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Decentralized Public Finance and Effective Governance in West Africa

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List of Abbreviations

ACDI	*Agence Canadienne de Dévelopmment International*
AGETIP	*Agence Générale d'Execution des Travaux d'Intérêt Public*
BND	*Budget Nationale de Développement*
CCC	*Comp de Credit Commanale*
CECI	*Centre d'Etudes et de la Coopération Internationale*
CFD	*Caisse Française de Développement*
CLUSA	Cooperative League of the USA
CODEM	Coalition of dozens of opposition parties
CRD	*Communautés Rurales de Développement*
CUD	*Communautés Urbaines de Développement*
DCL	*Direction des Collectivités Locales*
DNB	*Direction Nationale du Budget*
DND	*Direction Nationale de la Décentralisation*
DNI	*Direction Nationale des Impôts*
DNIP	*Direction Nationale des Investissements Public*
DNP	*Direction Nationale du Plan*
DNT	*Direction Nationale du Trésor*
FCFA	CFA Francs
FD	*Fond de Dotation*
FDRL	*Fonds de Développement Régional et Local*
FECL	*Fond d'Equipment des Collectives Locales*
FINEX	Portion of the Guinean investment budget financed by foreign donors
FSU	Former Soviet Union
GDP	Gross Domestic Product
GF	Guinean Francs
IGE	*Inspection Générale d'Etat*
IGF	*Inspection Générale des Finances*
IMDL	*Impôt Minimum pour le Développement Local*
IMF	International Monetary Fund
IRIS	Institutional Reform and Informal Sector
MATD	*Ministère de L'Aménagement du Territoire et de la Décentralisation*
MEF	Ministry of Economy and Finance
NGO	Non-governmental organization
OECD	Organization for Economic Cooperation and Development
P	*Patente*
PAYE	Pay-as-you-earn
PIP	*Programme des Investissements Public*
PTA	Parent Teacher Association
PUP	Majority party aligned with the President
REDSO	Regional Economic Development Support Office (USAID)
SCIO	*Service de Coordination des Interventions des ONGs*

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SSA	Sub-Saharan Africa
SVT	Site value tax
TAF	*Taxe des Armes à Feu*
TDRL	*Taxe de Developpement Regional et Locale*
TFPB	*Taxe Foncière pour Propriétés Baties*
TH	*Taxe d'Habitation*
TPU	*Taxe Professionelle Unique*
TUV	*Tax unique sur véhicules*
TVA	Value added tax (VAT)
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VAT	Value added tax
WCA	West and Central Africa

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Executive Summary

This paper addresses the question of how countries in West and Central Africa (WCA) might sustain higher levels of finance for local services, such as primary education and health services, that are considered necessary to development. Spiraling national debt, structural adjustment, weak fiscal performance, and losses due to poor governance and corruption have made this a severe challenge. Meanwhile, continuing public investment needs highlight the centrality of improved public finance to the region's development. Such an improvement will depend crucially on local revenue and transfer systems. For these mechanisms to be effective in financing social services, functioning structures of intergovernmental accountability and financial control must be in place. These structures are necessary to maintain financial discipline and discourage corruption. However, they in turn depend on two basic conditions: transparency and governmental legitimacy, especially as they affect the local level.

The present study analyzes these intersecting issues in West Africa with a focus on three sample countries where fieldwork was conducted: Guinea, Mali, and Senegal. It sets the research findings within a broader comparative context, reviewing current literature on decentralized public finance in developing nations. The paper also provides, in chapter two, a series of parameters, based on West African and other research, for assessing fiscal decentralization and its accompanying systems of accountability. On the basis of the research findings and analysis, the paper recommends a number of possible interventions by the USAID REDSO/WCA Mission in Abidjan, the sponsor of this study.

Key recommendations (Chapter 3) include:

- Focusing research and dissemination on intergovernmental vertical accountability, and on the relation of local tax performance to that of user fees and coproduction.

- An initiative to develop new designs for transparent formula-based intergovernmental transfers, and a regional fund to support them.

- Advocacy of comprehensive donor coordination to support fiscal accountability and transparency through all aid programs.

After a brief introduction (Chapter 1), the report describes and analyzes the findings of the research (Chapter 2). The research supports the view that local governments in the sample countries have very limited fiscal capacity, and will need significant transfers for the foreseeable future. Central governments dominate the countries' tax base and provide little in the way of transfers to local governments. The latter depend on a plethora of non-fiscal activity taxes, and often share the most valuable revenue sources, such as enterprise and professional taxes (*patente, licence*) with higher levels of government. Tax collections are weak; averages near sixty percent were derived from available data in Guinea and Mali. Certain local taxes, such as the head tax in

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Mali and Senegal, and the *patente* in Guinea, chronically underperform. Low compliance rates are said to be a result of several factors, the most frequently cited being the disparity between taxes paid and services received. This contrasts with the demonstrated willingness of populations in the region to pay user fees and to contribute to private projects and coproduction efforts. Corruption also appears to be a significant part of the problem in all three countries, affecting both tax collection and expenditure control. The weaknesses of transfer systems, and of systems of budgeting and expenditure programming generally, exacerbate this problem, leading in many cases to ad hoc negotiation and misappropriation. Accountability is weak in all three countries, with courts, inspectors, and auditors often subordinate to the executive and the party structure. In Guinea, the problem appears especially severe in the area of public works.

The research also indicates that the weakness of local finances, transfers, and accountability form part of a broader dynamic of decentralization. The countries studied, and the region generally, are characterized by unitary systems and hierarchical control. Decentralization in the sense used here, i.e., the devolution of powers to elected local governments, separately incorporated and with their own budgets, continues to take a back seat to administrative deconcentration in the WCA region. Hierarchical control remains in most cases (at least in Francophone countries) both substantive and *ex ante*. This arrangement undercuts the autonomy and budget constraints of local governments, and tends to go along with a centralization of patronage systems. Reforms being implemented in Mali and Senegal show some promise of changing this situation. However, the powers of local governments over tax rates and bases, as well as the social sectors, remain limited. Local governments are in most cases more closely tied to the national political hierarchy than to local traditions of governance and legitimacy. As a result, they continue to have difficulties in building adequate administrative capacity, mobilizing local resources, and supporting desired levels of public services.

The findings in the report come from case studies of the three sample countries where fieldwork was conducted. The case studies themselves, along with a brief review of the literature, appear in the Annexes to this paper (Annexes A, B, C, and D). The Guinea study is the most detailed, as a result of support by the USAID Mission there. Guinea has had the most limited experience of decentralization among the three countries. As of the date of the fieldwork, Mali was in fact at a similar level, although an extensive program of decentralization had been enacted and was about to be implemented through local elections. Senegal has advanced the farthest to date, with substantial revenue and social sector authority devolved to the municipal (*commune*) level. While all three countries share a system of unitary government and hierarchical supervisory authority (*tutelle*) based on a French colonial model, Senegal has made some strides toward loosening *ex ante* review of local budgets and decisionmaking. Mali's decentralization laws are comparable to those of Senegal. Interestingly, the process of constituting rural *communes* (*decoupage*) has empowered villages to group themselves according ethnic, historical, and political criteria. While many are unlikely to be viable local government units and will need to consolidate, this procedure may well result in units that have greater legitimacy and hence ability to mobilize resources. Lingering concerns in all three cases are weak revenue bases and transfer systems that are both underfinanced and non-transparent. Mali and Senegal have made progress on these issues, but they will continue to pose problems of governance and financial viability.

The literature review in Annex D reveals that these concerns affect all West African countries, and most developing countries to some degree. The Francophone WCA countries are distinguished to some extent by their poverty, the size of the economic disparities among regions, their degree of centralization, and the weakness of their systems of governance and accountability. However, relevant precedents from Africa and other regions can provide the basis for sustained improvement. A special difficulty in West Africa is the paucity of usable data, a problem that countries in the region and donor agencies have begun to address, but which remains a serious constraint.

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Chapter 1

Introduction

This paper addresses a matter of some urgency for countries in West and Central Africa (WCA): how to sustain higher levels of finance for local services, such as primary education and health services, that are considered necessary to development. Spiraling national debt, structural adjustment, weak fiscal performance, and losses due to poor governance and corruption have made this a severe challenge, while continuing public investment needs highlight its centrality to the region's development. This paper analyzes these intersecting issues in West Africa with a focus on three sample countries, and more broadly, as those issues arise in the current literature on decentralized public finance in developing nations. On the basis of this analysis, the paper recommends a number of possible interventions by the REDSO/WCA Mission (REDSO) of USAID in Abidjan. These center on improved revenue instruments and governance, with particular emphasis on transparent formula-based transfers, strengthening vertical accountability, and limiting the potential for corruption.

REDSO asked the IRIS Center to carry out research on "Revenue Expectations and Decentralized Finance in WCA." The stated goal of the research was to examine the extent to which decentralized administration and finance could help improve the mobilization of resources for the social sectors, particularly health and education. The statement of work, attached as Annex E, calls for some estimations of revenue increases as a result of recommended changes. It also recognizes that such an improvement likely entails serious movement toward clean and responsive governance, at the level of the central administration and particularly at decentralized levels.

The IRIS team performed its initial review of the literature and submitted its results in the form of a research paper to REDSO in December, 1996. IRIS team members Georges Korsun and Patrick Meagher conducted research in Guinea in February and March 1997, with significant support from the USAID Mission, particularly USAID Economists Vic Duarte and Kenda Diallo. Mr. Korsun continued on to Senegal to conduct field research there. Mr. Meagher made a research visit to Mali in May, 1997, and continued on to Abidjan to present the draft report and preliminary findings to a meeting of REDSO staff, and to discuss them in detail with Glenn Rogers and John Schamper, the project officers. The suggestions made in these discussions, and particularly the desire for parameters to judge the progress of decentralization and the performance of local public finance in the region, have been taken into account in this final version of the paper.

This paper presents the IRIS team's findings and their programmatic implications for USAID. Chapter Two provides a synthesis of research findings and analysis, and Chapter Three makes recommendations to REDSO based on those findings. Annexes A, B, and C contain country case studies developed from research conducted in Guinea, Mali, and Senegal. The most detailed case study is that of Guinea. The USAID/Guinea Mission was the only bilateral mission in the region to offer the IRIS team active support in the field. This made possible a more in-depth treatment than was feasible for the other two sample countries. Annex D provides a general review of the central issues in this area. It includes some material from the earlier literature review, as well as some additions.

