TOWARDS BETTER SERVICE DELIVERY
AN ECONOMIC UPDATE ON CAMEROON

With a Focus on Fiscal Decentralization
Towards Better Service Delivery
An Economic Update on Cameroon

With a focus on fiscal decentralization

Poverty Reduction and Economic Management Unit Africa Region
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<th>Description</th>
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<tr>
<td>BEAC</td>
<td>Banque des Etats d’Afrique Centrale (Central Bank of Central African States)</td>
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<tr>
<td>CAC</td>
<td>Centimes Additionnels Communaux (local revenue surcharge)</td>
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<tr>
<td>CEMAC</td>
<td>Communauté Économique et Monétaire de l’Afrique Centrale (Economic and Monetary Community of Central Africa)</td>
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<tr>
<td>CFAF</td>
<td>CFA Franc</td>
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<tr>
<td>CIT</td>
<td>Corporate Income Tax</td>
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<tr>
<td>COBAC</td>
<td>Commission Bancaire de l’Afrique Centrale (Central Africa Banking Commission)</td>
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<tr>
<td>CPI</td>
<td>Consumer Price Index</td>
</tr>
<tr>
<td>DSCE</td>
<td>Document de Stratégie pour la Croissance et l’Emploi (Growth and Employment Strategy)</td>
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<tr>
<td>FEICOM</td>
<td>Fonds Spécial d’Équipement et d’Intervention Intercommunale (Special Council Support Fund for Mutual Assistance)</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GNI</td>
<td>Gross National Income</td>
</tr>
<tr>
<td>HIPC</td>
<td>Heavily Indebted Poor Countries</td>
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<tr>
<td>ILO</td>
<td>International Labor Organization</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>MDG</td>
<td>Millennium Development Goals</td>
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<td>MDRI</td>
<td>Multilateral Debt Relief Initiative</td>
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<tr>
<td>RFA</td>
<td>Redevance Forestière Annuelle (annual forestry fee)</td>
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<tr>
<td>SDR</td>
<td>Special Drawing Rights</td>
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<tr>
<td>SNH</td>
<td>Société Nationale des Hydrocarbures (national oil company)</td>
</tr>
<tr>
<td>SONARA</td>
<td>Société Nationale de Raffinage (national refinery)</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>TSA</td>
<td>Treasury Single Account</td>
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<tr>
<td>VAT</td>
<td>Value-Added Tax</td>
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Towards Better Service Delivery

Introduction

With this Cameroon Economic Update, the World Bank is pursuing a program of short, crisp and more frequent country economic reports. These Economic Updates analyze the trends and constraints in Cameroon’s economic development. Each issue, produced bi-annually, provides an update of recent economic developments as well as a special focus on a selected topical issue.

The Economic Updates aim to share knowledge and stimulate debate among those interested in improving the economic management of Cameroon and unleashing its enormous potential. The notes thereby offer another voice on economic issues in Cameroon, and an additional platform for engagement, learning and change.

This second issue of the Cameroon Economic Update is titled “Towards Better Service Delivery – An Economic Update of Cameroon, with a special focus on fiscal decentralization”. This title reflects the opportunities and challenges of the ongoing fiscal decentralization in Cameroon.

The disparity in living standards observed across regions calls for better service delivery at the local level. For some basic services, access is worse in Cameroon than on average in Sub-Saharan Africa. In some regions, indicators have even deteriorated over the past decade. Bringing services closer to users, giving users increased voices and improved choices, and strengthening the accountability of the authorities could lead to improved service delivery. At the same time, if fiscal decentralization is only partial, if not all the needed building blocks are in place, the expected benefits in terms of improved service delivery and poverty reduction may not materialize. Yet expectations have been raised.

The Cameroon Economic Updates are produced by the Poverty Reduction and Economic Management Unit of the World Bank Country Office in Cameroon by a Team led by Raju Jan Singh. The Team included James Acworth, Sanjay Agarwal, Ehtisham Ahmad, Martin Luis Alton, David Abouem a Tchoyi, Abel Bove, Paolo Omar Cerutti, Bernard Dafflon, Bjorn Dahlin van Wees, Simon Davies, Meike van Ginneken, Faustin Koyassé, Guillaume Lescuyer, Thierry Madiès, Amadou Nchare, and Peter Taniform. Greg Binkert (Country Director for Cameroon) and Jan Walliser (Sector Manager) provided guidance and advice, and have been an invaluable source of encouragement.

