

Correlates of Tax Compliance of Small and Medium Size Businesses in Cameroon

Oludele Akinloye Akinboade

Gordon Institute of Business Science, South Africa

profolu01@gmail.com

Taxation provides a predictable and stable flow of revenue to finance development objectives. This is important in a country like Cameroon that has serious challenges with meeting its development objectives. Small and medium enterprises (SMEs) are significant for economic growth in the country, contributing as much as about 22 percent of the gross domestic product. SMEs generate taxable incomes. They also collect employment and value added taxes on behalf of the government. Taxation, however, imposes high cost to small businesses. SMEs are less tax compliant in comparison to large businesses. SMEs are considered the 'hard to tax group from the informal sector.' As such, the literature suggests that only a fraction of their taxable incomes is reported to tax authorities. Against this background, factors that correlate with tax compliance of 575 small and medium size companies in Cameroon are discussed from a survey of companies in the manufacturing and wholesale sectors. High registration cost and time-consuming processes promote tax non-compliance. The perception that tax system is corrupt discourages registration and filing compliance. When there are too many compliance hurdles, the probability of filing compliance is reduced. However, a fair and static system encourages filing and registration compliance. A clear and consistent tax system promotes filing compliance. Authorities that understand their responsibilities and are willing to respond to enquiries during the registration process promote tax compliance in general.

Key Words: tax compliance, small and medium size enterprises, tax administration, Cameroon

JEL Classification: D73, H26, M48, H83

Economic Importance of SME in Cameroon

Studies by Beck, Demirgüç-Kunt, and Levine (2005), Ayyagari, Beck, and Demirgüç-Kunt (2005), Sackey (2007), and Beyene (2002) have shown that small and medium enterprises (SMEs) are significant for economic growth in Cameroon. The Ministry of Small and Medium Enterprises and Craft suggests that SMEs accounted for about 22 percent of the gross

domestic product (GDP) in 2004. SMES employ a substantial proportion of the country's labour force and constitute a very important avenue for achieving poverty alleviation and reducing unemployment. CRETES (2003) finds that 87.2 percent of SMES in Cameroon usually employ fewer than 20 employees, and only 1.7 percent employ more than 100 employees. Of the total of 2800 SMES in the country, 71 percent are operating in the secondary and tertiary sectors (wholesale and retail trade, hotels, restaurants, and manufacturing). Thus, trade (commerce) only accounts for 22 percent of the total SME's employment in the country. Either the manufacturing sector, in contrast, is in general publicly or foreign owned. There are few formal manufacturing enterprises owned by local people in the country.

IMPORTANCE OF TAXATION IN AFRICA'S DEVELOPMENT

Taxation provides a predictable and stable flow of revenue to finance development objectives. As such, the 2002 Monterrey Consensus recognised taxation's key role in domestic resource mobilisation, an acknowledgement of the sentiment echoed at the 2008 United Nations Doha conference on Financing for Development (Pfister 2009). Taxation plays a key role in helping African countries to reach their Millennium Development Goals (MDGs). African governments aim to use taxation to: (1) finance their social and physical infrastructure needs; (2) provide a stable and predictable fiscal environment to promote economic growth and investment; (3) promote good governance and accountability by strengthening the relationship between government and citizens; and (4) ensure that the costs and benefits of development are fairly shared.

The role of taxation goes further than promoting economic growth. Taxation shapes the environment in which international trade and investment takes place. Certainty and consistency of tax treatment, the avoidance of double taxation, and efficient tax administration are all important considerations for international businesses. Its political importance also goes far beyond providing income to finance public sector investments, and the basic needs of the population. Historically, state building has been closely connected to the development of the tax system (Tilly 1992; Weber and Wildavsky 1986).

In Mauritius, the tax system has been a key factor for the development of an accountable and functioning state. When the state depends on tax income from wide sections of citizens and businesses, the authorities have incentives to expand their presence also in rural and peripheral areas. Tax

evasion and the siphoning of funds to tax havens deprive African countries of the fiscal benefits of growth. The development of effective tax responses to counter these challenges is also central to Africa's development agenda (Pfister 2009).

TAXATION ISSUES AS THEY AFFECT SME OPERATORS

James and Alley (2002) define tax compliance as the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of the tax law and administration without the application of enforcement activities. Otherwise, it can be construed as the degree to which a taxpayer obliges to tax rules and regulations. Franzoni (2000) and Chatopadhyay and Das-Gupta (2002) see tax compliance as involving the true reporting of the tax base; correct computation of tax liabilities; timely filling of tax returns and timely payment of the amount due as tax. Any behaviour by the taxpayer, contrary to the above constitutes non-compliance. Tax non-compliance is the failure of the taxpayer to meet tax obligations, irrespective of whether this is committed intentionally or not (James and Alley 2002).