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Chapter 2

Findings

The premise of this research is that effective decentralization in West African countries can augment and improve the delivery of services necessary for development, such as primary education and health services. There exists theoretical support for the view that moving government and public services closer to the population can enable better flow of information from clients and voters, increase government's ability to meet local preferences, improve resource mobilization, and enhance accountability. West African cases support some of these principles but negate others. The combination of structural adjustment and the diminishing resources of most central governments in the region argues for local efforts backed by local resources. The need to limit corruption, endemic in many parts of the region, also tends to support a focus on local governance as well as an emphasis on local effort funded to the greatest extent with "own" resources. The potential contribution of local traditional groupings and associations points in the same direction. Contrarily, the dominance of traditional elites and their patronage relationships with national political structures in many countries of the region sometimes counteract the expected benefits of decentralization. Moreover, horizontal equity becomes harder to achieve as the extent of decentralization increases.

Out of the many meanings of *decentralization*, the focus here is on the devolution of functions, decisionmaking powers, and fiscal resources to separately incorporated local governments. In West Africa, this process is accompanied by a parallel, and in most cases more significant, *deconcentration* of central administrative powers to field offices and local units that remain part of the national government. Here, we are interested in the relationship between these two processes, and in particular the ability of local governments to mobilize and effectively deploy resources in order to meet development needs. Financing decentralized public services has several dimensions. Chief among these are local revenue instruments, transfers from the central government, and the quality of governance.

2.1 Decentralization and Vertical Accountability

Formally, decentralized governance in most West African countries still operates within a unitary form of government dominated by an executive exercising strong supervisory authority at lower levels. Local government powers are delegated and often revocable at will, and the fiscal base is assigned in a way that reinforces uncertainty and dependence at the local level. The requirement of *ex ante* review of the substance of most local policy decisions keeps central administrators firmly in control and slows government down. Informal political structures usually intensify this centripetal tendency, with negative results on local initiative and accountability. In short, unitary governments in the region effectively centralize the spoils system, affording the center mechanisms to choke off local challenges, thus driving local initiative underground.

While this system cannot be expected to change overnight, there are positive trends in the region, notably in Mali and Senegal. A critical mass of local government authority, matched with technical resources and accountability mechanisms operating at the local level, is a key precondition for adequate and sustained resource mobilization at the local level. One might describe the desired situation as one of *vertical balance*, where a ratio of local to national finances is achieved that underwrites a real measure of offsetting authority, and of *vertical accountability*, in which the boundaries and control mechanisms interposed between national and subnational governments, and between government and the citizenry, are adequate to the task of maintaining discipline and limiting abuses of power.

This means that, at least where further devolution is constitutionally justified, it would generally be beneficial to pursue it more vigorously across the region. This appears to be the case, for example, in Guinea, where the *prefectures* are listed among local government units in the constitution and decentralization laws. One possible route would be to provide the *prefet* itself a less controlling advisory role while devolving the councils, technical services, and tax shares at that level to local electorates. This is the direction that Senegal appears to be taking, with a move toward more limited *ex post* review by the *tutelle* (central supervisory authority). If handled appropriately, these improvements could bring into local government a greater pool of political and technical capability to serve local constituents. One corollary of this is that local governments have been given new freedoms to establish "relationships" with foreign donors directly. In Senegal, there have been several pairings between Senegalese regions and French *départements*, some of which serve a useful purpose and result in transfers of technology and resources.

Decentralizing governance at a sufficiently high level is necessary to match local authority with accountability. This means devolving autonomous powers onto elected officials at levels above the *commune*, perhaps including the administrative region. Technical functions now performed by the center in many countries, along with technical resources formally at the disposition of local authorities but ultimately accountable to the center, would then be responsible to local elected officials. If accompanied by other prerequisites such as active citizen oversight and checks exercised by the center, this can at least help address the worst principal-agent problems that now exist between weak central oversight mechanisms and those handling funds or carrying out public works for the benefit of local communities. In Guinea especially, a greater shift away from party lists towards local constituencies in national legislative elections would reinforce these changes.

Even without pushing formal devolution of powers farther, the countries of the region could consolidate local governance by constraining the discretion of the central administration in its exercise of fiscal authority and policy supervision over local government. This would require a move away from substantive *ex ante* control, in the direction of *ex post* legal or procedural checks, as Senegal has begun to do. While this approach is more characteristic of federal than unitary systems (and more common in Anglo Saxon-derived systems), there is no reason, apart from political culture and political will (decisive but changeable factors), that it cannot be pursued. Constitutional amendments would be needed in some cases, but obstacles here are likely to be more political than technical. If properly implemented, such a change could conserve

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central resources while stimulating local government initiative. At least a minimum of local autonomy, within a framework that allows higher and lower levels of government to police the boundaries between their spheres of authority, is a defining condition of vertical accountability.

Vertical accountability is needed to restrain the opportunism of local as well as national officials. The process of decentralization is not without its dangers and decentralization per se is no guarantee of a more democratic society or of higher rates of economic development. Decentralization gives more discretion to local officials who will generally abuse it, whether intentionally or not, unless there is some concomitant increase in local accountability. In light of this, one might argue that unitary government under strict hierarchy represents the only feasible option. To the contrary, our findings indicate that its incentive effects undercut its viability. Moreover, lack of experience or public management capacity on the part of local government officials is a technical constraint which can be overcome with proper training. Other impediments of a more fundamental nature derive from the way the decentralization process has been legislated into place and implemented, as has been described.

One undesirable outcome of decentralization which we observed (and particularly in Senegal where the actors have much more extensive experience with devolution) is that the central government *dirigisme* with a capital D is sometimes being replaced by local government *dirigisme* with a small d. For a variety of reasons, local jurisdictions are using "social" investment funds to invest in for-profit ventures that more properly belong in the private sector. The pressure from severe underfinancing and access to capital conditioned on project profitability is driving revenue-maximizing mayors towards investment projects of questionable public sector benefits, and perhaps crowding out legitimate private sector alternatives. Examples of such projects under serious consideration include refrigerated trucks and refrigerated pier facilities for fishing villages and fruit processing and canning plants for agricultural villages. The avoidance of this type of pressure provides a further argument for dramatically strengthening local revenue bases.

2.2 Local Revenues

Revenues at decentralized levels in WCA come from several sources, including taxes shared with higher levels of government, local fiscal and non-fiscal taxes, user fees, and local coproduction. Limited tax bases, weak tax recovery rates, and restraints on potential remedial action in these two areas have led to continuing pressure for other alternatives.

2.2.1 Revenue Potential

There is an obvious insufficiency in the current tax assignments to local communities, since they must rely too heavily on head taxes and miscellaneous use taxes which are not efficiently recoverable and which lack neutrality and buoyancy. (See Annexes A to C for a detailed discussion.) At the same time, there is limited information about the nature and extent of regional economic activity, at least outside national capitals, hence a restricted capability at this time to determine fiscal capacity across regions within most WCA countries. Much more complete data on the spread of economic activity (formal and informal sectors) and per capita income by region or locality would be necessary to measure revenue potential and fiscal effort.[1] Furthermore, fiscal regimes in the region tend to be highly dependent on central legislation and administrative capacity, with very limited fiscal powers at the local level. Clearly, this places severe limits on the ability of local governments to expand their tax bases, and to set rates appropriately. This situation does eliminate a potential source of distortions and inequities, but at a considerable cost.

Thus, in the sample countries, and elsewhere in the region, local governments are set up to be chronically underfinanced. One might add that there is no real potential for a reversal of fortune in sight. The factors underlying this phenomenon are complex and interrelated. True remediation will need reforms with a degree of radicalism that history suggests they will not likely obtain. The political consensus behind decentralization programs in the region does not yet appear to extend to the setting up of the necessary fiscal and accountability mechanisms.

There are, however, more modest reforms or activities that will improve the situation at the margin. Simple administrative and organizational reforms that realign incentives within the tax bureaucracy can yield substantial improvements in collection rates. For example, granting authority over the collection of municipal taxes to the Municipality of Dakar resulted in a 30 percent increase in recovery over the previous accomplishments of the central tax administration. A similar move under discussion would transfer the authority over the fiscal cadastre to the municipal tax authority, tasking those who would benefit the most from an accurate census with responsibility for developing it.

Further experimentation with fees at the local level appears warranted, in light of the evident willingness of citizens to pay for certain public goods, the relatively few opportunities for abuse presented by fee arrangements, and the constrained oversight capacity of governments throughout the region. Granted, the potential of fee arrangements only goes so far, but in some areas at least they are clearly underexploited. Some African experience with user fees in the education and health areas has been extremely positive, allowing for the recovery of significant costs. Given the difficulty of collecting taxes in the WCA region, and especially local taxes, broad experimentation with user fees for relatively excludable services is warranted.

Local governments have little or no borrowing opportunity. In Senegal, a lending program was created to finance public service investments that earn a return. By most accounts, the program was not overly successful because it was administratively cumbersome and the lending terms were not perceived as favorable. This kind of project may be useful for the larger cities but by design, it affords no opportunities to rural communities. A public sector lending program targeted to finance small investments in social infrastructure at subsized rates might be an alternative for local communities to raising capital through taxes.

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[1] See the discussion of this measure in section 2.5 below. The World Bank is apparently in the process of collecting this data for certain countries in the region.

2.2.2 Tax Collection and Taxpayer Compliance

The recovery of local taxes in the region, and hence the compliance behavior of taxpayers, is not at a standard that would allow sustained self-financing at the local level (even assuming an improved tax base). Average recovery for the main local taxes in Guinea was found to be just under 60 percent, with a range from near zero to over 90 percent. More limited findings from Mali point to a similar situation there. Average recoveries of around 50 percent are not unusual in developing countries. However, given the poor state of local finances and the paucity of variables under the control of local governments, this should be a matter of priority. Worse, recovery rates are based on tax rolls, assessments, and taxpayer census findings. They largely do not account for firms and individuals who manage to stay in the shadow economy. Taking the latter into account (as well as corruption) would surely yield compliance rates that are lower than the official figures.

Tax avoidance behavior cannot be escaped but it can be mitigated. The reasons for avoidance, usually described as *incivisme*, are not entirely known. They appear to be a combination of economic opportunism, and political opposition or at least a questioning of the legitimacy of taxpaying in light of the level of service received. Some taxes have gained a measure of acceptance (e.g. head taxes in Guinea and Senegal, but not in Mali) and could become even more accepted if taxpayers could see results from their contributions in the form of public investments they value. Other taxes have sometimes very low recovery rates, not entirely because of difficulties in assessment and enforcement.

There appears to be a question of institutional design here, since quite similar taxes sometimes perform very differently across countries in the region. The *patente*(professional and enterprise tax) appears to perform especially well in Mali (over 80 percent recovery), but not nearly as well in Guinea (near 50 percent). This may be due to the more vulnerable state of Guinean businesses and professionals, to a difference in rates or their application, or to a divergence in the application of selective incentives, e.g., the denial of other state benefits such as license renewals for failure to present proof of payment. The extent to which tax rates either dampened economic activity, encouraged informal sector alternatives, or otherwise led to non-compliance was not clearly determined. However, taking into account all central and local taxes that a given individual or enterprise is potentially subject to, it is reasonably clear that in most cases, even absent exigent circumstances such as a business turndown or bad harvest, which are common in the region, it would be normal to seek relief at those points in the tax system where it is most available. This could be through avoidance, as in the case of the poor and microenterprises, through tax holidays or exemptions as in the case of large enterprises and the affluent, or in either case through corruption.