The Team also benefited greatly from consultations with Cameroon’s key policy makers and analysts, who provided important insights, in particular the following institutions:
the BEAC, the Ministry of Finance, the Ministry of Economy and Planning, the Ministry of Territorial Administration and Decentralization, FEICOM, and the National Institute of Statistics. The special focus on fiscal decentralization draws on the preliminary observations of extensive discussions with officials in Yaoundé and Douala, representatives of about a hundred municipalities from the Center, East, Littoral, and North-West regions, as well as with civil society and the donor community.

Recent Economic Developments

Growth

The latest information confirms the expected recovery in economic activity in Cameroon (Figure 1). Following the upturn in the global economy and measures taken by the authorities to stimulate domestic production, real GDP growth in 2010 is estimated to have reached 3.2 percent (compared to 2 percent in 2009).

As expected, most of this recovery was driven by the tertiary sector, which accounted for more than half of the estimated growth. The sector benefitted from a pick-up in timber-related transport and continued strong activities in mobile telephony stemming from a greater use of fiber optic, promotional campaigns during the Soccer World Cup, and the roll-out of new products.

The recovery in the primary sector, with an estimated growth rate of about 4 percent in 2010, was led by a strong expansion in the timber sector, as well as in food crops. The non-oil secondary sector, meanwhile, is also estimated to have grown by about 4 percent,
driven by a continued pick-up in construction activities and a rebound in food processing.

Cameroon is a relatively small and mature oil producer, where oil production is declining (Figure 2). Depleting reserves, aging equipment, and – more recently – postponements of some development projects and investments because of the financial crisis explain this profile. The contribution of this sector to GDP growth has been mostly negative in recent years and oil production is estimated to have contracted by a further 12 percent in 2010 (to 23.2 million barrels).

Figure 2: Oil Production, 2002-10 (in mn barrels)

Inflation

Average annual inflation was contained at 1.3 percent in 2010, compared with 3 percent in 2009. This development is partly attributable to the policy measures to improve food supply carried out by the authorities. The stability of retail prices for petroleum products has also contributed to the containment of inflation. The food and transport components of the Consumer Price Index (CPI) increased on average only by 1.2 percent and 0.9 percent, respectively.

These national averages hide, however, important differences across regions, partly reflecting the segmentation of local markets (Figures 3 and 4). In the North (Garoua), inflation has been declining most substantially, driven by a fall in food prices stemming from good harvests. In the rest of the country, strong demand from neighboring countries seems to have kept food prices up. As mentioned in our January issue, Cameroon – and Central Africa in general – has the most expensive and slowest road infrastructure on the continent. It takes, for instance, four weeks to make a two-way trip
between Douala and N’Djamena (about 1’900 km).

**Figure 3 : Inflation Developments in Major Cities (in percent)**

![Inflation Graph]

**Figure 4 : Inflation Drivers in Major Cities (in percent)**

![Inflation Drivers Graph]

**Fiscal performance**

The Government successfully issued its first bond in December 2010, attracting interest from both national and foreign investors. The issue was oversubscribed, mobilizing the targeted CFAF 200 billion (about 1.8 percent of GDP). The bond carries a 5.6 percent coupon, maturing from 2012 and 2015.

Its issuance late in the year has, however, constrained capital spending. The proceeds from this operation are earmarked to finance key infrastructure projects. As a result, at 2.3 percent of GDP, the overall fiscal deficit (including grants, on a cash basis) turned out to be slightly lower than we had expected and much lower than envisaged in the September 2010 presidential decree amending the 2010 Budget (3.5 percent of GDP).

Overall, the fiscal performance in 2010 broadly reflects similar developments observed in the past: under-performance in the mobilization of non-oil revenue offset by stronger oil revenue, while overruns in current spending are compensated by lower capital expenditure. This year, however, the pattern is only more striking with an estimated outcome for capital spending only slightly higher than its 2009 level.

