and payments.

# I. ECONOMIC AND SOCIAL IMPACT OF AGREEMENTS AND SPECIFICATIONS: THE METALLURGICAL INDUSTRY

## A. METHODOLOGY

The methodology applied is the same as that applied in impact assessments. This methodology is recommended by the FERDI. It consists in assessing the counterfactual on variables that can be used to measure the impact of the said specifications.

To this effect, we will use as a group of companies that have benefited from the investment incentives in the metallurgical sector PROMETAL and "LES ACIERIES". The latter are known as «treated» companies. The treatment here refers to particular advantages to which these enterprises have been entitled, in this case the specifications of the metallurgy sector. A group of «untreated» enterprises is then formed. These are the enterprises that «sufficiently» resemble the enterprises that have been treated, but have not received the same benefits. Untreated enterprises are thus enterprises that belong to the same sub-branch of activity, notably metallurgy. These are METAFRIQUE and COMETAL.

The assessment would be more robust if data were available on a larger number of enterprises that have benefited from these derogations and even more that have not. This would make it possible to separate the effect of the measures from other parameters that may also explain the performance of enterprises in one group or the other (treated and untreated group). These other effects would be, for example, the quality of management and staff, the technology of the enterprises, the business model, the overall economic situation, etc. However, even with a few companies, the results are still valid, even if they can be refined.

The evaluation method is the double difference-in-difference method to assess the impact of the reform. This method is applied as follows:

Let CA0treat the average turnover of PROMETAL and "LES ACIERIES"; and CA0not treated that of METAFRIQUE and COMETAL before the entry into force of the derogating measures. Or CA1 is the average turnover of PROMETAL and "LES ACIERIES"; and CA1 is the average turnover of METAFRIQUE and COMETAL after the entry into force of the derogations. We have the following situations:

Table 29 : summary of the double difference-in-difference

| | Before 2010 | After 2010 | Differences |
|---|---|---|---|
| Companies that have benefited from the derogations | $CA_{0traitées}$ | $CA_{1traitées}$ | $CA_{1traitées}$ - $CA_{0traitées}$ (1) |
| Companies that have not benefited from the derogating measures | $CA_{0non\ traitées}$ | $CA_{1non\ traitées}$ | $CA_{1non\ traitées}$ – $CA_{0non\ traitées}$ (2) |
| IMPACT | | | (1) - (2) |

The impact is theoretically computed as the difference between equations (1) and (2). This methodology is applied to data on turnover, jobs created and investments made.

## B. Impact assessment in the metallurgical sector

The company, Compagnie des Produits Métalliques du Cameroun (PROMETAL) is a company under Cameroonian law created in 2008 with a share capital of 10,000,000, 100% owned by foreign participation. Its business model is essentially based on its production capacity with a very advanced technology. PROMETAL is the leader in the iron transformation sector, with a 70.5% market share in Cameroon. As for STEELWORKS, they represent 12.5% of the metallurgy market share. The two companies together account for 83% of the Cameroonian metallurgy market.

Table 30 : Summary of results obtained in the metallurgical sector

| | Average turnover before 2010 | Average turnover before 2010 | Differences |
|---|---|---|---|
| Companies that have benefited from the derogations | 9 653 308 145 | 26 993 388 839 | 17 340 080 694 |
| Companies that have not benefited from the derogating measures | 9 560 955 055 | 4 970 041 743 | -4 590 913 312 |
| Impact | | | 21 930 994 007 |

On average, based on the previous Table 30, the turnover of unprocessed companies in the metal sector would have decreased by half over the period 2011-2019, to an average of F CFA 4,970,041,743. While the turnover of companies that benefited from the incentives provided by the specifications almost tripled on average over the period to an average of around CFA F 26,993,388,839. The graph below illustrates the average evolution of activity in the two sub-groups.