Low compliance rates appear inconsistent with the significant role played by emigre village associations, which provide substantial voluntary contributions for local public service expenditures. Although recalcitrance on the part of taxpayers is often identified as the primary cause of low collection rates, the strength of village ties indicates a strong willingness to pay for local public goods and also demonstrates acceptance of the concept of redistribution. The success of user fees in the health and education sectors is also somewhat at odds with low tax recovery rates. However, this could be explained simply as either free riding, or a rational use of very limited resources. A question that we were not able to explore, but which is relevant to sustainable decentralized finance, is the effect of user fees and coproduction, and perhaps also non-fiscal tax payments tied to particular activities or services, upon a local population's willingness and ability to pay general fiscal taxes. Measures of fiscal effort, suggested below, could shed light on this, provided that user fees and voluntary contributions are taken into account.

Governments in the countries visited have yet to respond in a meaningful and comprehensive way to this problem. Decentralization programs have rightly recognized the need to raise local public management capacity, and designed interventions which focus on training for local government officials. But there is a need for complementary programs which teach "fiscal responsibility" to the population at large so they can behave as educated consumers of public services. Likewise, there is a need to make information about local revenues and expenditures easily accessible to citizens as one way to make local elected officials more accountable. For this and other reasons, both tax rates and administration should be reviewed. Finally, just as, in some countries of the region, tax exemptions accorded by the central government apply to local taxes, some thought should probably be given to other forms of intrajurisdictional tax cooperation, such as a deduction from national direct taxes in the amount of local fiscal taxes paid, for example.

2.2.3 Community Finance and Coproduction

One of the most striking features of the region is its patterns of group solidarity, whether ethnically, politically, or locality-based. As a result of this relative wealth of social capital, as well as the relative want of legitimacy on the part of formal government institutions, a substantial parallel system of resource mobilization for local public goods exists. This includes both associations and NGOs operating locally, and urban organizations of successful migrants who represent the interests of their villages or regions, and raise charitable subscriptions to build schools and carry out other good works.

Despite widespread participation in these associational activities, they sometimes face obstacles posed by onerous supervision by ministries of interior, as well as relatively weak planning and management capacity. Clearly, local resource mobilization would benefit from greater government-NGO cooperation, including a facilitative rather than supervisory administrative relationship, more effective mechanisms of coordination between nongovernmental and public sector investments in localities, and stronger incentives for the NGO sector in such areas as tax status and perhaps matching grants.

Some of the activities mentioned here involve parallel non-state systems such as private clinics, schools, or religious establishments. Others involve local contributions to state institutions such as schools or health clinics, often as a condition of donor funding or inclusion in the national investment plan. Thus, one form of community "finance" is coproduction in the form of materials, labor, or time spent on a management committee. The other major form of finance is user fees. These have been used with considerable success across Africa, and their use is on the rise. In many cases they do not account for a major share of operating costs (successful fee programs might bring in 10 or at most 20 percent). However, their potential does not yet appear to have been met. Given the needs (and in light of weak tax collection), greater and more systematic use of all forms of community finance appears warranted, in order to maximize the leverage of public investments. Success in this area, however, depends crucially on the legitimacy and mobilizing power of local governments (see section 2.4 below).

2.3 Transfer and Grant Mechanisms

It is evident that, in the short term at least, purely local sources are going to be insufficient to meet the increasing burden of expenditure assignments being shifted to local communities. The reasons for this are many, and include the need for equalization among jurisdictions of highly varied fiscal capacity such as coastal cities and Sahelian rural zones, and the problems posed by French-derived budgeting systems in which changing (and sometimes illusory) revenues must cover real costs that tend to remain stable or steadily rise year after year. This implies the continuing presence of grants or transfer mechanisms. In the medium term, at least, central governments in African countries, with access to relatively broader tax bases and relatively more effective collection mechanisms, will continue to play a role in financing local public sector activities. Yet, current transfer systems are characterized by the complete absence of transparency and what appears to be a high degree of arbitrariness.

The central governments currently subsidize portions of local budgets but in a completely opaque manner that appears unsystematic and unrelated to reasonable norms for allocation criteria. In Senegal, for example, transfers through the newly-created *Fond de Dotation* constitute a very sizeable portion of local budgets. Yet, several months after its creation (and a decree setting forth the distribution criteria), not a single local official we interviewed was aware of the basis for the allocations. Several had never seen the entire list of transfers and nearly all of them identified and complained about implicit inequities they perceived with their allocation relative to neighboring communities when presented with the list. Mali is putting in place a system similar to that of Senegal. Both of these systems could work, given greater attention to transparency and the crafting of formulas (and the eventual presence of real resources), but this will require effort.

In Guinea, local governments (at least formally) control so little of social sector expenditure that there are, by definition, virtually no transfers. Teacher and health worker salaries, as well as school and health center construction, are by and large part of the central government budget. Still, some of these are borne by local communities seeking to improve their services. In this case, complementary inputs from the center are considered *aide de l'état*. This reinforces the view, apparent in the localities visited, that much of what the center provides to local jurisdictions is a kind of gift--a mentality that leads to either dependency or non-transparent negotiations with the center over the spoils. An upshot of this ad hoc system is, apparently, official rent-seeking in the planning, interior (MATD), and public works ministries.

This is an area that both has suffered from relative neglect, and would benefit from focused study and experimental reforms. In particular, transparent formula-driven grants from central to local governments, if well-designed, can supply targeted resources where needed, spur local fiscal effort, and help with taxpayer compliance by "delivering the goods." Such transfer mechanisms, especially when accompanied by clearly articulated objectives, greatly reduce corruption opportunities and facilitate local budget planning and execution processes. If desired, they can be used to systematically equalize or bring up to basic standards the provision of essential local public services. Transfers, of course, carry the risk of undercutting local incentives to maximize revenues from local sources. Careful attention would therefore need to be given to the requirement of matching or fiscal effort, as well as to oversight of the resulting expenditures.[2]

2.4 Governance Challenges to Resource Mobilization

A working hypothesis of the research has been that improving governance and reducing corruption in the revenue system should increase the amount of resources effectively available for local social services. The findings provide evidence that corruption and misallocation of funds cause significant reductions in the levels of resources invested by the public sector in these services. There are no reliable figures for how much money leaks out of the system in this way. While, for example, a UNDP report on Guinea provides estimates of different forms of corruption,[3] these are likely based on inference and circumstantial evidence. These should only be used with caution. Hibou (1996) suggests some methods of quantifying fraud and corruption in customs, which could be suggestive for other areas. However, censuses and tax rolls in West Africa do not provide the comprehensive comparative data that, for example, trade statistics do in the customs setting. Moreover, audit systems in the three sample countries appear largely non-functioning. Hence, any expectation in this case that revenue leakages due to corruption could be identified and modeled with any precision appears unrealistic. (See section 2.5 about relevant parameters and indicators).

The governance dimension has several aspects. Vertical accountability in the context of decentralization was mentioned earlier. Here, we take up issues of tax administration, budget discipline, and local governance. Corruption is a problem that cuts across all these areas. In the sample countries, corruption appears to play a significant role in constraining the availability of public revenue for local service provision. Theft and extortion by tax collectors, misappropriation of transferred funds, bribery in government procurement, and diversion of budgeted expenditures for personal benefit are evident. There is very little reason to expect that non-existent political

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[2] Simulations by the World Bank show significant effects of the redesign of Latin American intergovernmental grant systems in this fashion. Winkler (1995). See the next chapter for further discussion of transfer mechanisms.

[3] UNDP (1995).

checks and balances, and compromised audit institutions at the central level, will become effective in policing public finances in the near term. However, there are expedients that might be used with some effect across the region.

Petty corruption can be reduced by the exercise of simple controls at the lowest levels. One Senegalese mayor attached an investigator to his two-person market tax collection department. The investigator caught one collector pocketing market taxes without issuing stamps, and fired the collector. This, along with other minor procedural adjustments, resulted in a ten-fold increase in market tax collections.

Unlike predation by tax collectors, the other forms of corruption do not generally involve direct harm to members of the public as a result of individual corrupt transactions. Rather, they involve either collusive rent-seeking by members of the private and public sectors (e.g. in the case of procurement) or forms of misappropriation entirely within the public sector. Thus, the linkage to any harms sustained by private citizens is harder to make. A few basic steps in the direction of transparency would probably yield substantial benefits. Still, transparency is not likely to become a force for positive change until legislative committees, independent watchdog groups, and the press are able effectively to assert rights to information on public revenue and expenditure.

2.4.1 Controlling Corruption in Revenue Administration

National direct and indirect taxes, like the VAT and the various income taxes, are mainly levied on firms and individuals whose incomes largely derive from the formal sector. Local receipts depend on presumptive taxes and on taxes collected from taxpayer rolls that are more likely to be developed by central than by local authorities. The differences between national and local taxes determine where major factors in corruption, such as discretion, information asymmetries, and accountability, intervene. The relevant question here is: what are the tax collector's opportunities to divide corrupt rents with the taxpayer, extort money from the taxpayer, or pocket any proceeds without reporting them?[4]

Although all of these are problems at each level of government, collection of national taxes is likely to afford greater opportunities for collusion and extortion, while local tax collection may be more vulnerable to outright theft and non-reporting. This is because the discretionary aspects of national tax collection center more on accounting issues, tax brackets, customs tariff classifications, and exemptions, while for local taxes, assessments tend to be mechanical (e.g. for head taxes and presumptive taxes), but rolls could be manipulated. Thus, in the latter case, if rolls are handled centrally, local tax collections depend on local administrators to update them. Tax collectors might collect money from unrecorded households or enterprises without adding them to the rolls, or collude with these taxpayers to divide the benefits of non-reporting. Informal sector enterprises and small farmers are also likely to be subject to extortion, although their ability to pay bribes is likely to be small. Outright theft and non-reporting would probably be more difficult

[4] See Klitgaard, esp. 13-51 (1988); IRIS (1996).

with national taxes, as these are most likely to be controlled by the issuance of tax receipts and by inspections. This is relative, however, and corruption certainly happens at this level.