**Fiscal Performance, 2009-10 (in CFAF Billions)**

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</thead>
<tbody>
<tr>
<td>Revenue and Grants</td>
<td>1932</td>
<td>1839</td>
<td>1857</td>
<td>1869</td>
</tr>
<tr>
<td>Revenue</td>
<td>1903</td>
<td>1842</td>
<td>1845</td>
<td>1869</td>
</tr>
<tr>
<td>Oil revenue</td>
<td>507</td>
<td>407</td>
<td>415</td>
<td>497</td>
</tr>
<tr>
<td>Non-oil Revenue</td>
<td>1332</td>
<td>1435</td>
<td>1384</td>
<td>1372</td>
</tr>
<tr>
<td>Grants</td>
<td>87</td>
<td>90</td>
<td>91</td>
<td>71</td>
</tr>
<tr>
<td>Total Spending</td>
<td>1937</td>
<td>2151</td>
<td>2104</td>
<td>2067</td>
</tr>
<tr>
<td>Current Spending</td>
<td>1496</td>
<td>1552</td>
<td>1545</td>
<td>1611</td>
</tr>
<tr>
<td>Capital Spending</td>
<td>441</td>
<td>599</td>
<td>499</td>
<td>456</td>
</tr>
<tr>
<td>Overall Balance</td>
<td>-11</td>
<td>-219</td>
<td>-108</td>
<td>-127</td>
</tr>
<tr>
<td>Arrears</td>
<td>-17</td>
<td>-172</td>
<td>-158</td>
<td>-125</td>
</tr>
<tr>
<td>Overall Balance on a cash basis</td>
<td>-28</td>
<td>-391</td>
<td>-266</td>
<td>-252</td>
</tr>
</tbody>
</table>

Sources: Cameroonian authorities, Staff's calculations

The delay in the placement of the first Government bond has also implied a tight liquidity situation. The government used some of its SDR allocation (CFAF 103 billion) to pay off most of its obligations to the SONARA, the national oil refinery, to compensate the company for its losses stemming from the government’s policy to freeze retail prices of petroleum products. At the same time, new payment obligations are reported to have accumulated. Furthermore, the tight liquidity
position has led to a near depletion of the Government’s usable deposits at the BEAC, the regional central bank.

Outlook 2011

It is expected that most of the developments observed in 2010 will carry over into 2011. The economic recovery would continue with growth reaching about 4 percent. The main drivers would come from the non-oil economy (expanding by about 4½ percent), while oil activities would continue to decline (by about 11 percent).

More particularly, growth in the secondary (excluding oil) and tertiary sectors is expected to remain strong and contribute for most of the expected expansion in economic activity in 2011. This positive outlook is mainly driven by the ongoing recovery of the global economy, the execution of infrastructure programs, and projects to boost productivity in agriculture by strengthening for instance assistance in the production of key crops (cocoa, coffee, cotton, and rice), access to finance, training, and research.

Infrastructure spending, especially in transportation and power generation, can play a critical role in stimulating sectors vital to growth in Cameroon.

In this context, the authorities are actively using the room provided by the country’s low level of public debt to finance an expansion of their public investment program (Figure 5). The most recent joint IMF-World Bank low-income country debt sustainability analysis carried out indicates that Cameroon’s risk of debt distress remains low, opening the possibility for some further limited non-concessional borrowing.

% contribution towards GDP growth 2011 (proj.)

<table>
<thead>
<tr>
<th>Sector</th>
<th>Contribution</th>
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<tbody>
<tr>
<td>Primary sector (excl. oil)</td>
<td>0.9%</td>
</tr>
<tr>
<td>Oil</td>
<td>-0.5%</td>
</tr>
<tr>
<td>Tertiary sector</td>
<td>2.2%</td>
</tr>
<tr>
<td>GDP Growth</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

Inflation is expected to pick up on the back of higher food prices, but remain below the regional convergence criterion of 3 percent. Ongoing initiatives to boost agricultural production and subsidize imports of food are

Sources: Cameroonian authorities and staff calculations

Inflation is expected to pick up on the back of higher food prices, but remain below the regional convergence criterion of 3 percent. Ongoing initiatives to boost agricultural production and subsidize imports of food are
likely to continue to moderate the impact from rising world food prices.