Graph 6 : Comparative evolution of activity in the two sub-groups of the metallurgical industry


A dynamic analysis of the impact of PROMETAL's on the GDP of the secondary sector or of the sub-branch of other manufacturing industries can help to assess the effect of the derogating measures. Indeed, PROMETAL's share of GDP in this branch varies from 0.25% in 2010 to nearly 3.7% in 2019. Even if several other circumstances such as the CAN 2022 and CHAN 2021 construction sites can explain this evolution, the impact of the derogatory measures cannot be neglected.

Moreover, it can be concluded that the derogatory measures have had a positive effect on activity in the metal sector.

However, other conditions had been laid down in this company's specifications, in particular the creation of new jobs and the realization of a certain level of planned investment.

### C. Assessment of the level of realisation of commitments

The comparative analysis of the achievements and objectives assigned in PROMETAL's specifications highlights two main findings:

- on the one hand, the objective in terms of direct jobs created has been exceeded overall. Although not achieved in the installation phase, it was largely exceeded in the operating phase. Indeed, these objectives were projected at 705 and 425 direct jobs respectively in the installation and operating phases. Achievements amounted to 652 and 619 respectively in the two phases, i.e. achievement rates of 92.5% and 145.6% respectively;
- on the other hand, investment targets were exceeded in two phases. The implementation rates are 281.4% in the installation phase and 228.8% in the operation phase.

To conclude on this part, the derogating measures have had a positive effect on activity in the metallurgy sector. This effect is moreover greater than the objectives set out in the specifications.

Table 31 : Comparative analysis of PROMETAL's achievements and commitments (employment and investment)

| | Emplois directs | | | Investment (in billions) | | |
|---|---|---|---|---|---|---|
| | Realisations | Projections | Realisation rate | Realisations | Projections | Realisation rate |
| Phase 1 (installation : 2010-2014) | 652 | 705 | 92,5% | 43,9 | 15,6 | 281,4% |
| Phase 2 (operational : 2015-2019) | 619 | 425 | 145,6% | 49,2 | 21,5 | 228,8% |
| Total | 1 271 | 1 130 | 112,5% | 93,1 | 37,1 | 250,9% |

## D. Some elements of cost-benefit analysis

Over the 2010-2019 period, for CFAF 93.1 billion in investments and CFAF 155.4 billion in exemptions, PROMETAL paid nearly CFAF 37.6 billion in taxes and duties and created 1,271 direct jobs. Thus, the difference between exemptions and taxes paid amounts to FCFA 117.6 billion. Taxes and duties paid over the period increased significantly, rising from 589.9 million in 2010 to more than CFAF 8 billion in 2019, an increase in payments 14 times higher than that of 2010. Also, exemptions are much higher than investments (167%) due to those applied to inputs, which is extremely costly.

From the ratios calculated in the table below, it emerges that the exemptions represent on average more than a third of turnover over the 2010-2019 period. These exemptions are much higher for both taxes paid and investments.

It can be concluded that the incentives have had a beneficial effect on PROMETAL's business, although the cost in terms of tax expenditure remains high.

Graph 6 : Evolution of investments, turnover, exemptions and tax payments at PROMETAL