These forms of corruption mean that some revenues never enter the public accounts. This, of course, has a more direct effect on communities when it involves local taxes, since the loss comes directly from the community's bottom line. Worse, as in the case of Guinea (and in some instances Mali), if local receipts do not yield their expected revenue for a shared tax, the local government may additionally have the central authorities' expected share of the tax deducted from the total, and be given the remainder, rather than a *pro rata* share.[5] Corruption in national tax collection reduces overall revenues, only a small portion of which may be used in connection with local services. The implication here is that, since local tax collections appear to be less controlled and therefore more subject to corruption than national taxes, and since the burden of local tax corruption falls more directly on local governments and the services they offer than do the losses from corruption in national tax collection, the local interest in cleaning up tax collection should be more encompassing and hence stronger than any interest in improving national collections. This underlines the need for some moves in the direction of greater local fiscal autonomy, matched by a strong element of local accountability.

Accountability would have several dimensions. First, tax policy and regulations should strictly limit the discretion of the collector. The ability of a tax collector to decide unilaterally about a taxpayer's inclusion in a roll, to determine the assessment of taxable property or income, and to decide the applicability of tax rates and exemptions is obviously incompatible with a clean and efficient system. This implies certain changes in both tax policy and administration that would take into account local capacities for tax administration in the WCA region. This would include simplification of tax regimes, and perhaps greater use of presumptive taxes. It should also involve universal use of tamper-proof records and receipts, spot-checks, greater transparency in accounting for both assessments and actual revenues, and diverting the stream of tax payments out of the hands of collection agents into banks (this, of course, would face the obstacle of inadequate banking services in some areas).

Second, revenue administration procedures and decentralization laws would need to be adjusted in some cases in order to eliminate, shorten, or make more transparent the circuit of tax revenues from local authorities, via intermediate layers of central administration, to the treasury. One obvious choice in some cases, especially Guinea, would be to push decentralization further, devolving administrative authority and the assignment of tax revenues at higher levels. This would in principle increase the rate of self-financing by local governments and remove central authorities from part of the revenue circuit, thus eliminating some opportunities for misappropriation of funds, and further insulating local authorities from undue pressure by central representatives to divert funds into perks or prefectural administrative costs. In the case of Mali, further decentralization would ideally involve the elimination of at least one layer of administration for the same reasons. It has been proposed that either the *cercle* or the

[5] See Annexes A and B.

arrondissement level be eliminated once decentralization is implemented. Unfortunately, it is probable that all existing layers of deconcentrated administration will survive approximately in their current form.

Third, there would need to be a more general reorientation of the tax bureaucracy. This would entail tradeoffs between the size of staff and the topping up of official salaries to some level that does not necessitate gratuities on the side for a living wage. This would go together with civil service appointment reform and training designed to insulate the bureaucracy from political pressures and patronage systems in which posts are handed out as rent-seeking licenses. This is a major long-term challenge in several African countries. On the local level, there would need to be a consistency among: the level of decentralized authority, the scope of devolved fiscal potential, and the size and quality of local bureaucracies. A reorientation of the local civil service towards service delivery and the creation of feedback channels from taxpayers (e.g. surveys, inspections visits, and complaint procedures) are additional ways that discipline in the system could be enhanced.

2.4.2 Enforcing Discipline in Budgeting and Expenditure Processes

The other half of the public investment cycle, expenditure, is at least as important and as problematic. The crux of the problem here is the inadequacy of budgets and financial accountability mechanisms to discipline the behavior of bureaucrats. A large part of the concern here comes from emerging evidence that high levels of corruption are associated with unusually low levels of expenditure on education, and to a lesser extent health services. The probable link here is that corruption tends to be associated with failures of budget discipline and a flow of public resources into areas where corrupt gains are highest.[6] Budgets rarely provide either a means of control or a mechanism for planning. In Guinea, the regular expectation of major changes in the mid-year budget adjustment law (*loi rectificative*) and the highly porous wall built by budget nomenclature between operating and capital budgets give bureaucrats, mainly central representatives, a fairly free hand. Central expenditures and transfers figure importantly in service and infrastructure provision affecting all localities, but nowhere in the countries studied are clear and published criteria imposed on the destination and use of such funds. In some countries, public works is a cornucopia of corruption, with bribes being shared from the highest to the lowest levels.[7]

Oversight and audit processes are weak and often compromised. Nowhere in the region do legislative assemblies appear to play an effective role in expenditure oversight. Audit institutions, the lynchpin of this system in many ways, suffer from both internal shortfalls of capacity and external political obstacles to their effectiveness that are even more debilitating in

[6] Mauro (1996). See Annex D.

[7] This especially appears to be the case in Guinea. The influence of AGETIP seems to have increased integrity in this area in Mali and Senegal. Similarly the *Génie Rural* in Guinea enjoys a good reputation for probity within its field. However, beyond these instances, controls are generally weak and the leakages significant.

some cases. Too often, the administration can delay submission or manipulate public accounts with impunity, or evade any sanction that would normally follow from this.[8] Potential avenues of recourse against abuse, such as the Senegalese ombudsman (*Mediateur de la Republique*) are captives of the chief of state, kept on a short leash. These control mechanisms operate at the national level, and therefore can affect the share of resources local communities receive in practice. Obviously, greater decentralization of public finance would make local governments less dependent on the quality of central financial controls, but would also raise local accountability issues.

Even more so than in the case of revenue administration, financial discipline on the expenditure side requires audit and oversight institutions with powers of investigation and compulsion, backed up by political checks and balances (i.e. political incentives to use them). This, too, is a long-term project of institution-building and political change. In the near term, some inroads might be made in imposing greater transparency requirements on every phase of the expenditure process. The timely publication of all budgets, or better, the dissemination of a few fundamentals about public finance such as aggregate amounts of tax revenue, overall budgets, and pie charts showing the uses of public funds, could provide an impetus toward accountability to the public. Government officials are also frequently underinformed about important issues such as tax-sharing formulae or criteria for central aid (if they exist), and a program to improve transparency might usefully begin by insuring the adequate flow of information within the government. This could include published standards concerning central grant and transfer decisions, and the publication and wide availability of figures on tax receipts and budget outlays. The latter might be made subject to a public right to information that is enforceable at law, along the lines of the U.S. Freedom of Information Act. The more watchdog groups, newspapers, and communities that are able to obtain this information, the more pressure there is likely to be for accountability. Transparency of this kind is a necessary condition, as stated previously, for efforts to improve taxpayer compliance by linking tax payments to tangible benefits.

2.4.3 The Challenges of Local Governance and Legitimacy

The base level of vertical accountability is comprised of local government relations with constituents, both individually and as members of traditional groups, associations, firms, and NGOs. At this level, the picture is mixed across the region, but many of the obstacles are the same. In Mali and Senegal, this level has been politicized for some time, where as in Guinea the ruling party structure and the prevalence of traditional local elites in the lowest level elective institutions has helped keep the populace more quiescent. In all three countries and across the region, while the scope of political freedom may vary, the ability of average citizens to hold any level of government accountable is severely challenged. Decentralization reforms are said to be justified by their benefits with respect to service delivery and governance. However, the reforms are less a form of outreach to the masses than a response to high-level political conflicts and

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[8] The Guinea case study, below, provides extensive analysis of financial oversight and control issues in a specific context.

separatist pressures. As a result of this and of the inherited French colonial apparatus of the state, all of these reforms retain strong levers of control at the level of the national government. This is justified on the grounds of good governance, paradoxically one of the stated reasons for decentralization in the first place. In practice, the influence of the *tutelle* is embodied at least as much in delay and political manipulation as it is in controlling malfeasance and incompetence at lower levels. The opacity of central-local relations to the private citizen, both on the policy and the fiscal level, is an important impediment to vertical accountability at the local level in all three societies studied.

A major difference among Guinea, Mali, and Senegal appears to be the relationship of local governments to pre-existing structures of leadership and legitimacy. Whereas the rural and urban municipalities of Guinea and Senegal appear to reproduce the artificial spatial and political organization inherited from colonialism, Mali is on record as pursuing a bottom-up approach to the constitution of local governments and hence has opened the process to the currents of history and tradition. Respect for existing patterns of social and ethnic solidarity is a core principle of Mali's decentralization program. This, and perhaps some political manipulation at different levels, resulted in a decentralization planning process that broke away from the intended controls and resulted in more than twice as many local government units as anticipated, many if not most of which make little sense in terms of geographic or economic scale (e.g. several are non-contiguous and have no visible means of support). From another angle, one might consider this a necessary phase in the reconstitution of legitimate local authority in Mali. The door appears to be open to consolidation once the experiment is underway. If it works, one could (perhaps optimistically) look forward to local governments that benefit from greater legitimacy, local social capital (however measured), and mobilizing power than would otherwise have existed. By contrast, in Senegal and particularly Guinea, local governments will continue to labor under the usual limits to their legitimacy, and face the task of building civic engagement from the top down.

The end result, for our purposes, of this potential disparity in legitimacy could be the difference between competent and well-financed government, and its opposite. Much clearly depends on the political structure and on countervailing institutions at the national level. The differences in decentralization programs already reflect this to an extent. Governments with differing levels of legitimacy, hence leadership or mobilizing power, will have differing abilities to respond to, cooperate with, accept the oversight of, and obtain resources from, local populations. Local governments, like all governments, are expected to respond to potential failures of markets and collective action. Selling private goods or charging user fees for certain merit goods may require little government action beyond maintaining the market framework or making the good available. Collecting taxes for public goods such as roads, local administrative personnel, or the national government is a different matter. One cannot simply pass the hat. Free riding asserts itself wherever it can, particularly where the benefits are most distant from or unclear to the taxpayer.

Local governments in West Africa have a damaging legacy of top-down control and illegitimacy to overcome. It may make sense for many of them to support local private or coproduction initiatives (of which there are many), and to rely to the maximum on user fees (also common), until they have built up sufficient trust with their constituencies to focus seriously on fiscal taxes and public goods. Clearly, at least at this stage, economic limitations mean that local governments cannot have both of these at the same time, but must gradually change the balance to some desired level. Doing so will require a maximum of both leadership and transparency. It will also require the government's engagement with private initiatives, an astute activism in seeking the appropriate government role in each case, and a service orientation. In short, local government will be able to support itself to any significant degree only to the extent that it wins converts and proves itself effective.

2.5 Measuring Performance

What would appropriate objectives be for the WCA countries with respect to decentralized governance and public finance? How might their performance be judged? What criteria could be used to determine the viability of a local government unit? In order to understand progress and performance in this area, it is useful to have benchmarks. These could include qualitative standards to be applied to the nature of local tax bases, types of transfers used, and institutional matters such as the nature of central government supervision and methods of financial control. Quantitative measures might include percentage fiscal shares of national and local governments, local tax recovery rates, percentage shares of subnational expenditure financed out of "own" resources (as opposed to transfers), and indicators of fiscal effort. These benchmarks could be used to evaluate change and performance over time, and can provide a basis for comparison of subnational units, countries within the region, and countries both in and out of the region. The largest constraint here is the paucity and unreliability of statistical data. A further caveat would be that the evidence offered by formal governance standards and data on revenue and expenditure must be understood in their context, and their limits as indicators of success kept firmly in mind. To take only a few examples, the impact of foreign aid, of political formations, and of corruption are not fully reflected in these indicators. What are suggested here are possible elements of a REDSO framework for evaluating, and potentially intervening in, decentralization and public finance reforms. These elements could, and no doubt should, be revised and recombined to suit the user's needs.