Concerning the country’s fiscal position, the 2011 Budget aims at containing the deterioration, targeting an overall fiscal deficit of 2.6 percent of GDP (including grants). This would imply an increase in the non-oil revenue effort and a greater restraint on current spending to allow higher capital expenditure. Cameroon’s non-oil revenue effort is relatively weak, even when compared with other oil-producing countries. The mobilization of non-oil revenue in general has been disappointing, partly because of the narrowness of its taxpayer base. The budget target would imply reversing the recent erosion in non-oil revenue mobilization (Figure 6).

**Figure 6 : Non-Oil Revenue, 2005-11 (in percent of non-oil GDP)**

The tax rates being already high, the projected additional non-oil revenue needs to be achieved through administrative measures. In this regard, the introduction of a single declaration for taxpayers paying VAT, income tax, and patents (above a certain level) is a welcome step. This reform could considerably simplify existing procedures, thereby reducing compliance costs. Since the proceeds will be transferred to the Treasury Single Account (TSA), this reform could also provide greater certainty to municipalities about the amount of revenues they should receive.

On the expenditure side, current spending would need to be contained to provide the needed fiscal room for capital expenditure to expand. This would also be a departure from past experience (Figures 7 and 8). With Presidential elections approaching, pressure for increased spending may become harder to resist.

In addition, a continued high stock of unsettled payment obligations will weigh on the liquidity position of the Government and on the execution of the 2011 budget. Issuance of a new bond and treasury bills is scheduled, but could face similar delays as the first bond issue. The reduced level of remaining government deposits at the regional central bank will, however, only provide a limited buffer this time. In these circumstances, it could be tempting for the central government to “delay” the transfer to municipalities of local revenue transiting through the TSA. With cash-strapped local governments, this would just lead to arrears and a further weakening of the budget process.
This implies that for the coming year, the authorities should pay even greater attention than in the past to (i) non-oil revenue mobilization, (ii) timely access to the capital market, and (iii) control on expenditure commitments. Efforts to create a liquid secondary market for government bonds would help sustain investors’ interest in future bond issues. Furthermore, stronger project selection and preparation would contribute to ensuring that the proceeds of new borrowing would be put at the most productive use.

Fiscal Decentralization – Opportunities and Challenges

Introduction

There are significant disparities in living standards observed across regions in Cameroon. In order to improve the delivery of services at the local level, bring services closer to users, give users increased voice and improved choices, and strengthen the accountability of the authorities in delivering these services, the Government of Cameroon is relying on decentralization as its principal policy tool.

Decentralization was embedded in the 1996 amendment to the Constitution, but it was not until mid-2004 that the National Assembly adopted the implementing legislation. Effective decentralization to local levels of government is presented in the authorities’ latest PRSP for 2010-2020 (Document de Stratégie pour la Croissance et l’Emploi – DSCE) as an essential component of the effort to address governance issues and development effectiveness. However, the focus has been on deconcentrating the working of the central government by devolving power to departmental units within line ministries, or to representatives of the center, including prefects or sub-prefects.

Recent developments in the literature have stressed that should fiscal decentralization be “partial”, the expected benefits in terms of improved service delivery and poverty reduction
Decentralized units may lack, for instance, appropriate incentives, financial resources or requisite skills and experience to meet their new responsibilities. With decentralization in Cameroon at an incipient stage, it is an opportune time to take stock and ensure the needed building blocks for a successful transition are in place.

Preliminary findings of this stocktaking suggest that the current legal framework in relation to fiscal decentralization needs to be clarified, responsibilities are overlapping, cumbersome and in many respects open to different interpretations. To date, there is little true transfer of competences and effective own-source revenues are lacking: a crucial element in establishing a hard budget constraint. The design of the transfer mechanism could be made more equalizing and the current budgeting process does not fully reflect local priorities nor foster fiscal discipline at the local level. Expectations are high, and could generate a backlash if not met.