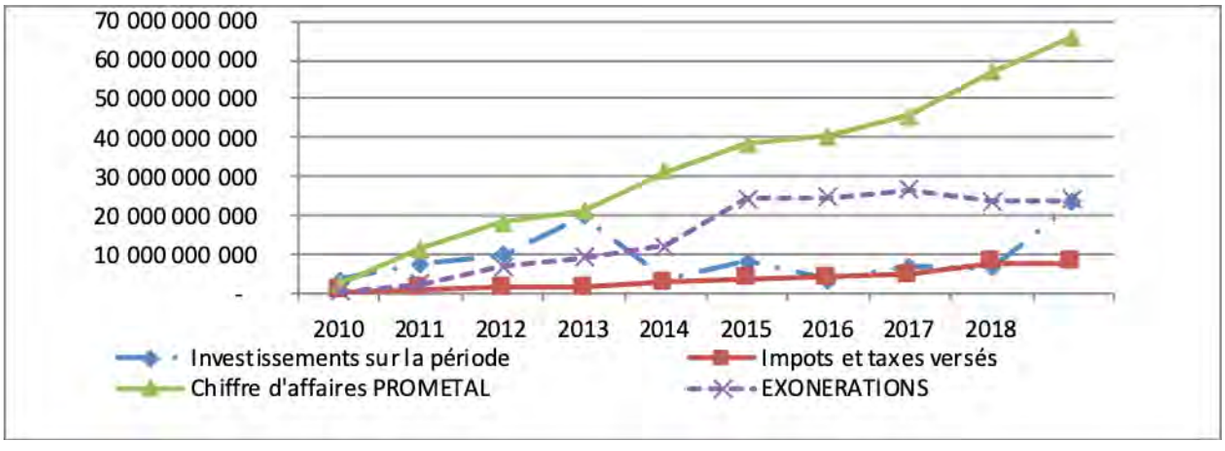


Table 32 : Evolution of PROMETAL's exemptions and its turnover

| Period | Investissements over the period | Taxes paid | PROMETAL's turnover | Exemptions | Exemptions/ turnover | Exemptions/ taxes paid | Exemptions / investissement |
|---|---|---|---|---|---|---|---|
| 2010 | 3 520 000 000 | 589 902 613 | 2 657 000 000 | 481 106 324 | 18% | 82% | 14% |
| 2011 | 7 668 000 000 | 1 198 758 577 | 11 706 000 000 | 2 581 084 629 | 22% | 215% | 34% |
| 2012 | 9 919 000 000 | 1 489 088 917 | 18 266 000 000 | 6 946 853 083 | 38% | 467% | 70% |
| 2013 | 20 212 000 000 | 1 804 917 398 | 21 240 000 000 | 9 372 825 205 | 44% | 519% | 46% |
| 2014 | 3 490 000 000 | 3 101 880 123 | 31 440 000 000 | 12 291 878 985 | 39% | 396% | 352% |
| 2015 | 8 483 000 000 | 3 855 893 860 | 38 470 000 000 | 24 560 607 707 | 64% | 637% | 290% |
| 2016 | 3 614 000 000 | 4 483 674 825 | 40 424 000 000 | 24 801 182 882 | 61% | 553% | 686% |
| 2017 | 7 161 000 000 | 4 928 866 426 | 45 953 000 000 | 26 756 008 338 | 58% | 543% | 374% |
| 2018 | 6 643 000 000 | 8 081 203 044 | 56 974 000 000 | 23 600 572 755 | 41% | 292% | 355% |
| 2019 | 23 335 000 000 | 8 112 944 260 | 65 791 000 000 | 24 023 184 676 | 37% | 296% | 103% |

# II. SOCIO-ECONOMIC IMPACT OF THE INVESTMENT INCENTIVE REGIME

## 1. 1. Context

Since 2013, specific investment grants have been granted by Cameroon in the form of exemptions . By introducing this law, the country had set itself the objective of encouraging, promoting and attracting productive investments with a view to developing activities oriented towards the promotion of strong, sustainable and inclusive economic growth. In other words, the aim was to promote the creation of new businesses and the expansion of existing ones, which would increase revenue, create jobs and promote economic growth.

To this end, tax exemptions were granted for both internal and external taxation, resulting in significant losses in tax revenue.

Six years after the entry into force of the Incentives Act of 2013, the aim of this report is to provide a mid-term response on its effectiveness in achieving the above-mentioned objectives. The data used are collected come from the customs and tax administrations, combined with those of the joint mission DGT, DGC, NSI, IPA, APME, MINMIDT MINEPAT which is currently being finalised.

## 2. Methodological overview

Under the supervision of the IPA, the data collection process consisted with the different ministries involved in :

- Selecting the companies to be evaluated on the basis of the level of progress of the projects ;
- Preparing and sending out the evaluation sheets containing the information required beforehand;
- Exchanging with the managers of the companies visited on their identification, the consumption of the time granted, the level of investment made, the actual jobs, the tax expenditure granted as well as the difficulties encountered.

The work database thus produced was supplemented with data extracted from the electronic filing of STR. It was thus structured around the following criteria:

- The identification of the companies benefiting from the approval ;
- The management data of the company, in particular the situation of the investments and jobs planned and those carried out;
- The consumption of deadlines.