There are a number of reasons why studying tax compliance of SMEs is important. First, SMEs are less tax compliant in comparison to large businesses (Giles and Caragata 1999). They collect employment and value added taxes on behalf of the government. Therefore, SME operators' tax compliance affects the amount of tax revenue collected which affects the government's ability to fulfil its fiscal, economic and social objectives (Alley et al. 2004; Chittenden, Kauser, and Poutziouris 2003). Second, SMEs are known to participate in the cash economy due to the greater opportunity available to them (Ashby and Webley 2008; Bajada 2002; Morse, Karlinsky, and Bankman 2009; Noble 2000). They have 'unregistered income with no third party reporting' (Gerxhani and Schram 2006) and consequently, they are considered the 'hard to tax group from the informal sector' (McGee, Ho, and Li 2008). Value-Added Tax (VAT) 'gaps' have been put at 50–60% in some developing countries, compared to 7–13% in developed countries. About three percent (2.7% of the Rwf3.75 billion) collected in 2011 was spent in the course of collecting income tax from small taxpayers in Uganda (Rwahigi 2012).

Entrepreneurship, unlike wage work, offers an uncertain return. A system of differential taxation across sectors can make investment in the risky sector more or less attractive. In most countries, business income is taxed differently from wage earnings on a paid job. Various business

expenses are typically tax deductible and often include the costs of items such as vehicles and housing that provide non-business consumption benefits. Therefore, taxation issues affect SMES operators' decisions regarding business structures, wages paid, charitable contributions made, and profits declared for the period. Taxation issues constitute one of their main concerns (Massey and Quin 2001) and researchers find that business failures are associated with poor record keeping for taxation purposes (Evans, Carlon, and Massey 2005; Prescott and Hooper 2009).

Brautigam, Fjeldstad, and Moore (2006) find that regulations, such as licences and permits, high taxes, as well as corruption, are the third, fourth and sixth most important constraints facing SMES. Corruption indicators are strongly associated with low revenue (indeed corruption functions like a tax itself, and is likely to be a particularly regressive and inefficient form of taxation). In addition, taxpayers may be unwilling to pay taxes, because they perceive that officials themselves may be corrupt, that governments consistently misuse public funds and that expenditure patterns may not reflect their wishes. Everest-Phillips (2009) reports that in Nigeria, the federal government estimated in 2004 that it collected only around 10% of taxes due, and *half* the revenue collected is believed to be then lost or embezzled. Corruption increases the costs of doing business, and imposes a tax on entrepreneurial activity. Svensson (2003) finds that a majority of Ugandan firms pay bribes, and the amounts are on average large (8% of total costs), depending on the extent to which a firm has to deal with public officials. Everest-Phillips (2009) reports that evidence from taxpayer surveys indicate that bribe ranges between 25%-40% of the total assessed tax amount, and that paying a bribe can lower the tax assessment by 50%.

Liedholm and Mead (1999) find that business start-ups are considerably more constrained by licences and registration requirements than more mature firms are. They find that taxes and access to inputs, by business location, are bigger problems for firms in secondary cities than for those located in major cities. Regulation in general and transport are larger problems for firms in major cities. Brautigam, Fjeldstad, and Moore (2006) find that taxes are consistently rated as more important constraints as the education of the business owner increases, and corruption follows the same pattern. The impact of regulations varies according to the type of regulations. Licence and permit requirement are perceived to be more of a constraint by owners with primary and secondary education. Brautigam, Fjeldstad, and Moore (2006) also find that female own-

ers are more restricted by regulations than male owners, directly contradicting the result of Liedholm and Mead (1999).

The literature suggests that SMES evade VAT or Goods and Services Tax (GST) in France and Netherlands (Agha and Haughton 1996), the United Kingdom (Adams and Webley 2001), the United States (Joulfaian and Rider 1998) New Zealand (Noble 2000) and Australia (Bajada 2002). They also evade income taxes from cash jobs in the hairdressing industry (Ashby and Webley 2008), the building industry (Sigala, Burgoyne, and Webley, 1999), home maintenance, home-based services, teaching, entertainment (Noble 2000) and in the food industry (Adams and Webley 2001). In Tanzania, micro and small business represent 69% of all private sector taxpayers, but pay only 0.28% of taxes raised (Tanzania Revenue Authority 2009).

Fischer, Wartick, and Mark (1992) categorise tax compliance determinants into four groups: (1) tax system structure (tax rate, penalty, and probability of detection, complexity of tax system); (2) attitude and perception (fairness, ethics, and peer influence); (3) non-compliance opportunity (income level, income sources and occupation) and demographic factors (age, gender and education).