Against this background, the most important issue for the authorities at this stage would be to determine how fast to move with the decentralization process and the sequencing of measures to ensure that the process is managed in a manner that enhances service delivery, and leads to greater accountability. This would help to establish a road map for effective and sustainable implementation.

**Disparity in living standards – call for better service delivery**

There is a need for better service delivery at the local level. Indicators for service delivery in Cameroon tend to trail behind the standards of countries at similar income levels (Figure 9). For indicators such as primary school completion or child mortality, Cameroon does even worse than the average for sub-Saharan Africa.

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1 For a review of the recent literature on the case for and preconditions for effective decentralization, and whether or not this leads to enhanced local public service delivery, see Ahmad and Brosio, eds., 2006, *Handbook of Fiscal Federalism*, Edward Elgar, and Ahmad and Brosio, eds., 2009, *Does Decentralization Enhance Service Delivery and Poverty Reduction?* Edward Elgar.
Figure 9: Access and Human Development Indicators International Comparisons

- **Primary School Completion Rate** (% of relevant age group)
- **Literacy** (ages 15+; % of population)
- **Access to Improved Water Source** (% of population)
- **Access to Improved Sanitation Facilities** (% of population)
- **Births Assisted by Qualified Staff** (% of births)
- **Child Mortality** (under 5 yrs; deaths per 1000 live births)

Sources: World Bank (World Development Indicators, 2009)
Furthermore, within Cameroon, there is a wide dispersion in service delivery across regions. A ranking of relative “well being” in Cameroon shows wide regional discrepancies.\(^2\) As expected, Douala and Yaoundé score best, and the Far North is consistently the lowest (Figure 10). While the index does not imply that Douala and Yaoundé have no needs, in relative terms the Far North, North and East regions fare the worst.

![Figure 10: Well-Being Indicator, 2007 (average rank)](image)

The situation in some of the less developed regions worsened in the past decade or so (Figure 11). Particularly striking is the declining access to sanitation and drinking water, as well as the increase in child mortality in some of the regions. Despite the emphasis on primary education, there was a decline in attendance in

\(^2\) To build a composite index, a set of commonly used needs and criteria has been taken: (1) poverty (less than 738 CFAF/day; % of population); (2) primary education attendance (6-14 yrs); (3) access to drinking water (% of population); (4) access to electricity (% of population); (5) literacy (15+); (6) child mortality (per 1000 live births; children under 5 years); (7) under-employment (ILO definition; % of population); (8) access to clean toilets (% of population); and (9) births assisted by qualified staff (% of births). A rank order for each is determined (1= the best score).

\[\text{Spending assignments – no effective transfer of competences}\]

Much of the focus to date has been on deconcentrated operations. As far as decentralization is concerned, line ministries have “decided” to spin off administrative “sub-areas” to lower levels, often without the requisite human resources or financial means. For instance, the typical responsibility transferred is that of building additional classrooms in schools—in locations determined
Figure 11: Changes in Regional Living Standards

Poverty, 2001-2007 (Change in %)

Access to Improved Sanitation, 2001-2007 (Change in %)

Access to Drinking Water, 2001-2007 (Change in %)

Births Assisted by Qualified Staff, 2004-2006 (Change in %)

Sources: ECAM 2 & 3, Staff calculations

Sources: National MDG report 2008 and Staff calculations

Sources: ECAM 2&3 and Staff calculations

Sources: National MDG report 2008 and Staff calculations
Child Mortality, 1998-2004
(Change in %)

Primary Education Attendance, 2001-2007
(Change in %)

Sources: National MDG report 2008 and Staff calculations

Sources: ECAM 2&3 and Staff calculations

Literacy, 2001-2007
(Change in %)

Access to Electricity, 2001-2007
(Change in %)

Sources: ECAM 2&3 and Staff calculations
by the Ministry. These may, however, not reflect the priorities of the local populations.

This peeling of administrative arrangements at the discretion of line ministries will not result in effective decentralization. It will neither transfer the competences that are required by local populations, nor will it facilitate the local electorates holding mayors or local officials responsible for the effective implementation. Yet expectations have been raised, and there is a danger that these will not be met.