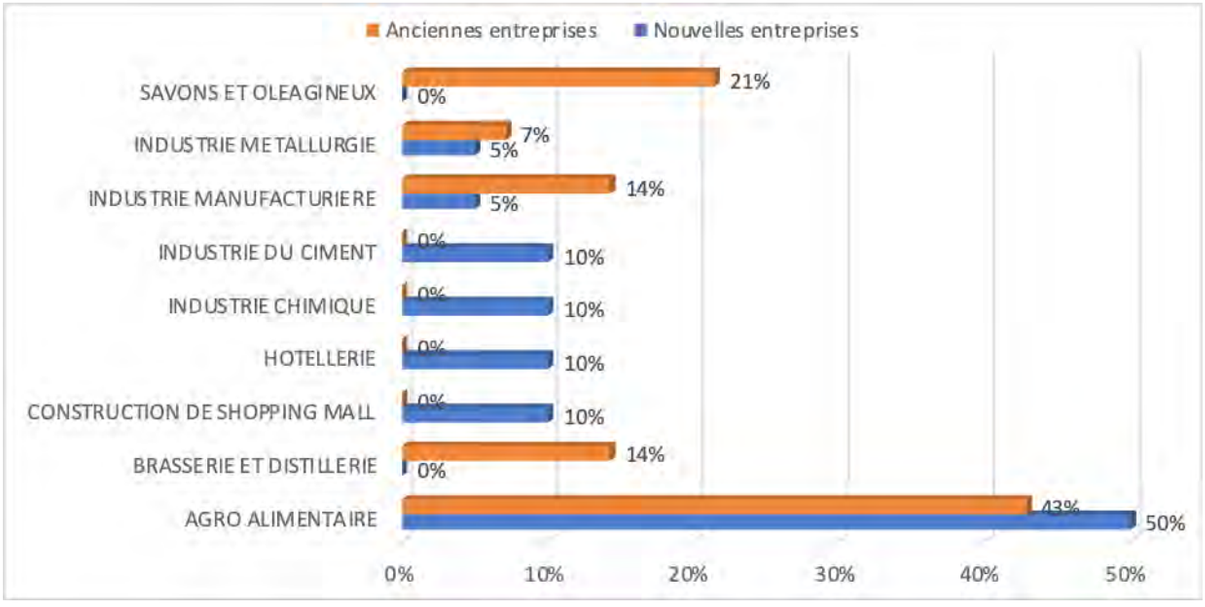
## 3. Presentation of the study data

The survey targeted a sample of 50 companies holding approvals under the law of 18 April 2013. However, only 40 companies replied to the evaluation, the others have not yet returned their questionnaire. However, these data were supplemented with data from the FSDs and other available information. In the end, after processing the database, only 34 companies were evaluated, i.e. 20 new and 14 old companies.

The activities of the beneficiaries are varied and are mainly in the secondary sector. Out of the sample of enterprises surveyed, 50% of the new enterprises are active in the food processing industry, 10% in the hotel industry, the chemical industry, the cement industry and in general trade (construction of shopping malls). There are also a few business in the manufacturing industry and in metallurgy.

Existing enterprises are concentrated in the agro-food industry (43%), soaps and oilseeds (13%), manufacturing industry (14%), brewing and distilling industry (14%) and metalworking (7%).

Graph 8 : Distribution of companies surveyed according to their activity sectors




Source :MINFI/DGT, IPA

## 4. Assessment of the level of realisation of commitments

This section presents, among other things, a comparative analysis of investment projections and achievements and the jobs created.

### 4.1. In termes of job creation

Generally speaking, out of the 17,733 jobs projected by the 34 companies in this study, 13,179 jobs were actually created, i.e. a completion rate of 74.3% for an average deadline consumption rate of around 63.5%. Compared to the lead times consumed, this is a good performance for these companies in terms of job creation. However, these aggregated statistics conceal many disparities between these companies.

