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REVENEWS

Research & Policy Notes Concerning Public Finance in Developing Countries

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In This Issue

The major focus of this issue of *Revenews* is the work done by Metro's Local Revenue Administration Project in Burkina Faso (formerly Upper Volta), West Africa. The Burkina Faso project consisted of two phases. Jerry Miner, professor of economics, directed each phase of the work while Robert Hall, rural sociologist, supervised the in-country work during each phase.

Phase I began in 1981 and involved intensive fieldwork in Ouagadougou (the capital city) and the commune of Fada N'Gourma in the eastern part of the country. Robert Hall and research associates Nilgun Gogkur and David Spetka spent many months in the field gathering fiscal and related social data at both the central and local government levels. Celestin Dabiré of the Ecole Nationale d'Administration worked with the team as in-country counterpart and also traveled to Syracuse in fall 1982 to help prepare the final report for Phase I.

Phase II, which began in 1983, carried the project into a new and complementary aspect of work by moving the focus to Bobo Dioulasso, a more developed commune in the eastern part of the country. The Phase II work was also different in that it depended on a research team comprising mainly Burkinabé technicians who worked with Jerry Miner and Robert Hall doing the fieldwork and writing the final report. The Burkinabé team members were Siguian Compaoré, economist, Clement Pitriopa, tax administrator, and Alhassane Conde, socioeconomist. In September 1985, Jerry Miner and Robert Hall travelled to Burkina Faso to present the final report to the Government.

The Burkina Faso Project

Like other Sahelian countries, Burkina Faso faces severe economic difficulties. While many of these problems require short-term responses, long-term economic development is also necessary. This longer term development strategy rightly emphasizes rural projects in fostering local economic growth. The success of such projects is, however, likely to be tied to enhanced budgetary capacity and expenditure control at the local level. It was within this context that USAID in Burkina Faso sought research support from Syracuse's LRAP.

The Burkina Faso project is unique in LRAP's portfolio of projects in that it was carried out in a country possessing the highly centralized administrative structure of the Francophone tradition. Such an administrative environment creates both advantages and disadvantages compared to countries with more developed local self-governments. In a centralized administrative structure, changes can be introduced more directly than in a country with numerous autonomous or semi-autonomous self-governing local bodies. At the same time, there is no established set of local governments which can be used to implement new revenue-raising policies.

Additional challenges and opportunities arose at the start of the project's second phase when a new government assumed control. The leaders of the renamed country of Burkina Faso immediately took steps to alter the existing administrative structure. This administrative restructuring created research problems because the environment being studied was changing during the course of the project. On the other hand, a policy advantage was created because the new government was more willing to consider policy options than a more established government.

International Studies Staff

Administrative Structure and Recent Changes

While still highly centralized, the administrative system of the country is presently undergoing substantial revision with a dramatic increase in the number of local authorities. The responsibilities of local territorial administrative units for providing economic and social infrastructure have been augmented, but there has not been any increase in revenues for these local units to utilize in carrying out their greater responsibilities.

In Burkina today only two local territorial authorities, the province and the commune, possess the right to raise revenues and to make expenditures. The 30 provinces are rural authorities and they replace the 11 former departments. The administrative head of the province, the High Commissioner, is appointed by the President. The term department is now used to denote the administrative unit below the province. These units replace the former sous-prefectures or arrondissements and are headed by a prefect. Their fiscal role includes providing expenditure estimates to the provincial budget authority and assisting in preparing and collecting village-level taxes. With the elimination of the "standard tax" rate which had affected most peasant farmers, however, few taxes are likely to be collected at the village level.

The commune has not been changed organizationally. However, now every provincial seat has been declared a commune. As of 1983 only 18 communes were fully operational and were collecting taxes according to communal regulations. At present the High Commissioner is the administrative head of communes located within the province, although in larger communes actual operational responsibility is delegated to a Secretary General who is appointed and paid for by the commune.