Taxpayers are less compliant when they perceive the tax system as unfair (Spicer and Baker 1980). Older taxpayers are reported to be unwilling to take risks and are more sensitive to sanctions. Female taxpayers are posited to be more conforming, conservative and bound by moral restraints (Jackson and Jaouen 1989). Some tax regimes may systematically, even if inadvertently, disadvantage certain groups in society, particularly women. An unintended gender bias may arise from generally accepted tax exemptions made available to owners of businesses or properties—who are more often men than women (Organisation for Economic Cooperation and Development 2009). In addition, if the government fails to provide basic public goods and services or provides them insufficiently, citizens may not be willing to pay taxes (Brautigam, Fjeldstad, and Moore 2008).

High compliance costs, i.e., the costs the taxpayer has to bear to gather the necessary information, fill out tax forms etc, can be an additional reason for tax evasion and avoidance. The complexity of procedures needed to pay taxes and the rates applied to businesses may be a proxy for formal enterprises' incentive to undervalue business transactions. The number of payments to be made by SMES can also have an impact on their administrative burden. It takes about 654 hours to comply and make 46 tax pay-

TABLE 1 The Bottom 10 Performers in Terms of the Ease of Paying Taxes in Africa

Country	(1)	(2)	(3)	(4)
Congo, Democratic Republic	171	32	336	339.7
Equatorial Guinea	173	46	492	46.0
Cameroon	176	44	654	49.1
Mauritania	177	37	696	68.2
Senegal	178	59	666	46.0
Gambia	179	50	376	283.5
Central African Republic	181	55	504	65.2
Congo, Republic	182	61	606	62.9
Guinea	183	58	416	73.2
Chad	184	54	732	65.4

NOTES Column headings are as follows: (1) overall global ranking, (2) number of payments, (3) time to comply (hours), (4) total tax rate (%). Adapted from PricewaterhouseCoopers (2013).

ments in Cameroon. With this record, Cameroon occupies the bottom 8th position in Africa. Payments consist of 13 of profit, 12 of labour and 19 others (PricewaterhouseCoopers 2013). Doing Business (2008) suggest that total taxes in Gambia, the Democratic Republic of Congo, Central African Republic and Sierra Leone would amount to over 200% of a company's profits. With such prohibitive tax rates, companies have a high incentive to do business fraudulently as operating in line with regulations can make it difficult to survive.

Small and medium sized enterprises (SME), in particular, suffer from high compliance costs, with value added tax (VAT) being perceived as the most problematic in South Africa. As a coping strategy in South Africa, about 18 percent of SMEs simply try to avoid or evade taxes (Small Business Project 2005). The main reasons for high tax compliance costs of small businesses are: (1) Frequent changes of tax laws; (2) Complexity of tax systems (tax systems are more geared to large enterprises); (3) Existence of different tax administrations; (4) Incomprehensible language of tax laws, including incomprehensible forms; (5) Short and inflexible deadlines for tax payments (resulting in cash flow problems); (6) Costs of tax consultants; (7) Registration procedures (European Commission 2007).

In addition, tax laws in many developing countries, change rapidly, thus producing instability and low transparency of the tax code. As a

result, complicated tax legislation and ongoing changes of the tax code confuse tax administrators and taxpayers alike. This produces many opportunities for tax avoidance (Mo 2003).

STATEMENT OF THE PROBLEM

About half of sub-Saharan African countries mobilise less than 17% of their GDP in tax revenues, as against an average of around 35% in OECD countries (Organisation for Economic Cooperation and Development 2009). As such, African countries are facing a series of challenges when it comes to optimising taxation while aiming to reach development targets. Perhaps the most inherently difficult challenge is how to find the optimal balance between a tax regime that is business and investment friendly, while at the same time leveraging enough revenue for public service delivery (which, in turn, makes economies more attractive to investors) (Pfister 2009).

African policymakers are hence challenged by the need to mobilise domestic resources and broadening the tax base to secure steady revenue streams for development financing and to diversify the revenue sources and fighting tax evasion, spurred by tax havens, regulatory weaknesses, and some corporate practices (Pfister 2009).

Internal revenue collection is a particular challenge in Cameroon. During the period 1963–1977, tax revenue as a proportion of GDP was 16.6% in Cameroon. This fell to 13.2% during 1994–2000 period. It is estimated that the Cameroon Government is losing between US\$5 and 10 million per year in revenue from the tree felling tax alone due to illegal activities (World Bank/WWF Alliance 2002).

Cameroon is not particularly business friendly. The country was ranked 168th in 2014 in terms of the ease of doing business, and 175th regarding contract enforcement (Doing Business 2014). There are numerous obstacles to creating and operating businesses. The process of compliance is also confusing! Business registration takes time, about 15 days and involves 5 procedures. Completing the process is also costly. It can cost about 36.2 percent of income per capita (Doing Business 2014). Tax rates are prohibitive with high compliance costs and going through the process is discouraging to small businesses (PricewaterhouseCoopers 2013).

SMES have taxable incomes, which they are obliged to pay to the government. They also collect employment and value added taxes on behalf of the government. Taxation, however, imposes high cost to small businesses. SMES are less tax compliant in comparison to large businesses.