An industry by industry analysis shows that metallurgical companies and those with approvals for the construction of shopping malls are the worst performers in terms of job creation rates below the time already consumed.

The pace of job creation is faster in existing companies than in new firms. For example, the rate of job creation in relation to the rate of time consumption is higher in old companies, i.e. a completion rate of 115.2% for a time consumption rate of 56%. In fact, 10,489 jobs were created by this category out of a projected target of 9,102 jobs.

On the other hand, new businesses generated 2,690 jobs out of a projected target of 8,631 jobs, i.e. an achievement rate of 31% for a deadline consumption rate of 69%.

The sectors that have contributed most to job creation are notably the brewing sector with an achievement rate of 70% for an average rate of consumption of lead times of equal value; and the soap and oilseed sector with an achievement rate of 273%.

Among the existing companies, SOSUCAM alone created 7,822 jobs as part of the new investment, with a projected target of 6,127 jobs, i.e. a completion rate of 128%.

For the new companies, the realisation rate of their projected jobs is only 31%. This rate is mainly sustained by the chemical industry (147%) and the hotel industry (33%) and the food industry (36%).

Table 33 : created and projected and projected jobs by the companies in this study

| Branch of activity | Job forcasts | | | Jobs created | | | Realisation rate | Consumption rate of deadlines |
|---|---|---|---|---|---|---|---|---|
| | New companies | Existing companies | Total | New companies | Existing companies | Total | | |
| Food industry | 3 812 | 7 315 | 11 127 | 1356 | 8274 | 9 630 | 86,5% | 67,5% |
| Brewery and distillery | | 365 | 365 | | 1153 | 1 153 | 315,9% | 70,0% |
| Shopping mall construction | 1 089 | | 1 089 | 116 | | 116 | 10,7% | 60,0% |
| Hotels | 799 | | 799 | 260 | | 260 | 32,5% | 60,0% |
| Chemical industry | 618 | | 618 | 907 | | 907 | 146,8% | 90,0% |
| Cement industry | 1 703 | | 1703 | | | 0,0 | ND | 80,0% |
| Manufacturing industry | 150 | 150,0 | 300 | 50 | 258 | 308 | 102,7% | 20,0% |
| Metal industry | 460 | 1 020 | 1480 | 1 | 115 | 116 | 7,8% | 50,0% |
| Soap production | | 2 52 | 252 | | 689 | 689 | 273,3% | 66,7% |
| **Grand total** | **8 631** | **9 102** | **17 733** | **2 690** | **10 489** | **13 179** | **110,4%** | **63,5%** |

Source : MINFI/DGI, API

### 4.2. Implementation of planned investments

The projected aggregate investments of the 34 companies covered by the evaluation amount to FCFA 521.9 billion, against FCFA 428.7 billion actually realised, i.e. a realisation rate of 82.1% for an average consumption rate of about 65.5%. Compared to the consumed delay, this is a good performance in terms of investment.

Compared to industries, there is an underperformance in the shopping mall construction sector. In fact, it has only made 21% of the planned investments for an average rate of consumption of 60% of the lead time.

New companies have a lower rate of investment realisation compared to old companies. The average completion rate for new investments is 73.8% with an average deadline consumption rate of 69%. The average investment completion rate for old companies is 92% and the average time consumption rate is 56%.

Table 34 : agregate investments planned and realised for the companies in this study (in billions of F CFA)