Local Revenue

In the past, few public responsibilities were assigned to local governments. Instead, they functioned primarily as agencies of territorial administration. Their revenue sources were likewise severely restricted. In fact, there are no official published data regarding local revenues, probably due to the unimportance of the revenues and activities of these administrative units. The LRAP project, therefore, had to derive all local fiscal data from unpublished sources.

Currently, provinces rely heavily on direct taxes while communal revenues are more evenly balanced between direct taxes and fees and charges. This difference is understandable in light of the more limited base for fees and charges, especially those on vehicles and market stalls, in the less densely populated rural areas.

Average revenues of local authorities in Burkina for the two years 1982 and 1983 were approximately 435 CFAF (Central Federation of Africa Franc) per person. This amount, approximately equal to US $1, represents essentially the same amount in real terms as was raised in 1976-77 and is about 5 percent of central government revenues.

Communes and provinces (formerly departments) raise roughly the same amount of revenues, but because of the much smaller populations in the communes, per capita commune revenues (1363 CFAF averaged over the two years 1982 and 1983) were nearly five times greater than those in the former departments (281 CFAF). The two most populated and developed communes, Bobo Dioulasso and Ouagadougou, account for about 80 percent of the communal revenue totals.

The average annual compound rate of growth of departmental (now provincial) revenues for 1976-1983 was 11.7 percent, somewhat higher than the corresponding rate of 8.3 percent for communes. During the same period central government revenues were growing at a 13 percent rate, hence, localities maintained a nearly equal rate of growth in terms of the relative importance of revenue-raising ability. Year-to-year variations in local government revenue growth were extremely large. Such great fluctuations limit the capacity of local governments to plan expenditures and to stabilize provision of local public services. While real per capita revenues of rural authorities increased by about 20 percent between 1977 and 1983, the twin forces of population growth and price increases reduced real per capita revenues in communes by roughly 25 percent during the same period. This context is one in which fiscal reform is urgently needed if local governments are to be able to carry out their responsibilities.

Local Tax Reform

Three routes to increased resource mobilization are possible: raising rates of taxes whose proceeds accrue to local authorities; imposing new local taxes or assigning proceeds of central taxes to localties; and improving the administration of all taxes, particularly those accruing to communes and provinces. Due to the centralized nature of the system and the heavy pressure on central revenue sources, it is not feasible to institute a system of intergovernmental transfers.

Given the current revenue structure, there seems to be little room for increasing local tax rates, but there are a few exceptions. The elimination of the lowest assessment level of the standard tax, which had affected most peasant farmers, should be reconsidered. The communal public works tax rate could be increased from its current low level of 125 CFAF per household, and the street cleaning tax in communes could be increased. The last two taxes finance services directly benefiting those who pay; therefore, with increased costs of service provision, higher taxes are justified. Likewise, there is good reason to adjust other fees and charges upward to reflect higher costs, particularly those on market stalls and vehicle registration. Adjustments in slaughter fees and fiscal stamps should be made only after considering the social purposes they serve.

New local taxes do not appear feasible. Rural land tenure arrangements rule out taxation of agricultural land. Extension of fees and charges to primary education or health are inappropriate because of the existing expenses incurred by their users. Rather than imposing new taxes in communes, applying direct tax rates to existing tax bases, particularly the domicile tax, would yield substantial amounts of revenue.

The main strategy proposed by the LRAP team for increasing local revenues is improved tax administration. Examination of this area revealed that Burkina suffers from the problems afflicting tax administration in most developing countries: inadequate resources, including training, for the field activities of the tax service; lack of data for evaluation and identification of specific difficulties; delays in delivery of tax bills to collectors; virtually no active efforts to collect taxes; little cooperation or even contact between those responsible locally for assessment and for collection of taxes; and absence of incentives to respond to needs of local authorities by local agents of the tax service or treasury whose allegiance is to their ministerial superiors. The consequences of these problems are failure to identify potential taxpayers, underassessment of those identified, and low recovery rates. Specific recommendations for dealing with these problems were proposed in the final report.