**Inadequate local own-source revenues**

The main sources of sub-national financing include shares in the main taxes: the Value-Added Tax (VAT) and the Corporate Income Tax (CIT), the grant elements of the loans provided by FEICOM (*Fonds Spécial d’Equipement et d’Intervention Intercommunale* – Special Council Support Fund for Mutual Assistance) to local governments, as well as the annual forestry fee (*redevance forestière annuelle* – RFA). While the shared revenues from the VAT and CIT are transferred through the CAC (*centimes additionnels communaux*) and belong to the local government by law, these shares are determined automatically, or by formula, and are not subject to control by local governments, which are not able to increase this amount in case of need.

A major lacuna in the Cameroonian decentralization story is thus the lack of effective own-source revenues. By own-source revenues we refer to the ability of the local government to influence or set the rate or base of a significant tax handle. The distinguishing feature of own-source revenues is that this head can be increased at will by the local government should the need arise (e.g., in meeting debt obligations or arrears). It is a crucial element in establishing a hard budget constraint and is not linked to whether or not the government administers the tax itself or uses the central tax agency to collect the revenues on its behalf.

**Transfers design – need for a more modern system of equalization**

The current transfer mechanism is opaque. Ostensibly the per capita transfers are to ensure “equality”, but this is not achieved, given differences in infrastructure and unequal capital endowments. Moreover, there are significant spatial price differences having an impact on the net access to services that could be purchased by the transfers.

**Current transfers**

There is a considerable emphasis on equality in the design of the transfer of CACs to local governments. This translates into equality of transfers on a per capita basis. This is often justified on the grounds of being easy to understand and politically attractive as a proxy
for cost of service provision. However, the use of the population basis for transfers poses a number of significant difficulties:

- Attaching revenues transferred in relation to the population figure runs the risk of politicizing the census;
- The costs of providing public services in remote areas, such as in the North and in the Eastern forest region, are likely to be higher than the average for all regions. Costs may also be higher in densely populated urban regions. Thus, an equal per capita transfer may not generate equal access to public services;
- The basis for the transfer is likely to generate expectation of entitlements rather than a focus on the delivery of services;
- The equal per capita transfer would seriously bias an effective service delivery, if there are uneven levels of basic infrastructure. Without schools in some regions, spending current dollars may not be as effective as in other regions with schools.

Capital transfers

The criteria for the allocation of capital transfers are not clear. In addition to the CACs, FEICOM manages a lending window for local governments. These loans could have grant elements of up to 90 percent. It is hard to discern a model underlying the system of capital grants: it is not based on any “equalization” framework, nor do the transfers appear to be linked with a growth and development strategy. Although there has been considerable work undertaken to define local preferences, there does not appear to be an explicit attempt to link these grants to the local priorities identified in the local development plans, for example.

Overall effects

As a result, the allocations of CACs and FEICOM’s capital grants component are heavily tilted towards Douala and Yaoundé, and appear to be negatively correlated with need, the full extent of which is not fully captured in the ordinal rankings of the well-being index (Figure 12). The inclusion of the RFA – expected to offset to some extent the biases in the CAC and in the FEICOM grants arrangements given that they are generated largely by the poorer municipalities in the East – does not change the picture. Moreover, there is an implicit “asymmetry” in the spending assignments in that the RFA is expected to cover some deconcentrated responsibilities in the forested regions that are direct central responsibilities in others – adding to the confusion as to who is responsible for which function.
Budgeting and macroeconomic stabilization – need to be more conducive to fiscal discipline

To the extent that local governments provide basic functions, and do not have access to significant own-source revenues or access to credit, it is appropriate that the stabilization function should remain with the central government. A consequence of this is that local governments should be assigned revenue sources and transfers that do not fluctuate significantly over time.

In budgeting terms, the center should provide reasonable multi-year forecasts of the transfers that it proposes to allocate, perhaps with a floor that provides assurance and certainty for the local governments to carry out their budgets within a reasonable framework. This is critical to establishing accountability at the sub-national level.