| Branch of activity | Job forcasts | | | Jobs created | | | Realisation rate | Consumption rate of deadlines |
|---|---|---|---|---|---|---|---|---|
| | New companies | Existing companies | Total | New companies | Existing companies | Total | | |
| Food industry | 112,0 | 163,4 | 275,4 | 104,3 | 141,7 | 246,0 | 89,3% | 67,5% |
| Brewery and distillery | | 25,1 | 25,1 | | 44,7 | 44,7 | 178,3% | 70,0% |
| Shopping mall construction | 71,0 | | 71,0 | 15,3 | | 15,3 | 21,5% | 60,0% |
| Hotels | 16,3 | | 16,3 | 14,7 | | 14,7 | 90,1% | 60,0% |
| Chemical industry | 17,5 | | 17,5 | 16,0 | | 16,0 | 91,3% | 90,0% |
| Cement industry | 53,7 | | 53,7 | 45,6 | | 45,6 | 84,9% | 80,0% |
| Manufacturing industry | 5,9 | 12,4 | 18,3 | 2,6 | 12,6 | 15,2 | 82,9% | 20,0% |
| Metal industry | 8,6 | 20,0 | 28,6 | 12,0 | 3,2 | 15,2 | 53,3% | 50,0% |
| Soap production | | 16,0 | 16,0 | | 16,0 | 16,0 | 99,8% | 66,7% |
| **Grand total** | **285,0** | **237,0** | **521,9** | **210,4** | **218,3** | **428,7** | **82,1%** | **63,5%** |

Source : MINFI/DGI, API

### 4.3. In terms of tax expenditures

The tax expenditure declared by the 34 companies covered by the evaluation amounts to CFAF 22.7 billion, of which CFAF 13.8 billion are taxes and duties collected by the Directorate General of Taxation. This relatively low level of declared tax expenditure results from the fact that the data provided by beneficiary companies was incomplete.

#### i. i. Tax expenditures based on the status of comapnies

New companies benefited most from the incentives provided by law. The tax expenditure granted to them amounts to more than CFAF 13.2 billion, against 9.5 billion for existing companies.

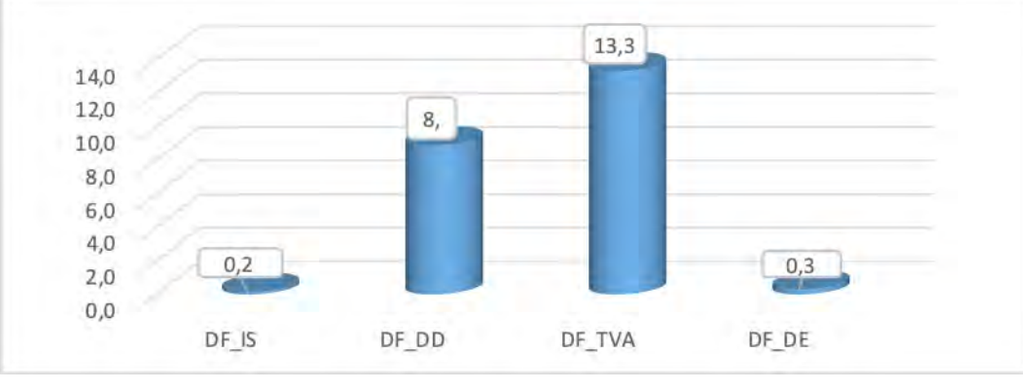
Graph 9 : Distribution of the tax expenditure by company status


Source : MINFI/DGI, API

#### ii. Dépenses fiscales par nature d'impôts

This tax expenditure is mainly made up of VAT (CFAF 13.3 billion) and customs duties on imports (CFAF 8.9 billion).

Graph 10 : distribution of tax expenditures per tax type.