Improved data management is crucial to better tax administration. To increase the consistency of figures on local revenues by revenue source for the provinces and communes: further training in accounting and information management should be provided to local collectors and other treasury employees; the supervisory function of regional treasuries should be strengthened with review of the accounts of local collectors prior to their submission to SERPOCO (Service des Postes Comptables, the "local accounts service" of the General Treasury); and SERPOCO should prepare a detailed annual report of provincial and communal revenues by revenue source.

In Conclusion

The governmental structure of Burkina Faso has been for years highly centralized, a fact which seems to preclude any interest in local revenue generation. Good reasons do exist, however, for such an interest. One major reason is the greater role to be played by local authorities in administering and providing public services. A second reason is the recognition that local resource mobilization plays an important role in the development of a decentralized administrative structure. When revenues are raised locally and are used to benefit the locality, there is a greater willingness to pay taxes or fees than when the revenues are first transferred to the capital city and only indirectly are returned to the locality.

When analyzing the revenues of any local government system, it is necessary to recognize that local government resource mobilization is not carried out in a vacuum. Instead, local finance issues must be examined in the context of the revenue structure of the central government and also with recognition of the roles that expenditures and the budgeting process play in determining the requirements for additional revenues. Finally, in Burkina Faso, as in nearly all other developing countries, the success or failure of local revenue mobilization is closely tied to the administrative structure which implements the entire process. Indeed, administration is probably as crucial to local resource mobilization in developing countries as is the structure of the revenue system itself.

Burkina Faso Project Publications

Two major reports are available that document the findings from Phase I and Phase II of the project. They are Monograph No. 13, "Local Revenue and Service Provision in Upper Volta" (August 1983, 225 pp., $5.00), based on the work of Phase I. Research results and policy recommendations from the Phase II work, along with a comparison between Phase I and Phase II, are presented in Monograph No. 17, "Local Revenue Administration in Burkina Faso" (August 1985, 268 pp., $5.00). Each report is available in English and French versions. (The price of $5.00 includes first class shipment in the US and Canada, and surface mail elsewhere; for information on air mail rates outside the US and Canada please contact the Publications Officer).

Directorship Change

Roy Bahl was the director of the Metropolitan Studies Program for fourteen years. During that period, the Program grew in size and quality, thanks to his leadership, imagination, and energy. It is good news that as of fall 1985, Bahl has accepted the position of Maxwell Professor of Political Economy at Syracuse University. He is currently project director of the Jamaica Tax Structure Examination Project and an active member of the Metro team with his office remaining on the fourth floor of Maxwell.

Larry Schroeder has assumed the position of director of the Metropolitan Studies Program, along with being director of the Local Revenue Administration Project. Schroeder was also the director of LRAP's Bangladesh project and has been a frequent traveler to South Asia for various World Bank projects in the last several years.

The Ecuador Project

In September 1985, the Agency for International Development signed an agreement with Metro's Local Revenue Administration Project to carry out a three-part project in Ecuador. The Ecuador project, entitled the Fiscal Administration for Development Project, is being led by David Greytak. The three parts of the project are studies of the individual income tax, the national revenue sharing system and customs administration.

During the latter half of August, a team was in Ecuador setting in place the first two studies. LRAP personnel was David Greytak, head of party, Jorge Martinez (of Georgia State University), Carolyn Fawcett (of Georgetown University) and Hernando Garzon, Metro research associate. Team members performed a variety of tasks including making contact with government officials and collecting fiscal data to be used in a report that will be presented to the Ministry of Finance early in 1986.

The customs administration portion of the work is being directed by Kenneth Stacey who has participated on Metro projects in Jamaica and Grenada. The customs administration study will review current laws and procedures and will provide recommendation for improving the overall quality of customs collections.

Guatemala

Richard Bird of the University of Toronto travelled to Guatemala in August on behalf of the Local Revenue Administration Project. He sought to determine where policy and research reform might be useful in improving the country's tax system, because the past few years have seen an unprecedented decline in revenues mobilized by the Guatemalan tax system. Bird concluded from his analysis that, due to the current political circumstances in the country, there is little reason to undertake a full-fledged tax study at the present time. He did, however, suggest to USAID and the Government of Guatemala several shorter-term studies which could prove useful in improving the tax system.