SMES are considered the 'hard to tax group from the informal sector.' They also largely operate in the cash economy, where they have 'unregistered income with no third party reporting.' As such, the literature suggests that only a fraction of their taxable incomes is reported to tax authorities. The cost of administering SME taxation is very high. Therefore, in order to meet its development objectives, the Cameroon government is seeking innovative ways to target SMES in the process of improving its tax collection effort.

OBJECTIVE OF THE STUDY

There has been very little research undertaken on the tax compliance behaviour of SMES in Cameroon. Hence, an analysis of small and medium size business tax compliance is necessary in order to evaluate and to ensure increased tax compliance by these organizations, and hence increase internal revenue collection by the Government of Cameroon. Therefore, the principal objective of this study is to assess tax compliance by small and medium size businesses in Cameroon.

It is hypothesised that tax compliance by SME owners is positively correlated to: (1) demographic factors; and negatively to (2) perception of the tax system in the country; (3) the cost of tax compliance; and (4) service encounter experience of the taxpayer with the revenue authority.

The knowledge gained from this research could inform the efforts of Cameroon's Internal Revenue Service (Direction General des Impôts (DGI)) to more effectively target their regulatory measures and assistance programmes towards SMES. This paper is organised as follows: section one is essentially introductory and points to the importance of SMES and taxation to the attainment of millennium development goals. In section 2, public organisations' understanding of client services is discussed with the expanded paradigm shift of revenue authorities to be more client focus. Section 3 presents the research method, data collection technique and the classification of SMES while section 4 highlights the results of this study. The last section concludes the paper.

Public Sector Organizations Understanding of Client Services

Public sector organizations lack a detailed understanding of the meaning of client service and its implications (Fountain 2001, 65), and require knowledge about 'how' to improve public services (Hodgson, Farrell and Connolly 2007, 362–3). In particular, the public sector in most developing nations hardly has any performance measure of the services they provide

(Kloot 1999). This leads to public officials believing that they are largely responsible and accountable to the State rather than the people they serve (Kuppusamy 2006). Although services provided are likely to be beneficial for the public, public officials, however, do not attract a strong package of significant satisfaction in the manner in which they meet the needs of the wider community. The lack of knowledge about inter-relatedness of one department with another, method of operation, styles of negotiation and the execution of service delivery are reported to be frequent causes of public dissatisfaction. Dissemination of information, exchange of views and ideas, and the analysis of potential solution to cases could therefore be essential to improved satisfaction with public service delivery.

Surveys and opinion polls confirm that citizens want improvements in the ways in which governments serve them, that is, a public administration that delivers better services and extends their reach and coverage more effectively and efficiently (Rondinelli 2007).

TAXPAYER EXPANDED SERVICE PARADIGM OF REVENUE AUTHORITIES

Some authors opine that tax payments are commonly associated with emotions such as hope, despair, anger, outrage, defiance, frustration, disdain, suspicion, and deference (Rawlings and Braithwaite 2003). These emotions could motivate some to evade taxes by understating their taxable incomes and/or overstating their deductible expenses. It is therefore important that SME operator's tax compliance service encounters with Cameroon's internal revenue authority be helpful in assisting them to achieve tax compliance.

Tax agencies need processes that do not just make it easy for citizens to understand their obligations and comply with the rules, but also make it difficult for them not to comply. Above all, systems must be flexible enough to allow prevention and detection strategies and business rules to change regularly, so that agencies are not outmanoeuvred by the constantly evolving tactics of tax evaders (Pretty and Negadi 2012).

The issue of service quality is also quite central to tax administrations since they provide numerous services to taxpayers. Organisation for Economic Cooperation and Development (2007) identifies services commonly provided by revenue offices as (1) information, (2) interaction and (3) transaction and describes transaction as the core service while information and interaction services provide support to transaction. Table 2 provides an example of services provided by revenue authorities across

TABLE 2 Revenue Agencies Service Categories

Service category	Description	Examples of services	Characteristics
Information	Information services and products which are one way communication and do not result in a change to account status.	Education; publications (paper and web); campaigns; mass distribution of different types of information; instructions.	Timing volume: partly predictable; size volume: flexible, can be influenced, revenue body initiate; standardisation/automation: possible in many cases.
Interaction	Two-way communication, which in itself does not result in any change in account status.	Enquiry; audit; guidance; debt collection.	Timing volume: partly predictable; size volume: flexible, can be influenced; standardisation/automation: difficult.
Transaction	Activity or services that result in a change in account status or account information.	Filing of tax returns, VAT etc.; payment/refund.	Timing volume: very predictable; size volume: can to a very little degree be influenced; standardisation/automation: great potential.