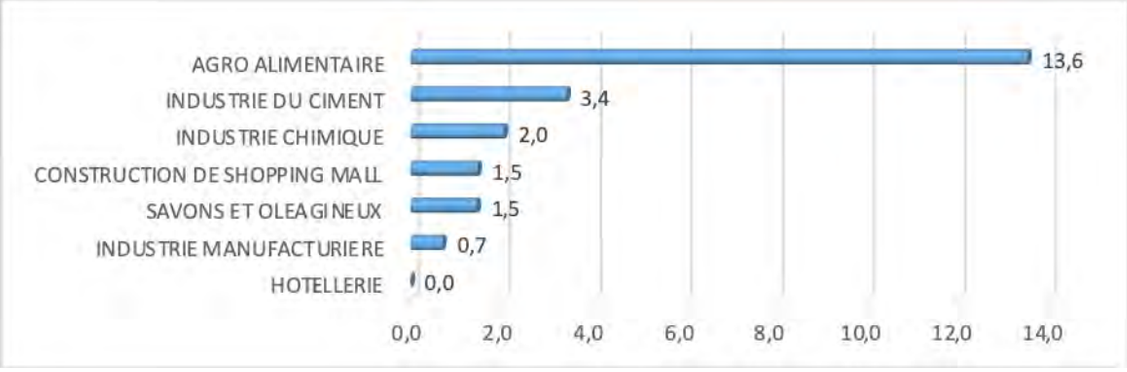

#### iii. Dépense fiscale et secteur d'activité

The distribution of tax expenditure by industry shows that agro-industrial companies, with 60%, or CFAF 13.6 billion, benefit the most from the tax expenditure. In fact, the sector groups together the large companies which have initiated important investment programmes.

The cement factories (CIMAF Cameroon SA, MEDCEM Cameroon, MIRA, ...) are in second place with 15% of the overall tax expenditure or CFAF 3.4 billion.

The construction of shopping mall construction and investments in the soap manufactruring industry have benefited from a tax expenditure of 7% or CFAF 1.5 billion.

Graph 11 : Distribution of the tax expenditure by industry.




Source : MINFI/DGI, API

## 5. Assessment of the impact of the 2013 law on the promotion of investments

### 5.1. Methodological approach and data presentation

The methodology applied here is the same as that used for the impact assessment of agreements and specifications in the metallurgical sector.

In view of the difficulty of having a long series of data on the period before and after approval was granted, the sample of companies used for this analysis was restricted to 11 companies. Also, due to the fact that companies in the brewing and distilling sector have almost all the approvals of the 2013 law, it was difficult to find their counterfactual not processed. As a result, they were excluded from the analysis.

Thus, our working base consists of a group of 11 companies that have benefited from the advantages of the April 18th 2013 law and are named “covered”. These companies are concentrated in the agri-food, manufacturing, and soap and oilseed sectors. Another group of 11 companies that did not benefit from the 2013 Act is then constituted and named “not covered “. These non-treated companies are counterfactuals of the treated companies, i.e. they are each similar to a treated company, particularly in terms of sector and level of activity.

### 5.2. Impact of incentives on sales

The analysis indicates an overall positive impact of the 2013 law on the activity of eligible companies. The overall impact of this law on the turnover is +1.8 billion FCFA on average per company over the period 2016-2019. The most important impact on activity is concentrated in the soap manufacturing industry (+17 billion FCFA on average).

Table 35 : Impact of the 18th April 2013 law on the turnover of existing companies on average (in billions)

| | CA moyen 2014-2015 | CA moyen 2016-2019 | Différence |
|---|---|---|---|
| Group covered | 21,9 | 26,9 | 5,0 |
| Group not covered | 21,1 | 24,2 | 3,1 |
| **IMPACT** | | | 1,9 |

Source : MINFI/DGT, IPA, personal calculations

### 5.3. Impact of incentives on employment

The impact of the 2013 law is positive on job creation overall. The analysis reveals an overall positive impact of +37 jobs on average per company over the period 2016-2019. The impact on employment is highest in the soap production industry (+175 jobs on average per company), in manufacturing industry (+62 jobs on average per company) and in the food industry (+28 jobs on average per company).

Table 36 : impact of 18th April 2013 law on employment in existing companies on average

| | Average turnover | Nbre d'emplois moyen 2016-2019 | Différence |
|---|---|---|---|
| Group covered | 2014-2015 | Average turnover | 106,6 |
| Group not covered | 2016-2019 | Difference | 70,1 |
| **IMPACT** | | | 36,5 |

Source : MINFI/DGT, IPA, personal calculations

Since almost all companies in the brewery sector are beneficiaries of the authorizations of the 2013 law, the method used is not appropriate in this particular case. However, it can be observed that the ratio of employment to turnover (in billions of FCFA) increased from 2.7 in 2014 to 6.1 on average over the period 2015-2019. This gain of 3.4 points represents the improvement in job creation in relation to activity as a result of the law of 2013.