New Faculty Member

Steve Haggblade recently joined the staff at the Metropolitan Studies Program as senior research associate and assistant professor in the Department of Public Administration. Haggblade worked five of the last six years in Africa. During that time he ran a nationwide business advisory service for the government of Botswana and subsequently did analytical work in a number of other countries — Burkina Faso, Madagascar, Rwanda and Somalia — where he focused on many issues including food security, industrial policy, and general macro-economic assessments. An economist by training, his major interest is economic development in Africa. Other topics of particular concern to him include food and agricultural policy, industrial development and employment. Currently he is working on a review of employment policy experience in developing countries.

Visitors to Metro

Economist Dan Holland of the Massachusetts Institute of Technology spent several days in July at the Program. He was working on the reform of the corporate tax in Jamaica with Metro staff.

In July, two invited speakers, Joseph B. D'Souza and Paul O'Farrell, addressed the incoming MPA (Master's in Public Administration) class in the Maxwell School. The general topic of the session was managing and financing government in developing countries. D'Souza, a 1955 MPA graduate from the Maxwell School, recently retired from the World Bank as an urban management advisor. Prior to joining the World Bank he had served in the Indian Civil Service holding numerous positions including Municipal Commissioner of the City of Bombay and Permanent Secretary in the Ministry of Works and Housing. O'Farrell, who earned a doctorate in economics from the Maxwell School in 1979, was most recently the Deputy Associate Assistant Administrator for Policy Development and Program Review at AID in Washington. In September, he moved to Egypt where he is working with the USAID mission in Cairo.

Richard Bird, an economist at the University of Toronto, spent time at the Program during June in order to work with Metro staff on indirect tax reform in Jamaica.

Ken Stacey, an expert in customs administration, came to Syracuse from England in September to discuss aspects of the LRAP Ecuador project before departing for Ecuador.

In August, Angel Yoingco, director of the National Tax Research Center in Manila, the Philippines, arrived for a visit. Yoingco has especially close ties with Syracuse because he received his MPA from the Maxwell School.

Barbara Gunter, commissioner on the Revenue Board of the Government of Jamaica, spent several days at the Program in September in order to work with Jamaica project team members on further refinement of various tax reform options.

Staff Publications

Growth Rates and Resources

Mohammad Moussavian published, "Growth Rates with an Exhaustible Resource and Home Goods" in the *Journal of International Economics*, 1985, Vol. 18, pp. 281-299. In this article the growth path of an exhaustible resource-exporting economy is examined. Previous work has shown that the size of the nonresource sector of such an economy may shrink to zero over time. This paper shows that this result hinges on the exclusion of the nontraded sector of the economy. With both traded and nontraded sectors included, the domestic interest rate may fluctuate more widely than the world interest rate, contrary to the results of previous work.

Staff News and Notes

During the summer, Larry Schroeder traveled to Bangladesh where he spent one week in Chittagong and two weeks in Dhaka. He assisted in preparing a feasibility study for a World Bank-sponsored project intended to improve the quality of urban services and to provide additional housing in the city of Chittagong. Schroeder's work focused on the urban finance aspects of the project.

Mike Wasylenko spent nearly four weeks in Thailand during July. He was working on behalf of the World Bank doing a fiscal review of Thailand for the Country Economic Mission Report.

In July, Steve Haggblade travelled to Ouagadougou, Burkina Faso, in order to participate in a Burkinan Chamber of Commerce Seminar on how to promote private business activity. During August, he was invited to Washington by the Agency for International Development to participate in a roundtable discussion of the seminar in Ouagadougou.

In September, Mohammad Moussavian presented a paper entitled "An Optimal Model of Oil Based Development and the Dutch Disease" at the International Symposium on the Sustainable Development of Natural Resources in the Third World. The conference was held at The Ohio State University in Columbus, Ohio.

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