NOTES Adapted from Organisation for Economic Cooperation and Development (2007).

the world. A combination of process change and technology evolution is evident in the most effective tax agencies. Their systems and processes have already been modernised to maximise yield by improving compliance (Pretty and Negadi 2012). Recently, many internal revenue authorities are shifting from the traditional 'enforcement' paradigm often used to analyze tax compliance behaviour, in which taxpayers are viewed and treated as potential criminals, and the emphasis is on repression of illegal behaviour through frequent audits and stiff penalties (Allingham and Sandmo 1972; Yitzhaki 1974).

An expanded 'service' paradigm is now being embraced which recognizes the role of enforcement, but also emphasizes the role of tax administration as a facilitator and a provider of services to taxpayer-citizens. Measures to simplify the taxpaying process and promoting service oriented tax administration include a reduction of the number of tax forms

and officers assisting clients in filling out documents or the introduction of online services. This is having significantly positive effects on citizen perception of tax administration.

Coleman and Freeman (1997) report that taxpayers would respond more favourably to messages and strategies, that explicitly take into account cultural, economic and even gender differences. Their views are supported by a similar study carried out by Lin and Carrol (2000). Past studies have shown that women are more responsive to conscience appeal than sanction threat, both of which are designed to improve tax compliance (Jackson and Jaouen 1989; Hite 1997). These findings imply that targeting groups that require tax education programmes will increase voluntary tax compliance.

Alm et al. (2011) utilize laboratory experiments to test the effectiveness of taxpayer service programmes both in encouraging an individual to file a return ('filing' compliance) and in increasing the individual's subsequent level of reported income ('reporting' compliance). They find that uncertainty reduces both the filing and the reporting compliance of an individual. However, they also find that agency-provided information has a positive and significant impact on the tendency of an individual to file a tax return, and also on reporting for individuals who choose to file a return.

In Singapore, the main tenet of tax reform has been an increased service-orientation: the conversion from a hard-copy filing system to a paperless imaging system, the extensive use of electronic filing, a one-stop service to answer inquires about any type of tax, the ability for filers to see the entire tax form with any corrections before it is submitted, the use of interest-free instalment plans for paying taxes with direct deduction from bank accounts, separate functional areas within the tax administration with little opportunity for corruption, and a changed attitude of officials toward taxpayers. During the last decade, the tax administration service of Singapore has gone from being the lowest rated government agency in public satisfaction to one that ninety percent of the taxpayers found to provide courteous, competent, and convenient services (Alm et al. 2011).

The Kenya Revenue Authority has recently started to organize an event aimed at recognizing the top ranked institutions based on tax remittance. In the 2011/12 financial year rankings, the giant mobile operator company Safaricom, topped the list followed by the East African Breweries Limited (EABL) and the Kenya Teachers Service Commission (KTSC). Oth-

ers in the list included British American Tobacco (BAT), Kenya Commercial Bank (KCB), Barclays Bank, Kenya Ports Authority (KPA), Equity Bank, Standard Chartered Bank and KenGen. Kenya Revenue Authority applauded all the top-listed institutions for having followed all the stipulated tax regulations (NewstimeAfrica 2012).

Mantra Tanzania Limited has scooped the award for the overall winner of compliant large taxpayers in Kinondoni Tax Division for the 2011/2012 financial year. Tanzania Revenue Authority (TRA) initiated the award to recognise and honour taxpayers for their invaluable contribution in revenue collection. According to the tax body, Mantra Tanzania met all the tax requirements and continued to pay taxes voluntarily even before starting active production. In 2012, there were 100,033 taxpayers in the country and tax collected and submitted to the Treasury as at September 2012 was Tsh754 billion (AllAfrica 2012).

Research Method

Primary data used in the study were collected from 700 randomly selected SMES, which have identifiable business location in Cameroon. This was to address the lack of database of SMES in Cameroon and to improve the coverage of formal sector SMES. From the survey, only data from 575 enterprises were retained for analysis after performing the coherence test. The survey was conducted in the central and littoral regions, the location of almost 70% of the SMES in Cameroon. The survey questionnaire administered consisted of questions covering the profile of the business owner, perception of tax system in Cameroon, the cost of tax compliance, the importance of customer service experience of SME owners with Cameroon's Internal Revenue Service (Direction General des Impôts, DGI) and the effect of enforcement and audit on tax compliance.

Quantitative survey questionnaires are unable to fully 'reflect the cognitive processes required to assess complex phenomena' (Popper and Sleman 2001, 230) such as tax compliance. Therefore, questionnaire administered included open and closed questions. Open questions allowed respondents to give answers in their own way, while closed questions were chosen in order to produce standardized data that can be analysed.

The full sample consists mainly of enterprises in the tertiary and secondary sectors. They were mostly retails and wholesales. Although, the secondary sector contributes 31% of Cameroon's GDP and employs 15% of the population (see <http://www.iss.co.za/af/profiles/Cameroon/Econ>

.html), they are mostly large enterprises, with very few SMEs. Hence, few businesses were interviewed in this sector.