2.5.1 Qualitative Standards

What are the main indices of an effectively decentralized government unit in the WCA region? The first cut at this would be to apply the standards proposed by Mawhood (1983), and reviewed in Annex D: a unit with its own budget, separate legal existence, authority to allocate substantial resources, power over a range of functions, and in which decisions are made by representatives of local populations. By these criteria, the municipal level, comprising CRDs and CUDs in Guinea and *communes* in Mali and Senegal are decentralized. The levels above this, including, for example, the regions in Senegal, which have elected councils, are not separately incorporated and do not control a budget, and hence should be considered deconcentrated units of the central administration, or at most hybrids. The announced intention of the reforms in all three

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countries is to decentralize at higher and higher levels, but this has not yet gone beyond the municipal level.

If one takes the municipal level, are there clear qualitative benchmarks by which to determine their effectiveness (real or at least potential) in sustainably supplying public and merit goods that support development? In general terms, these indices could be grouped under the headings of *authority*, *resources*, and *accountability*. Some aspects are common across the three sample countries. As stated above, they all have created decentralized government units at the municipal level (including rural centers). In each case, the level of central administration above the municipality exercises supervision or *tutelle*, which is usually both *ex ante* and substantive. Taxing authority is created by national legislation, which in some cases allows local discretion to impose new taxes or fees, within limits. Major revenue-producing taxes are often shared with, and collected by, agents of the central government. Some qualitative measures of the extent of decentralization that distinguish among the three systems include: ability to create new taxes and set tax rates and base; the extent of local authority over social sectors (e.g. policy, curriculum, hiring, construction); the scope of freedom to form special purpose districts or higher level units across communities; the extent of the tax base, and use of user fees; the types of transfers available; the mode of supervision by the *tutelle*; and the extent of fiscal transparency. Senegal generally compares most favorably to the other two, though Mali ranks higher on a few specific points. The three sample countries are compared according to these criteria in Table 2.1.

Table 2.1 Qualitative Measures of Decentralization

	Guinea	Mali[9]	Senegal
Authority: • Create taxes, set rates and base	All taxes, rates, and base fixed by central law and regulation	Assigned tax rates and base fixed by central law. Local (listed) taxes can be set up to maximum, and fees imposed with *tutelle* approval.	Assigned tax rates and base fixed by central law. Rates and base of local (listed) taxes set locally and surcharges can be imposed, up to a maximum.

[9] This description applies to the situation under the new decentralization laws, which are only now beginning to be implemented.

• Social Sectors: Education and Health	All under central authority, but significant local coproduction and management.	Basic health care and first cycle primary education under local authority.	Basic health care, preschool and elementary education under local authority.[10]
• Formation of larger units.	Little, if any possibility.	Villages self-organize into *communes*, latter can act jointly and forge links.	Localities can form special purpose authorities.
Resources: • Tax base	Head, professional, informal sector (presumptive), rent, arms, vehicles, and activity and market (non-fiscal) taxes.	Head, enterprise and professional, rent, livestock, arms, vehicle, and activity and market (non-fiscal) taxes.	Head, enterprise and professional, rent, and various non-fiscal taxes.
• User fees	Some in health (vaccination) and education but underutilized.	Extensive use in primary health, some in basic education.	Extensive use in health services.
• Transfer types	Negotiated subsidies, mostly for recurrent expenses.	Some (old) transfers negotiated, others (new) to be based on general formulas.	Some negotiated, some based on general formulas, small amount of borrowing from central fund.
Accountability: • Style of central supervision	Ex ante policy supervision of most decisions. Wide central authority to replace local officials.	Ex ante supervision largely of budget decisions. Wide central authority to replace local officials.	Ex post budget review by *prefecture*. Slightly limited central authority to remove local officials.
• Transparency	Policies and budgets of local govt and *tutelle* not published, not subject to appeal.	Citizen right to information on decisions and budgets at all levels. Some appeal rights.	Policies and budgets not published at local level. Some appeal rights.

[10] Rural localities do not have authority over hiring and firing of educational personnel.

2.5.2 Quantitative Indicators

Quantitative measures can provide an indication of the extent of fiscal decentralization by, for example, comparing local revenues to national revenues and transfers. One benchmark of this type would be that of vertical balance, i.e. a comparison of tax collection and expenditure at national and local levels. For example, subnational government spending (including regions or provinces as well as municipalities) as a percentage of total public sector spending varies from an average of 47.6 percent in federal systems (e.g. Australia, India, the U.S.) to 28.5 percent in the mixed systems of the Latin America/Caribbean region, to 17.8 percent in the unitary system of France, which is rooted in the same structure that was exported to West Africa during colonial times.[11]

Percentages of public expenditure for vertical balance comparisons are perhaps more usefully presented together with the corresponding percentages of total tax receipts, or public revenues generally. Table 2.2 presents data from three Latin American countries.

Table 2.2 Decentralization of Expenditure and Finance[12]

	Argentina (1992)	Colombia (1991)	Peru (1991-92)
National spending within total	51.9%	67.0%	90.8%
Provincial/departmental spending within total	39.5%	15.7%	n/a
Municipal/local spending within total	8.6%	17.3%	9.2%
National tax revenues within total	80.0%	81.6%	95.5%
Provincial tax revenues within total	15.4%	11.1%	n/a
Municipal/local tax revenues within total	4.6%	7.3%	4.5%
Total national revenue within total revenue	n/a	68.9%	88.5%
Provincial/departmental revenue within total revenue	n/a	16.9%	n/a
Municipal/local revenue within total revenue	n/a	15.1%	11.5%

In understanding comparative financial capacity and performance, it is helpful if possible to disaggregate "own" resources from fiscal transfers in examining the budgetary resources of subnational governments. This yields an indicator called "fiscal correspondence." Table 2.3

[11] Winkler (1994) p. 7.

[12] Source: Murphy (1995), p. 22-28

presents indicative data from two countries, again in Latin America.

Table 2.3 Fiscal Correspondence[13]

	National Govt.		Provincial/Dept. Govt.		Municipal/local Govt.	
	Colombia (1991)	Peru (1992)	Colombia	Peru	Colombia	Peru
Total own resources	92.79%	77.5%	52.62%	n/a	63.57%	32.8%
Tax resources	53.61%	73.7%	31.25%	n/a	18.58%	30.3%
Other resources	39.18%	0.8%	21.37%	n/a	44.99%	2.5%
Transfers	10.52%	0.0%	49.6%	n/a	24.41%	62.3%

Complete data in the areas of general vertical balance and fiscal correspondence were not available for the West African sample countries. Some data were obtainable, but as discussed in the country case studies (Annexes A - C), they are partial, they required a number of adjustments, and they should be viewed with some caution. They do yield some very rough estimates of fiscal decentralization, in line with the above discussion. By one estimate, local government revenues in Mali comprise four percent of total public revenues.[14] Budget figures from 1992 show that expenditures at the *commune* level in Senegal were equal to five percent of the national budget.[15] As expected, Guinea has (by far) the lowest level of local public finance as a percentage of total public finance - estimated at less than one percent, as shown in Table 2.4.

[13] *Source*: Murphy (1995) p.26-29. Figures are as a percentage of spending at a given level, and reflect surpluses, deficits, and interest.

[14] This figure represents revenue collected by the 19 *communes* in Mali prior to the implementation of the new decentralization laws. See Annex B.

[15] *Caisse Française de Dèveloppement* (1994) p. III.51. Receipts and expenditures are usually required to be in balance in the public finance systems of the region. Hence they are treated as approximately equivalent in this discussion for the sake of simplicity, although tax recovery and budget execution rates can cause them to diverge in practice.

Table 2.4 Public Expenditures in Guinea[16]

Level of government	Category	Expenditure (millions of GF)	As percentage of central spending (including *prefectures*)
Central	Total Operations Public debt Externally financed Administrative regions (operations)	924,687 604,287 353,911 265,400 610	
Prefecture	Total Operations Externally financed	5,415 3,987 1,252	
CUD/CRD (municipality)	Total CUDs CRDs Total operations[17]	6,956 1,950 5,006 1,977	0.75% 0.3%

As for fiscal correspondence, data for Nigeria from the late 1970s to early 1990s show that the percentage of local finance derived from central grants ranged from 94 percent in some rural jurisdictions, to 40 to 60 percent for large urban areas. Local governments in Benin get no transfers from the center. Kenya, like Guinea (see Annex A), provides virtually no transfers to local levels.[18] Among the sample West African countries, Senegal, while it has the highest percentage of local revenues as a share of total revenues, probably also provides the highest level of transfers from the central to subnational levels. Again, Mali could be expected to follow the Senegalese pattern once its decentralization plan is implemented. Figures from the period preceding Senegal's decentralization reforms, provided in Table 2.5 below, show a high level of financing from "own" revenues at the *commune* level relative to other countries in the region, and

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[16] *Sources*: *Loi L/94/036/CTRN portant loi de finances pour 1995*; DNB *Section de Budget des Collectivités*; DND *Division de Tutelle Financière*, Guinea. Figures are budgeted expenditures (*prévisions*) for the 1995 fiscal (calendar) year, as actuals were not available for all levels. In the case of the *prefectures*, the figures are for the period of July 1, 1995 through June 30, 1996. Municipal figures are adjusted for nonreporting by one-third of CRDs and the *communes* of Conakry. The *prefectures* are included with central expenditure figures. While they do, unlike the administrative regions, construct their own budgets and draw on shares of some local taxes, they are considered deconcentrated units of the central administration rather than decentralized local governments. *See* Annex A.

[17] As compared with central (including prefectural) operations (*fonctionnement*) expenditures.

[18] Olowu and Smoke (1992) p. 10.

essentially no transfers for operating expenses.[19]

Obviously, in the West African examples, one must bear in mind that a relatively high percentage of finance from "own" resources does not necessarily indicate a robust and autonomous local government. It may reflect more the lack of support provided by central governments due to their own macroeconomic problems. How one regards these percentages depends to a great extent on the design of transfers, and whether investment funds are included in the fiscal correspondence measure (in the case of Table 2.5, they are not). Nevertheless, to the extent this measure can take into account all decentralized government units, and allows comparisons across countries and provinces, it would be useful to construct it as one indicator of fiscal decentralization.