The current budgeting process does not, however, engender discipline at the local level. Part of the difficulty is that the budget cycles are not properly synchronized. Central transfers (budgeted in mid-November) are not known at the time that the local budgets are put together (early November). In addition, the actual allocations are not known until February or March of the year in which spending is incurred. This leads to problems in achieving a realistic local budget. For 2007, for instance, a year for which full figures are available, the gap between budgeted figures and actual spending is substantial (Figure 13).

A more significant difficulty is that the central government passes on part of the stabilization function to local governments. This comes about partly through the fluctuations in the share of revenues, as well as the arbitrary recent downward movement in the RFA: during 2009 and 2010. Given the problems faced by timber companies, the central government reduced by half the RFA due, to the benefit of the companies, without consulting local governments. The ad hoc reduction in the RFA was criticized as introducing uncertainties for local governments that they are ill-equipped to handle.
With no autonomous sources of revenues (over which they control rates or base) and little scope for adjusting spending, the typical local government response is to run arrears, in particular where it affects the center—social insurance contributions as well as utility payments. On these accounts, the Ministry of Finance has assumed local governments’ payment obligations, a move authorized by the bailout clause in favor of local governments included in the existing legislation. Payment obligations are generally not known by those who should monitor them, including local treasurers.

Any lending agency should examine the full extent of local government debt and assess this in relation to its ability to repay. FEICOM is, however, not generally aware of total liabilities. It is assured of CAC resources, and easy rescheduling, so has little incentive to examine the full set of liabilities being incurred by local governments. What information it has largely relates to its own lending and captive revenue sources (CAC over which it has control).

Reform issues – some building blocks

Spending assignments

The functions (or sub-function or sub-sub-functions) over which the local governments have jurisdiction, and for which they would be held responsible, could be clarified. Primary education is a typical sub-function that is often assigned to lower levels, even if the center generally continues to set the curricula and standards. In the Cameroonian case one could think of beginning the process with full functional responsibility (covering all aspects of wages, current and capital spending) for water sanitation for instance. Such a decentralization process would become more operational with better information on the allocation of funds as well as the results of spending.

Moreover, no single institution is able to monitor and assess all sub-national liabilities. The current cash-based system does not track stocks of debt. Arrears are building up, but are not being systematically tracked. Even pending

Photo credit: Raju Jan Singh
In some countries, such as Peru, a gradual decentralization process has involved a level of certification of competences and ability of the local government to carry out the functions. The argument that local governments lack the capacity to carry out certain functions cannot be made too strongly, as the transfer of human resources and financing can easily address any shortcomings that might be apparent under the present circumstances.

Revenue assignments

In order to address the issue of local own-sources of revenues, the government could initiate a reassessment of local revenue assignments with a view to clarify and determine which heads of own-source revenues would be most appropriate in the Cameroonian context. Capacity constraints can be overcome by using modern methods of self-assessment and audit. Some of the functions can be outsourced, including to the Directorate General of Taxation.

Work also needs to be done on establishing a cadastre (this could be maintained at the central or regional level), as well as valuation mechanisms and a system to track property transactions. For the more advanced municipalities, such as Douala and Yaoundé, consideration could be given to applying the techniques of modern tax administration—using self-assessment and applying sanctions for misdeclaration (i.e., purchasing the property at above declared values). This could emulate the success seen in cities such as Bogotá.

In addition, the resulting assignments should: (i) rebalance own and shared revenues to minimize local budget fluctuations; (ii) enhance local accountability by enhancing the local ability to resort to own-revenues at margin; and (iii) avoid complex revenues-sharing arrangements (for instance the CAC could be rolled into an equalization transfer).

Transfer design

The authorities may wish to examine a more modern system of “equalization”. As in the Scandinavian countries and Australia, the objective could be to “provide resources so that local governments could provide equal standards of service at equal levels of tax effort”. Very simply, the equalization framework would be based on “standardized” factors. This ensures that local governments would not be
able to influence the magnitude of the transfer by their actions or lack of actions.

The standardized transfers thus become more or less “lump sum” and should not distort incentives at the local level. The standardized spending responsibilities would address differential costs of provision for services assigned to them, with higher costs in remotely populated areas, as well as densely populated urban districts. Similarly, the own-revenue potential would be based on standardized revenue (spatial distribution of bases, assuming average rates), and the fact that a local government chooses not to exploit a revenue base would not lead to a higher grant. Thus, there would be an incentive to better utilize assigned revenue bases.