CLASSIFICATION OF SMEs

We classify enterprises interviewed according to the definition of SMEs given by the Economic and Social Concern (ESC) in Cameroon. A *small enterprise* is an enterprise: (1) with the majority of shares owned by Cameroonians; (2) the majority of managers are Cameroonians; (3) has limited income; (4) employing less than 10 persons; (5) whose total investment is less than or equal to 20 million FCFA. A *medium enterprise* is an enterprise with: (1) a capital turnover of less than or equal to 1, 5 billion FCFA; (2) employing between 10 and 100 workers; (3) with own participation being less than or equal to 100 million FCFA. We have distinguished between two levels of tax compliance, registration and filing compliance. Enterprises are classified as being compliant if they have completed all the required tax registration and filing processes, otherwise they are not.

DATA ANALYSIS

Data collected have been analyzed using a regression-based method. The regression-based method enables us to examine the determinants of tax registration and filing compliance of SMEs interviewed. Tax compliance is measured as a binary variable. SME taxpayers that are registered with the revenue authority, and have filed returns within deadlines are assigned with a score of 1 in each case, otherwise 0. An SME scoring 1 in each case is both registration and filing compliant; while scoring 0 means being non-compliant in both cases.

DESCRIPTIVE ANALYSIS

A total of 137 manufacturing (24%) and 438 wholesale (76%) enterprises were included in the survey, most of which are located in the Littoral region, the economic capital of the country. Thus, 37% of the enterprises interviewed is located in the Central, and 63% in the Littoral regions. Most of the respondents were either the manager and/or the business owner.

In most of the enterprises interviewed, the respondent was either the manager and or the business owner. Some 69 medium and 402 small size enterprises were covered. The category of 'other enterprises' represents those that do not properly fall within the SME definition by ESC. They are simultaneously medium sized by level of their total investment and small sized by employment level or vice versa. Their investment levels

TABLE 3 The Number of Enterprises Interviewed by Region

Sector	Province			
	Central		Littoral	
	(1)	(2)	(1)	(2)
Number	47	163	90	275
Percentage	34.30	37.21	65.69	62.78
Total	210		365	
% of the total enterprises interviewed	36.52		63.47	

NOTES Column headings are as follows: (1) manufacturing, (2) wholesale.

TABLE 4 The Number of Small and Medium Enterprises Interviewed

Region	Small	Medium	Others
Total	402	69	104
Central	145	19	46
Littoral	257	50	58

TABLE 5 Selected Characteristics of SMES Surveyed

Item	Small	Medium	Others
Age of enterprise in years	6	10.76	8.37
Age owner in years	38	48	42
Number of shareholders	1	1.65	1.5
Male	288	61	80
Female	114	8	24

are greater than those of small firms even though they employ about the same number of workers. Eighty eight percent of SMES interviewed employ between 1 and 10 workers with very few employing more than 50. They largely operate in the wholesale and retail trade sectors.

Most of the SMES covered are owned by men especially medium size enterprises. As for small enterprises, most often the shareholder is the owner, whereas the owner of a medium enterprise is not always the only shareholder of the company. The owners of medium enterprises are a little bit older than owners of small ones and this is also the case with the category of other companies. Similarly, the average age of enterprise is lowest among small firms.

Overall, more than 88% and 36% of the enterprises interviewed are registration and filing compliant for tax, though the proportion of business

TABLE 6 Descriptive Statistics of SMES Tax Compliance in Cameroon

Descriptive Statistics	Tax Registration Compliance	Tax Filing Compliance
Mean	0.881739	0.361739
Median	1.000000	0.000000
Maximum	1.000000	1.000000
Minimum	0.000000	0.000000
Std. Dev.	0.323198	0.480922
Skewness	-2.364319	0.575483
Kurtosis	6.590005	1.331181
Jarque-Bera	844.4870	98.4611
Probability	0.0000	0.0000
Sum	507.0000	208.0000
Sum Sq. Dev.	59.9583	132.7583
Total Number of Observations	575	575
Percent Overall Tax Compliant	88.2	36.2
Percent Tax Compliant in Littoral	340 /365 (93.2%)	143/365 (39.2%)
Percent Tax compliance in Central	167/210 (79.5%)	65/210(31%)

that are tax compliant are higher in Littoral than in the Central province. These are shown in table 6.

Results: Registration and Filing Compliance by SMES in Cameroon

Correlation analysis in logistic regression (e.g., logit model) is used to analyse data, since tax compliance is measured as a binary variable. In logit models, estimated coefficients can be interpreted either as logit or as odds value (Menard 2009). A logistic regression model identifies the effects of a number of independent variables on one or two dependent variables. It caters for non-continuous dependent variables, especially when it has only two outcomes, zero or one (Baddeley and Barrowclough 2009, 121). It aims to estimate the odds of an occurrence of an event and to predict the effects of the explanatory variables on these odds. The event of the odds denotes the probability that an event will be a success and the probability that an event will be a failure (O’Connell 2006, 11). The probability is represented as follows:

- 1, if *p* is success,
- 0, if *p* is failure.