Table 2.5 Sources of Local Revenues, West Africa[20]

	Senegal	Cameroon	Cote d'Ivoire	Burkina-Faso	Benin
Shared Taxes	6%	30%	0%	4%	
Transfers (operations)			16%		
Direct local taxes	64%	21%	57%	55%	76%
Municipal and *domaine* taxes	28%	8%	19%	18%	21%
Other	2%	41%	8%	22%	3%

Another potentially useful category of decentralization measures, particularly with respect to public finance, would be comparisons of fiscal output and efficiency across subnational units. One such measure would compare localities' revenues and expenditures per capita. Table 2.6 presents selected data on this. Rough estimates from current budgetary information gathered in Mali would put the per capita figure for the *commune* of Segou, for example, at 8,337 FCFA (*prevision*). This is similar to another measure that appears in the literature but could not be applied to the WCA region in this study due to data and time limitations: *tax effort*.[21] In its simplest form, this is measured by a ratio of taxes paid to personal income -- by jurisdiction and/or by type of tax. As more comprehensive tax and income data become available for subnational administrative units in West Africa, this measure (with the appropriate caveats) could be used to

[19] Pre-existing transfer funds, such as the FECL, are essentially investment project-based. The funds established under the new decentralization laws are expected to provide operating resources, at least for a time. A similar situation obtains in Mali. See also the analysis of sample local budgets in Guinea, section 2.1.1 of Annex A.

[20] *Source*: *Caisse Française de Dèveloppement* (1994) p.II-8.

[21] R. Bahl and L Schroeder, "Local Government Structure, Financial Management, and Fiscal Conditions," in Bahl and Miller (1983) p. 28-34.

compare local fiscal performance across similarly situated jurisdictions.

Table 2.6 Senegal: Local Revenues and Expenditures Per Capita[22]

	Dakar	Dakar Metro (CU)	Thiès	More than 50,000 inhabitants	Less than 50,000 inhabitants	Total
Population	750,405	1,680,394	202,591	1,651,702	567,796	3,172,494
Expenditures per capita	9,490	2,788	1,563	2,269	4,144	4,753
Revenue per capita	9,364	2,422	2,118	2,534	4,534	4,761

These West Africa region data give some idea of comparative relationships, but only a very rough and incomplete one. Given the absence of complete information on the WCA countries, the Latin American figures cited previously provide an example of data that could usefully be collected in the region, for purposes of understanding the progress of fiscal decentralization. In most cases, the raw figures exist in the tax service and in subnational governments. However, these have not been collected and made available in any comprehensive form, and in many cases they are not available to outsiders, absent a formal request from a higher level of government or a donor agency.[23] In West Africa vertical balance, fiscal correspondence and fiscal effort measures could all be useful for cross-country comparisons of decentralization. To the researchers' knowledge, these measures have not yet been constructed for the region.

One area where data has been available (although not consistently, and its quality may in some cases be doubtful) is tax recovery rates including, depending on the country, local, national, assigned, and shared taxes. In Guinea, the combined recovery rate for seven major local taxes, calculated by region, was found to be 58 percent, based on available data for 1996. In fact, recovery rates vary widely by type of tax, by region, and by locality. A simple modeling exercise (see Annex A) shows that, if all collection rates at the *prefecture* and CRD/CUD level were brought up to the median level, this would yield an additional 1.6 billion GF annually (an increase of 31%, or approximately U.S. $1.6 million). If the level were brought up to the 90th percentile across the board, this would yield a total increase of 3.1 billion GF annually (up 60% or approximately U.S. $3.1 million). In Mali, the average recovery rate for local taxes collected in a

[22] *Source*: *Caisse Française de Développement* (1994) p. III. 55. Figures are from 1991-2 and are in FCFA.

[23] Indeed, most of the figures collected from the central government in Guinea existed only in hand-written ledgers, with no second copy.

sample of seven *arrondissements centrales* in different *cercles* was 61 percent for 1995.[24] In Senegal, data of even this quality were not collected, but local tax recovery rates of 60 percent or below would be consistent with our findings. Hence, the same logic should apply, namely that improving assessments, increasing enforcement efforts, and controlling corruption in tax administration would likely make significant increases in local tax yields possible.

This discussion suggests that a more rigorous analysis of the causal factors explaining this variance could identify a number of remedies and approaches to improving tax collections with wide applicability. An open question here is what dampening or substitution effects such an increase in collections might have on local populations. Local and household income and expenditure surveys, now being carried out across the region by the World Bank, might provide clues. In this area, it would also be useful to disaggregate fiscal taxes from non-fiscal taxes and user fees, especially in light of the fairly poor recovery rates for fiscal taxes and the impressive performance of many user fee arrangements. Finally, against what standard should local tax recovery rates be judged? As has been suggested, one standard might be an internal one, with the target being to bring the performance of the laggard jurisdictions up to par with the better ones. Another might be a regional or international comparative standard. The researchers were not able to assemble a large amount of comparative tax recovery data, but figures in the 40 to 60 percent range appear to be common in developing countries, whereas rates of 80 percent and above are more typical in industrialized countries.

A number of complicating factors would need to be taken into account in arriving at useful benchmarks. Clearly, one can expect disparate results from urban as compared to rural areas, and coastal as compared to Sahelian regions. One would also need to control for certain factors such as weather or pest-induced crop failures and other disasters, for example. Another major factor to be taken into account is the magnitude of foreign aid flows as a percentage of public spending in the region. The 50 percent figure for Mali does not appear atypical. The budgetary treatment of aid does not appear consistent across projects, countries, donors, or time. Also potentially important are remittances and NGO contributions (apart from those that are aid-funded). These would have differing, and not always offsetting, impacts on revenue, expenditure, and fiscal correspondence measures. Nevertheless, considering their major importance, especially with respect to the financing of public and merit goods provision, it would be important to take them into account where possible. Perhaps the greatest obstacle to arriving at comprehensive measures of fiscal decentralization would be the lack of transparency about these figures in governments, aid donor agencies, and to some extent NGOs. Once some reasonable baselines are established, progress in decentralization can be followed more systematically than at present.

The problem of data collection in the region is a very large one. A great deal of the policy reform technical assistance which is needed in this area cannot take place very effectively because of the poor quality of available data. Several efforts have begun, with donor support, to remedy this situation but these are largely country-specific and no mechanisms exist for regional

[24] *Source:* Ongoiba and Toure (1996).

distribution. In particular, little is known about the regional organization of economic activity beyond the capitals of most SSA countries, yet this information is critical to an appropriate reform of the local tax system and to the optimal scale of public service delivery. The Club du Sahel is sponsoring several studies of this type in a number of countries, the findings of which need to be disseminated and perhaps integrated from a regional perspective. In Senegal, the Canadian ACDI has commissioned local consultants to conduct an extensive effort of basic data collection on tax bases, assessments, and recoveries at all levels of governments and throughout the country. The agency has also commissioned a survey of 3,000 taxpayers to better understand compliance behavior. There is also the problem of uniformity or comparability of data collected in the region, which has posed dilemmas for us as surely it has for other researchers. Much more needs to be done; this is the topic for the section that follows.

Chapter 3

Recommendations

What can REDSO usefully undertake in this area? Here, we present recommendations in each of the areas discussed in the preceding chapter. These emphasize activities that would draw on REDSO's comparative advantage as a regional office and a technical resource, and that complement other programs of a bilateral or regional nature, whether of USAID or other donor agencies. Key recommendations for REDSO/WCA include:

- Focusing research and dissemination on intergovernmental vertical accountability, and on the relation of local tax performance to that of user fees and coproduction.

- An initiative to develop new designs for transparent formula-based intergovernmental transfers, and a regional fund to support them.

- Advocacy of comprehensive donor coordination to support fiscal accountability and transparency through all aid programs.

We first briefly review relevant existing donor programs in the next section. The recommendations then follow.

3.1 Existing Programs

The recommendations provided below take into account the existing and prospective aid programs of USAID and other donors. A brief synopsis of these programs is provided in this section. It covers the highlights that the researchers uncovered, but does not pretend to be comprehensive.

USAID has long made decentralization a component of its programs in the region. Currently, this component is a part of programs supporting democratic governance as well as sectoral development, chiefly in the health and education areas. Programs aimed at increasing the engagement and effectiveness of civil society in local development deal with local governments in all three sample countries. CLUSA and Africare are among the important implementing organizations. Other activities include training on aspects of public finance and governance at local and national levels. These include work with groups of local mayors, national ministries, and tax administrations. Also relevant are initiatives, such as the PRED program in Mali, that aim to increase transparency in governance at the national level through such means as automating the development and tracking of public sector budgets. Among current regional initiatives, there is a strong emphasis on research and especially information. Regional geographic information systems increasingly allow REDSO and others to map patterns, follow trends, and evaluate programs. The Leland Initiative is providing internet hookups across Africa, with one emphasis being the establishment of a network of local government officials. The Initiative provides a channel for information flow and exchange, as well as relevant training for the participants.

The World Bank is also active in this area. Some of the research now being sponsored by the Bank, including income surveys (in some cases by region or locality) and studies on decentralized finance and sectoral decentralization, should provide important and necessary data for future policymaking and assistance in this field. Some of this activity comes under the regional Municipal Development Program, which has been supporting research, training, technical assistance, and local government associations since 1991.

Other donors active in the area of decentralization include Canada, Germany, the EU, and France. German aid is currently concentrated on a public management training program for local elected officials. France supports capacity-building in local government across the region, having restarted its decentralization assistance program in some countries after a few years' suspension. Interestingly, the French program itself intends to follow a decentralized design, with local government associations from France (e.g. *Cités Unies France*) and other northern countries pursuing joint projects with communities in West Africa. An important focus here are local administrative capacity-building projects in several countries, including the three sample countries, under the rubric of the *Projet d'Appui au Processus de Décentralisation.*

The Canadian aid agency has identified certain paths and possibilities for assistance and is now in the identification and data collection phase of its program relative to decentralization. In Senegal, for example, the program has five components: 1) training and capacity building for local elected officials; 2) studies on local fiscal issues (already underway); 3) support for the Associations of Elected Officials at all levels; 4) a variety of assistance for local officials in formulating and implementing budgets, mobilizing resources, and special programs for women; and 5) planning assistance to help achieve infrastructure improvements in health, water, and rural roads. For the second component in particular, the Canadians have launched a *Projet d'Etude sur la Fiscalite Locale* intending to collect a certain amount of basic data in two distinct areas. In the first instance, they have retained a local Senegalese firm to collect budget and tax recovery data for all *communes* covering the period from 1993 to 1996. Second, they are undertaking a survey of 3,000 taxpayers to get a different perspective on economic activity and the factors motivating tax compliance. Also, notably in Guinea and Senegal, Canada supports projects on improved local administration and outreach through the *Centre Canadien d'Etude et de Coopération Internationale* (CECI).