Overall, the modern equalization framework shifts the focus from “entitlements” to a political focus on service delivery by local governments. This helps with local oversight and could generate “yardstick competition”, with important political economy and accountability advantages.

**Budgeting**

It is important to avoid fluctuations in local government financing. Besides assigning more stable revenue sources to local governments and clearly giving the stabilization function to the central government, efforts should be made to improve the predictability of central transfers to permit efficient budgeting.

Part of the difficulty is that the budget cycles are not properly synchronized. This could be relatively easy to adjust, e.g., with sharing the likely central budget envelope in advance, perhaps along with the budget circular that is also sent to central spending agencies. Consideration could also be given to establishing a minimum level of transfers to ensure financing of basic spending and facilitate budget preparation at local level.

**Debt management and governance**

The legal framework needs to be modified to (i) remove bail-out provisions; (ii) introduce limits on debt stocks and flows as percentage of own-revenue, for instance; and (iii) establish sanctions for exceeding these thresholds. The Ministry of Finance should monitor all sources of sub-national liabilities and risks, including the buildup of arrears (in particular to social insurance and utilities).

More generally, improved information flows on all aspects of local operations are needed, not just for the governments at all levels, but also to inform the public and recipients of resources, so that they might exert pressure on their elected representatives in case of substandard performance (Box 1).
Box 1: Promoting Budget Transparency and Efficiency in Cameroon

Worldwide, governments, donors and civil society organizations alike have committed to increase budget resources to improve basic service delivery and accelerate progress towards the Millennium Development Goals. A more efficient use of resources is critical to achieve these goals. Citizens, who ultimately are the end beneficiaries, often do not have information on the use of public funds, are often left out of the allocation decisions, and cannot provide adequate and timely feedback on the use of these scarce resources. Transparency in budgetary processes reduces opportunities for wasteful or corrupt spending, consequently increasing the resources available to fight poverty.

In Cameroon, two regions – the North-West and the Adamawa – are piloting an initiative to promote greater budget transparency. The initiative supports three objectives, namely: (i) simplification, analysis, and disclosure of budgets at multiple levels (regional, divisional, municipality, school and health center); (ii) awareness and capacity building of government officials and local/regional institutions to promote a public dialogue regarding public expenditures by encouraging demand-side governance; and (iii) documentation and dissemination. Steering committees in each of the two regions under the chairmanship of their Governors are coordinating these activities.

In the first phase of the initiative\(^3\), a simplification of the budget and its dissemination are being undertaken in 60 primary and secondary schools, 20 health centers and 12 local councils. Simplified budget templates for schools, health centers and local councils have been designed and field tested. Schools and health centers are currently populating these templates with performance and budget data to create snapshots for wide public dissemination. At the municipal level, the administrative accounts of selected municipalities are being processed and simplified. Furthermore, a budget transparency index for municipalities is being developed to assess their budget openness. This will facilitate exchange of best practices in budget transparency between municipalities. At the regional and divisional levels, budgetary allocation and expenditure data for FY2010 are being analyzed.

Discussions with stakeholders at all levels - from parents, to health center officials, local mayors and the governors – revealed that there was a high demand for budget disclosure. They were, for instance, surprised by the preliminary results for the North-West showing: (i) a high inter-divisional variation in investment expenditures on basic/secondary education and public health\(^4\); and (ii) higher government spending on secondary education than on primary education in the region.\(^5\) These initial results indicate that there is much scope for improving budget transparency in Cameroon and stakeholders were confident that disclosure of budget information would help prevent misuse of funds, enhance transparency and increase community participation.

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3 The first phase of the budget transparency initiative is expected to end in August 2011.
4 The share of investment expenditure on basic education to total expenditure in 2010 varies from 10.4 percent to 20.8 percent. Similarly, in health the variation ranges from 6.0 percent to 16.2 percent.
5 The share of investment expenditures to total expenditures on basic education, secondary education and public health were 13.4 percent, 20.7 percent and 10.8 percent, respectively.