Thus, we specify the relationship between tax compliance and firm related variables as follows:

$$TC_i = \alpha_i + \gamma_i age + \lambda_i F_i X_{g,i} \delta_i + \nu', \quad (1)$$

where TC_i is tax compliance of the i th firm (taking a value of 0 or 1), age denotes the age of firm, F_i are a set of firm specific variables (sector of operation, location, age of owner etc), X_i is a set of tax regulatory variables, and finally ν is the error term with the usual statistical properties. TC covers registration and filing compliance.

BUSINESS PROFILE, OWNER DEMOGRAPHICS AND TAX COMPLIANCE

Table 9 presents results of our logistic regression analysis. Business location in Littoral province is correlated with registration and filing compliance. This result is highly significant at the 1% level. However, operating in the manufacturing sector is negatively correlated with registration compliance even though it has no effect on filing compliance. Age and gender of business owner, awareness of their SME status have no impact on tax compliance. As the business owner becomes more educated, the probability of being tax registration compliant increases! Older businesses are less likely to be filing compliant.

TAX COMPLIANCE IN RELATION TO PERCEPTION OF CAMEROON'S TAX SYSTEM

The perception that the Cameroon tax system is quite complex, results in a negative probability that the taxpayer will be registration compliant! Similarly, perceiving that the taxpayer has to go through many departments in the process, reduces the probability of filing compliance by SME owners. However, those who perceive the system to be fair and static are likely to be filing and registration compliant respectively. Perceiving the tax system as consistent and achieving its objectives promotes filing compliance. When the registration process is considered inflexible and inconsistent, it is likely to result in registration non-compliance.

THE INFLUENCE OF COST ON TAX COMPLIANCE

High registration costs and time-consuming processes promote non-compliance by SME operators. High tax rates increase the tax burden and, hence, lower the disposable income of the taxpayer, discouraging

TABLE 7 The Impact of Taxes on SME's Investment Decision

Item	(1)	(2)	(3)	(4)
Company Income Tax	21.7	11.7	23.0	39.1
Value Added Tax	26.8	11.7	18.9	35.8

NOTES Column headings are as follows: (1) no impact, (2) low impact, (3) moderate impact, (4) high impact.

TABLE 8 Opinion About Competitors' Tax Burden Coping Strategy

Item	No of respondents	Percentage of total
Avoid paying VAT and other taxes	260	45.2
Avoid duties and levies	91	15.8
Avoid labour taxes	151	26.3
Total Number of noncompliant firms	502	87.3

filing compliance. This is consistent with the findings of Alligham and Sandmo (1972) and Chipeta (2002).

THE IMPACT OF TAXES ON SME'S INVESTMENT DECISION

About 62% of SMES interviewed are of the opinion that company income tax has between moderate to high impact on their investment decisions. About 56% of them feel that value added tax also exerts between moderate to high impact on their investment decisions. In these circumstances, SME owners scale back on investments. These are reported in table 7.

OPINION ABOUT COMPETITORS' TAX BURDEN COPING STRATEGY

Most of the SMES opine that, under the circumstance, some of their competitors actually avoid paying taxes altogether with about 87% of them being tax non-compliant. About 45% of them skip paying VAT and other taxes. This is consistent with the findings of SBP (2005) for South Africa.

CUSTOMER SERVICE EXPERIENCE WITH THE CAMEROON INTERNAL REVENUE SERVICE

When tax authorities appear to understand their responsibilities, are willing to respond to enquiries during the registration process, and are non-bureaucratic, these customer service encounter experiences promote tax compliance. Non-responsive tax official put off willing taxpayers in Cameroon.