Another critically important player, of course, is the International Monetary Fund. If the IMF was at one time discouraging the creation of a new regional structure, it intends to continue working on tax reform at all levels, including local taxes, for the foreseeable future. Although its concern is primarily with national revenue issues, the IMF believes the major question with local financing concerns local recovery capacity. Adequate local recovery is expected to become even more important in the near term since the IMF believes that the total revenue/GDP ratio will decline over that period, implying a reduction in transfers from the center.

Although not directly involved in the issue of decentralization, the Club du Sahel has a project on "local economies" as part of its West Africa Long Term Population Study, looking at rural/urban migration. This project is attempting to examine economic activity in and around selected secondary cities in six WCA countries (Benin, Burkina Faso, Ghana, Ivory Coast, Mali, and Senegal). Preliminary findings indicate that substantial economic activity is taking place within the sample secondary cities and their surrounding regions and that the scale of local public spending relative to the level of economic activity (fiscal effort) is extremely low (about 1 percent). This suggests that tax districts reflecting some aggregation to capture this on-going activity might be preferable to the current legal and spatial arrangements. It also suggests, consistent with the findings of this report, that the problem of underfinance can only be partially addressed by improving recovery on existing taxes and bases, and is perhaps more fruitfully pursued by looking at new institutional arrangements and tax mechanisms.

3.2 Decentralization

As this report has suggested, there are several ways in which decentralized governance in the region can be enhanced. One important aspect of this is training and material support for local governments. This has received ample attention from the World Bank, UNDP, and bilateral donors. More no doubt can be done, and this should be considered a necessary complement to programs supporting institutional change. These latter changes are the focus here.

Decentralization programs across the region share a number of common elements, not least of which is the starting point for the majority of WCA countries, namely the inherited system of French colonial administration. Even more common, it appears, is the heavy emphasis on deconcentration of central government bureaucracies as compared with devolution of powers to autonomous local units. This is not unexpected, given the starting point and the political imperatives at play. Several countries, including the three sample countries, have made some commitment to push decentralization further. Guinea is moving especially slowly, while Mali appears to be moving with sufficient speed that questions have arisen about whether mechanisms of accountability will be able to keep pace. Thus one set of comparative questions that would merit regional scrutiny involves the appropriate timeline and sequence for decentralization. The plan being followed by the countries just mentioned is, first, to deconcentrate, then to devolve starting from the bottom up. As was mentioned, this perhaps follows a sensible political logic, but does it make sense otherwise? What do successful cases suggest should be the sequence? From the point of view of accountability, the sequence seems to make sense if one assumes that heavy supervision by the *tutelle* will the be relaxed or withdrawn once decentralization moves up the ladder to the administrative region level. An inevitable question here would be how this fits in with supranational cooperation in the region. Looked at from these various angles, this question of sequence, which is ultimately a question of the appropriate model, is a regional one in which REDSO can fruitfully intervene on the level of comparative research, discussion, and even technical assistance.

Two subsidiary questions arise here. First, what rights do populations and local governments have to constitute larger units? Here, Mali and Senegal have taken the liberal position, although any such local decisions would need to be ratified higher up. The right to form larger units or cooperative links across units potentially implies a number of things, including the ability to form separate administrative regions. This is almost certainly not the intent of the law in Mali, and probably not in Senegal, and would in either case be resisted. What does appear to be contemplated is the ability to form special-purpose districts, sister city relationships, local government associations, and the like. Here again is an area that has regional dimensions and where REDSO could be helpful by exposing decisionmakers to various models, stimulating region-wide research and discussion of these issues, and making clear the benefits of such cooperation, including economies of scale, sharing of scarce resources such as expertise and capital equipment, etc. Going beyond this, recognizing a right to formalize as a government unit some functioning sphere of collective action, whether on irrigation, health services, communications, or generally, could contribute significantly to the effectiveness of local governments.

The second question concerns the institutional structure of intergovernmental relations. One of the critical issues here, as discussed earlier, is the mode of vertical accountability: *ex ante* or *ex post* review, substantive or procedural control, administrative or judicial checks? In each of these dichotomies, the former represents the current system across most of the region, while the latter is closer to a federal model. Another dimension of this is fiscal decentralization, particularly the balance between tax bases and taxation powers between central and local governments, which in the WCA region is particularly top-heavy. If the West African countries intend to move towards a decentralized system in which policy initiative and resource mobilization are maximized, they will need to incorporate at least some aspects of federal systems. This clearly represents a departure from the French model, or at least the old (pre-1982) French model, and will as a result encounter opposition based on (stated) desires to maintain a certain legal and political culture, not to import American ways, etc. Of course, there are legitimate constitutional concerns here as well. REDSO can help by flagging the importance of this issue, exposing relevant actors across the region to variants of both the unitary and federal models, and stimulating thought, discussion, and research. What is known as *horizontal accountability* or checks and balances between branches of government appears to have received ample attention from donor agencies, as has vertical accountability at the base, between government and civil society. The intergovernmental dimension is of equal importance, but has not had nearly the same amount of attention. It is especially important in the field of public finance (*fiscal federalism*), and should be a central part of any initiatives focusing on local resource mobilization.

3.3 Local Revenues

One major part of the shortfall in local revenues comes from low tax recovery rates. We have cited evidence from Guinea and Mali indicating that recovery rates vary greatly by tax type and by region. A more rigorous analysis of the causal factors explaining this variance could identify specific problems and remedies to improve collections. Given the prevalence of this problem across the region, the high probability of shared causes, and the rising importance of local public finance, there should be advantages to a program of regional dimensions.

A similar observation applies to local tax bases. Decentralized government units are underfinanced across the region, in part because of the fiscal powers retained at the center, and in part due to a failure to develop new tax sources. Unfortunately, national tax legislation continues to deny local governments discretion to expand their tax bases by creating new types of instruments. This will be a threshold issue in some countries, but less of a problem in others (e.g. Senegal). Again, given common systems and problems, synergies and economies of scale, there are reasons to pursue this on a regional level. Cooperation and complementarity with the World Bank and the relevant bilaterals is likely to be important here. However, given the U.S. experience with fiscal federalism, REDSO may have a comparative advantage here, and can make the development of local tax bases a theme of any sister city cooperation it supports. One profound difficulty here is the unavailability of property taxes as we know them. In the countries studied, property-based revenue comes from rent taxes and the sale of use rights. A major source of local revenues in some Western countries, namely taxes on assessed value, is foregone. Land reform, deregulation, elimination of subsidies (or at least their urban bias), and tax reform itself, are critical prerequisites in many cases. Perhaps the feasibility of local ("piggyback") income taxes would merit regional attention. Region-level reconsideration of the design of other taxes such as the *patente* and local surtaxes would also be productive. Simplification, particularly of the maze of local non-fiscal activity taxes, should also be considered across the region.

Finally, given the potential of user fees, and their comparative success in sectors such as health and education, some joint investigation of ways to extend their application and maximize returns appears warranted. This last exercise would be a useful setting in which to bring together fiscal and sectoral officials from across the region to explore alternatives. An intriguing aspect of this that does not appear to have gotten much attention is the relationship between the recovery of fiscal taxes, on the one hand, and the yield of user fees and certain non-fiscal taxes (special purpose or activity-related) on the other hand. Research that obtains figures for the combination of fiscal effort, tax recovery rates, and yields on user fees (coproduction as well, if possible) for sample jurisdictions could shed light on the link, if any, between local populations' demonstrated willingness to pay for certain merit goods and low fiscal tax compliance. The results of such a study could be critical to the redesign of local tax structures across the region. The latter could be the subject of regionally-supported pilot programs, the dissemination of best practices that grow out of this, and the like. The World Bank and the Canadian ACDI are doing relevant work here.

3.4 Transfers

One of the most striking findings of this research is the inadequacy and lack of transparency of transfer systems. This picture is changing somewhat with the introduction in some countries of equalization and investment funds based on general criteria, and the earmarking of funds (e.g. portions of VAT revenue in Mali and Senegal) to fund these transfer mechanisms. Sustaining adequate levels of public goods and services over the long run requires a major improvement in local revenues. However, not only is this is a long-term goal, but in any event local resources will likely always need to be accompanied by transfers and other external sources. This argues for immediate REDSO attention to the design of transparent, formula-based transfers across the region. Transparency, currently lacking, is necessary for effective financial control, accountability to the public, and the improvement of tax compliance. Formulas can take into account equalization needs as well as certain local preferences. Perhaps most importantly, transfer design can stimulate local revenue mobilization by means of fiscal effort conditions or matching criteria. Some donors, including USAID, have supported (or provided) sectoral matching grants and other transfers in the past. In this case, REDSO could play an important role in helping develop new ideas and approaches to their design, in ways that improve both governance and local fiscal effort.

The other aspect of transfer systems, of course, is their source of funding. Central government funding for transfers is at best problematic in WCA countries. Here REDSO could be the source or intermediary for aid funds that can be provided as a supplement to central transfer funds (e.g. the *Fonds de Dotation* in Mali and Senegal). One way to structure this might be to set up a regional fund and agree with recipient countries on a standard formula that becomes part of each participating country's transfer system. In this case, the best approach might be to structure the fund as a matching grant fund to which local governments (or perhaps local public-private partnerships) apply for matching funds in order to support local social services and related infrastructure. Either each participating country will receive a fixed share of funds to be provided as grants to its local governments, or the competition could be supranational. In the latter case, a regional steering committee would determine which localities in which countries receive matching grants. This would encourage central governments to maximize the funding their countries receive by supporting local initiatives and ensuring that funding applications from their countries are of the highest quality. The program should also allow (even encourage) local government units to forge associations or special districts, and to seek joint grants in that way. Grants would necessarily be of moderate size (e.g. up to $25,000). The program goals here, like the objectives of transfer formula design, center on increased funding for local social services and related infrastructure, increased fiscal transparency, and improved fiscal effort.

3.5 Governance

The research has clearly identified a need for increased transparency, mechanisms to control corruption, and improved local governance. REDSO could usefully support regional programs in such areas as legislative oversight and "sunshine" laws, specifically targeted to public finance transparency. Unfortunately, such programs are most likely to succeed in the capital, whereas accountability for local public finances is most needed, and most difficult to impose, in the periphery. However, an appropriately designed program could support local innovation, and dissemination of new ideas. One of these might consist of simple leaflets, placards, and other publicity outlining the rudiments of the fiscal system and relevant mechanisms of accountability ("your tax *francs* at work").

USAID, the World Bank, the IMF and others have increasingly focused on corruption in recent years, in line with growing concern about its prevalence and its impact on economic development. Africa generally is a region considered to be especially at risk, along with the former Soviet Union. USAID/Senegal and IRIS held a regional Francophone conference in Dakar in 1996 to develop general approaches toward this problem in the region. REDSO has already been involved in this and other governance-related work, including studies of illegal road payments in regional trade. Increasingly, the strengthening of audit and financial control is being recognized as a matter of first priority for African countries. This essentially deals with theft or other misuse of revenues and budgeted funds. An additional element would be control of non-theft corruption in revenue and expenditure collection; e.g., bribery and extortion in tax collection, or bribery between agents of different levels of government in the programming of social expenditures.