## 6. Conclusion

The 2013 law was enacted in a context marked in particular by the need to stimulate private investment and steer it towards the promotion of strong, sustainable, sustainable, job-creating economic growth. The evaluation of the impact of this law, although based on provisional data to date, has shown that its objectives have generally been achieved. Indeed, an increase in employment and activity has been observed in the main sectors benefiting from the incentives of the 2013 law (brewing industry, food processing industry, soaps and oilseeds, cement works, etc.), despite the delay in the implementation of investment programmes in the hotel industry.

An exhaustive cost-benefit analysis of this law and the other derogatory regimes will contribute to the informed rationalisation of tax expenditure. The implementation of such a study requires the availability of the necessary data.

# CONCLUSION GENERALE

The analysis of the budgetary, economic and social impacts led to the identification of the impact of tax expenditure on the State budget and the economy.

Thus, the loss of earnings for the 2019 fiscal year stands at CFA 584.7 billion, representing 21% of revenue collected and 2.6% of GDP. This cost, although not comprehensive, is considerable given the ever-increasing needs of the state in economic and social matters.

An objective analysis of tax incentives cannot, however, be limited to their cost on public finances; it must also take into account the other effects on the community, hence the study of the economic and social impact of the law of 18 April 2013, in addition to that of the INS on household consumption.

The conclusions show a significant contribution of tax incentive schemes on the development of investments and job creation, thus justifying their importance. However, their scope should be rationalised, both in terms of their scope and their duration.

Indeed, with the financial difficulties that are worsening, in particular the budget deficit, the question of reducing tax exemptions is more important than ever. The problem is nevertheless to know in which sectors or branches of activity will it possibly be necessary to abolish or reduce expenditure and which taxes will be concerned (VAT, SD, registration fees, income tax...)? Based on the results of the evaluation of the impact of derogatory taxation on beneficiaries, and the difficulties encountered in the conduct of this study, the following recommends are made:

### a) On a strictly tax standpoint :

With respect to households, the gradual elimination of VAT exemptions, custom duties on household consumption estimated at FCFA 351.7 billion, i.e. 60.1% of estimated tax expenditure, to the extent that the latter benefits poor households to the tune of only 4.6%, even though they are the main recipients, compared with 47% for the wealthiest households. Tax expenditures actually benefit households according to the level of consumption and not to the size of their income. The state would benefit from collecting this revenue and redistributing it fairly to poor households, for example through a subsidy to compensate for losses incurred as a result of the slump in sales of commodities (cocoa-coffee, cotton....) on the international market. Such a subsidy would be more significant, with 64% of the Cameroonian population living in rural areas on self-consumption and mainly on cash crops as their main source of income. The state would also benefit from developing rice cultivation and promoting fish farming, which is a source of large fiscal expenditure.

With regard to enterprises benefiting from exemptions under the law on incentives for private investment:

- ✓ The monitoring of the benefits granted, given that the validated investment thresholds are exceeded, carried out by certain structures outside the scope of any authorization by the competent authorities;
- ✓ Compliance with the projects for which approval is granted, since some operators have diverted the initial purpose of the approval agreements;
- ✓ The gradual substitution of industrial raw materials that can be produced locally should be considered, following the example of wheat and corn, which can be grown in the northern part of the country. The same applies to inputs such as clinker, gypsum and salt given the fact that Cameroon enjoys broad access to the Atlantic Ocean.
- ✓ Regular monitoring of the proper use of incentives with the bonus of the repayment of the duties compromised for those operators who would have deviated from the respect of the conventional provisions.

It is also recommended to :

- ✓ monitor the consumption of materials and equipment by the competent structures;
- ✓ withdrawing the tax benefits granted in the event of non-compliance with the commitments made;
- ✓ downstream monitor the effectiveness of the investments envisaged in relation to the incentives granted.

**b) At the organisational level :**

- ✓ The improvement the synergy of actions between customs and tax administrations through FUSION;
- ✓ The strengthening of the legal, financial and material resources of the management services in terms of organisation and computerisation;
- ✓ The automation of the evaluation of tax expenditure through a dedicated tool.

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