TABLE 9 Correlates of registration and filing compliance by SMEs in Cameroon

Variable	Registration Compliance	Filing Compliance
<i>Business Profile</i>		
Province where located (Littoral = 1, Central = 0)	0.22 (0.00)***	0.09 (0.04)**
Sector of operation (Manufacturing = 1, Wholesale = 0)	-0.09 (0.04)**	-0.01 (0.29)
Age of Owner	-0.01 (0.83)	0.01 (0.86)
Age of Business	0.03 (0.49)	0.04 (0.33)
Awareness of Status as SME	0.02 (0.59)	0.01 (0.73)
Education level of business owner	-0.10 (0.02)**	-0.01 (0.78)
Gender of business owner	-0.03 (0.52)	0.04 (0.29)
<i>Perception of the tax system in Cameroon</i>		
Corruption	-0.08 (0.07)*	-0.08 (0.06)*
Complexity of tax registration process	-0.06 (0.15)	0.05 (0.24)
Tax registration involves many departments	0.04 (0.35)	-0.10 (0.01)**
Tax Registration Process is fair	0.00 (0.92)	0.13 (0.00)***
Tax regulation process is consistent	0.18 (0.00)***	0.05 (0.28)
Tax regulation processes are clear	0.00 (0.96)	0.03 (0.52)
Taxation achieves its objectives	0.13 (0.00)***	-0.05 (0.22)
Tax Regulation is easy to understand	0.04 (0.36)	0.07 (0.08)*
Tax regulation is appropriately enforced	0.01 (0.70)	0.05 (0.21)
Tax regulation is inconsistent	-0.18 (0.00)***	0.20 (0.00)***
Tax Registration Process is Static	0.08 (0.07)*	-0.00 (0.96)
Registration Process is not flexible	-0.12 (0.00)***	0.03 (0.45)
Tax decisions are consistent	0.03 (0.49)	0.20 (0.00)***

Continued on the next page

ENFORCEMENT OF TAX COMPLIANCE

Enforcement of compliance as might be reflected in intrusive audits and frequent requirements for SME operators to provide details of their operations will likely discourage registration compliance though it will promote filing compliance.

Concluding Remarks

Taxation provides a predictable and stable flow of revenue to finance development objectives and is important in a country like Cameroon, which

TABLE 9 *Continued from the previous page*

Variable	Registration Compliance	Filing Compliance
<i>Cost of tax compliance</i>		
Tax Registration Process is time consuming (no. of days to register)	-0.12 (0.00)***	-0.06 (0.16)
Total cost of business registration	-0.00 (0.58)	0.10 (0.02)**
Cost of registering enterprise	-0.00 (0.95)	0.28 (0.00)***
Cost of registering for tax	-0.14 (0.00)***	0.12 (0.00)***
Overall high tax incidence in the country	-0.02 (0.63)	-0.06 (0.19)
Enforcement/Audit	-0.08 (0.06)*	0.13 (0.00)***
<i>SMES customer services of the Cameroon Internal Revenue Agency (DGI)</i>		
Taxation authorities understand their responsibilities	0.06 (0.60)*	0.07 (0.09)*
Receiving answers to queries during registration process	0.12 (0.00)***	-0.01 (0.79)
Tax Regulators lack of response to compliance queries	0.03 (0.46)	0.24 (0.00)***
Non-bureaucratic tax regulator	0.02 (0.58)	0.04 (0.32)

is experiencing serious challenges with meeting its development objectives. Due to the fact that SMES are the majority business taxpayers in most developing countries, their compliance levels directly impact on government tax revenue collections (Bodin 2008). Since, SMES have taxable incomes, and also collect employment and value added taxes on behalf of the government, their tax compliance levels affect the amount of tax revenue that government can collect in order to meet fiscal, economic and social objectives. However, the high burden of taxation makes it unpopular especially among small businesses, despite contributing as much as 22% of the gross domestic product. As such, the literature suggests that only a fraction of their taxable incomes is reported to tax authorities. Bahl and Wallace (2007) estimate that only about 17% of business income in Jamaica is properly reported to the taxing authorities. SMES are considered the ‘hard to tax group from the informal sector.’

Improving tax compliance of small and medium enterprises is important to the tax authorities as the country struggles to meet its millennium development goals. In this context, this study has sought to examine tax compliance among SME operators in Cameroon. A survey of 575 SME

owners has been conducted in the Littoral and Central provinces operating in the manufacturing and wholesale sectors.

High registration cost and time-consuming processes promote non-compliance of SME operators. The perception that the taxpayer has to go through many departments in the process reduces the probability of filing compliance. However, those who perceive the system to be fair and static are likely to be registration compliant. Perceiving the tax system as easy to understand and consistent promotes filing compliance.

When tax authorities appear to understand their responsibilities, are willing to respond to enquiries during the registration process, these customer service encounter experiences promote tax compliance.

The knowledge gained from this research could inform the efforts of Cameroon's *Direction General des Impôts* (DGI) to more effectively target their regulatory measures and assistance programs towards SMEs. Small and Medium size businesses need information and assistance on changes in tax laws. Tax forms and reporting requirements can be simplified and adjusted to the business reality of small enterprises. The Indonesian government has excluded small and medium enterprise (SMEs) with turnovers not exceeding IDR4.8b (US\$395 000) a year, from paying value added tax, in order to simplify tax filling for SMEs and improve their efficiency (Binarso 2014).

Special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection. The electronic filing of tax returns can speed up procedures and reduce compliance costs. It is encouraging that the Ministry of Small- and Medium-Sized Enterprises, Social Economy and Handicrafts announced a two-year tax exemption for start-up businesses in 2010. This resulted in the creation of 1,863 businesses in 2011, followed by 2,062 businesses in 2012 and 913 during the first half of 2013 (Fon 2013).

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