Possible useful interventions by REDSO in this field would include regional training events concerning new approaches and best practices in restraining these forms of corruption, support for surveys and other studies aimed at pinpointing and quantifying leakages across the region, and perhaps scaling up bilateral programs in areas such as automation of budget systems (e.g. the subject of an existing program in Mali). A project with a focus on empirical surveys of taxpayers and officials, assuming this could make headway in light of the political constraints, might yield more solid corruption estimates than now exist.[25] A different role for REDSO here would be to serve as an analyst, advocate, and point of coordination among international donor agencies on support for good governance in the region, and especially its application to the design of all aid programs in the region. An inventory of aid programs will no doubt reveal a significant number that undercut rather than support discipline and transparency in public finance.

Finally, REDSO could usefully intervene in order to capture and analyze the interesting regional experience being developed on the design of local government units in relation to traditional systems of authority as well as local ("spontaneous") associations. One might, for example, study these indigenous governance mechanisms as adaptive responses to the current status, including the limited opportunities to formalize new and different levels of government (e.g. incorporating new towns or setting special purpose districts), much as one might study the informal sector for clues as to the nature of entrepreneurial practice and the failures of state institutions that create incentives for informality. Research and discussion comparing Mali's

[25] This approach appears to yield the best results in specific sectors with discrete stakeholders; e.g., studies of customs, road checkpoints, and use of particular local services. The series of "service delivery surveys" supported by the World Bank Economic Development Institute have provided a snapshot of the incidence of corruption in areas such as revenue and lands, but do not develop estimates of systemic leakages. See Presidential Commission of Inquiry Against Corruption, *Service Delivery Survey: Corruption in the Police, Judiciary, Revenue and Lands Services* (EDI and CIET International, 1996). An association of accountants and controllers in the U.S., on the other hand, has estimated the cost of fraud and abuse to private U.S. firms and organizations at $400 billion annually. This estimate appears to be based on a combination of actual cases, statistics, and financial officers' estimates of the cost to individual organizations of fraud and abuse. *Association of Certified Fraud Examiners Home Page, http://www.acfe.org/.*

decentralization experience over the coming years, as compared to other countries in the region, and looking to successful practices from beyond the region, would be worthy of REDSO support. The key linkage to be made here is that between the legitimacy of local government and its ability to finance itself. Here again, cooperation with the World Bank would be especially important, since Mamadou Dia and others at the Bank have been working on this issue in recent years.

3.6 Measurement and Data Collection

Section 2.5 of this report contains a detailed discussion of data and measurement issues in this area. The fundamental point to be made here is that a great deal of the policy reform technical assistance needed in this area cannot take place very effectively because of the poor quality of available data. Several efforts have begun, with donor support, to remedy this situation but these are largely country-specific and no mechanisms exist for regional distribution. A regional office such as REDSO is ideally placed to act both as a clearinghouse for this information and as a promoter of research to fill gaps it is best positioned to recognize. As suggested earlier, data collection on regional levels and organization of economic activity, fiscal effort, and related areas is badly needed and worth supporting, in coordination with efforts now underway at the World Bank and elsewhere.

On the question of measurement and indicators, the ideal approach is for REDSO to use a combination of the measures described in section 2.5 in assessing decentralization progress. Any of the quantitative indicators alone, such as vertical balance or tax recovery rates, is bound to be somewhat misleading unless accompanied at least by a qualitative assessment of local government authority, resources, and accountability. A combination of these measures could be used in a number of ways. It could be built into aid conditionalities and into the formula for a matching grant program such as the one mentioned above. Needless to say, the measures described in this report are only suggestions and could be modified or refined in a number of ways.

Annex A

Country Case Study: Guinea

1. Political and Administrative Overview

1.1 Administrative Structure

Government in Guinea is very centralized, by international and West African standards. Decentralization got underway after the advent of the military regime of Lansana Conte in 1984, with the formal recognition of pre-existing local elective authorities and the further elaboration of a legal framework for local urban and rural communities in the late 1980's and early 1990's. The result is a system said to reflect the "first steps" toward decentralization -- reflecting the predominant formal authority of the central government hierarchy, a deconcentrated system of central authorities exercising technical and administrative powers with respect to local communities, and local communities with fairly narrowly defined areas of discretion and, more importantly, few resources under their formal authority. The system reflects to a much greater extent an approach of *deconcentration* or administrative decentralization than *devolution* or political decentralization.

The authority of Guinea's executive and technical ministries in Conakry is currently exercised both directly and through a series of levels of deconcentrated authority. There are eight administrative regions including the *Ville de Conakry*, each with its Governor and representatives of all central ministries, including a *Trésorier Principal* for the region, who exercises financial control over the next lower level, that of the *préfecture*. Spread throughout the eight regions are 33 *préfectures* with responsibility for close supervision (*tutelle raprochée*) over the decentralized local communities within their boundaries. Whereas the regions depend directly on the central government for all their resources, the *préfectures* make up their own budgets, collect taxes, and share revenues and subsidies with the local communities.

The semi-autonomous decentralized communities, i.e. the urban *communes* or *communautés urbaines de développement* (CUDs) and the rural *communautés rurales de développement* (CRDs), are separately incorporated. The formation of decentralized government units is governed by national law (see below); the constitution and civil law tradition of Guinea do not recognize a right to freely create formal institutions of self-governance. The *commune* level is made up of the 5 communes that constitute the *Ville de Conakry*, in addition to the 33 CUDs outside Conakry, each serving as a prefectural seat as well. The CRDs and CUDs are governed by elected officials and councils working under the supervision of the *préfets* -- exercised via *sous-préfets* in the case of the CRDs -- and with centrally-appointed civil servants providing technical and administrative support. They make up their own budgets, raise taxes, share revenues with the prefectural and national levels, mobilize local private resources for projects, and propose public investment projects for funding by the central government and international donor agencies.[1]

This system is clearly dominated by the central authorities and their local representatives. At the local level, the *sous-préfets* are especially authoritarian, as they operate in a rural context of greater deference and higher illiteracy than urban areas. The CRDs have been described as "hollow shells," without much legitimacy, and dominated by elders, notables and the central *tutelle*.[2] In theory, local authorities can appeal actions by the *préfecture* to the *Ministère de l'Aménagement du Territoire et de la Décentralisation* (MATD), but this appears not to be an effective option. Opposition deputies in the National Assembly have proposed eliminating the *sous-préfets*. Several projects funded by the French, Canadian, and US aid programs, including CLUSA (The Cooperative League of the USA) and CECI *(Centre Canadien d'Etude et de Coopération Internationale*), aim to train local officials to carry out their functions without excessive reliance on local representatives of the central government, and to enable them to resist unreasonable demands. Among other things, these programs include technical and management training, as well as translation of the decentralization laws into local languages.

Guinea's point of departure in its constitutional transition and decentralization is therefore one of extreme centralization and executive dominance. Given this point of departure, the strides that have been made nevertheless leave the President in a strongly predominant position, with other elements of government and civil society in a largely subordinate or even dependent role. The constitution, rather than delegating powers to the executive, assumes a sovereign executive (a position publicly emphasized by the President). The legislative competence of the National Assembly is spelled out in a broad list of subject matters, with the remainder falling into the "regulatory" category reserved for executive power.[3] The same approach is used in defining the powers of the decentralized communities -- i.e. a list of areas of authority is delegated.[4] Furthermore, mayors and CRD heads are removable by decision at the prefectural level.[5]

The same applies to the fiscal resources put at the disposition of the decentralized communities. *Ordonnance* 091/PRG/SGG/90 determines the types of taxes CRDs may levy, how these are collected, budgeting rules, and accounting principles. The *Ordonnance* also sets the salaries and benefits of CRD members and Presidents. It lists a series of "state" taxes assigned to the communities. This, in principle, means that while the central government, through its

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[1] See *Ordonnances Nos. 091 and 092/PRG/SGG/90.*

[2] M. Niasse, M. Okanla, T. Bayer, E. Hart (1997).

[3] Constitution *(Loi Fondamentale)* of 1992, articles 59-60.

[4] *Ordonnance* 092/PRG/SGG/90, article 28.

[5] *Ordonnance* 092/PRG/SGG/90, Art. 6; *Recueil des Textes Réglementaires Portant Sur des Communes Urbaines* Chapter II; *L'Organisation et Fonctionnement des Communautés Rurales de Développement* (MIMEO, DND).

Direction Nationale des Impôts (DNI) in the capital and in the regions, collects national taxes such as the VAT, the tax service personnel at the level of the *préfectures* are charged with collecting the attributed taxes and transferring the appropriate shares to the CRDs and CUDs. The fiscal regime managed by the CRDs and CUDs themselves, and not subject to sharing with the prefectural level, is also spelled out in *Ordonnance* 091/PRG/SGG/90. This means that the local communities' percentage shares of attributed tax revenue as well as their internal fiscal regime can be changed by vote of the National Assembly -- for example, in the annual budget law (*loi des finances)*. The total capital (*investissement*) and operating (*fonctionnement*) budgets for Conakry and all the CRDs and CUDs amounted to just over 5 billion GF in 1993.[6]

1.2 Political Landscape

Electoral politics, and hence collective citizen choice of fiscal and public sector expenditure policy, touches the central and local community levels. President Conte was elected for a term of 5 years in 1992, in the aftermath of Guinea's transition to formal constitutional government. The National Assembly was elected in 1995, with 114 deputies, including 38 representatives elected from prefectural constituencies (including the Conakry *communes*) and the remainder elected from party lists. The breakdown in the Assembly is approximately two-thirds PUP, the majority party aligned with the President, and one-third CODEM, a coalition of dozens of opposition parties. The *préfets* govern with the participation of *conseils administratifs* made up of communal and CRD council members, association heads, and local notables. The prefectural-level councils are not elected but designated by the *préfets*, and serve as advisory bodies.

At the base, *communes* and CRDs have elected heads and councils drawn from the membership of elected lower-level councils -- communal council members are elected from among *quartier* council members, and likewise CRD councils are drawn from district councils in rural areas. Few CRD elections took place as required in 1995, hence many CRDs and at least one CUD are governed by "special delegations," i.e. unelected interim governments. The level of *quartier* and district, which pre-existed the current system, have traditionally been elected but control no official budgets of their own. For this reason, officials of the *Ministère de l'Aménagement du Territoire et de la Décentralisation* (MATD) have stated the official government position as being that this lowest level is "administrative" rather than political and hence should be appointive rather than elective.[7] This position would also enable the President to counteract the effects of a shrinking electoral base. (For example, currently 18 of 38 municipal

[6] Associates in Rural Development (ARD) (1994) p. 94.

[7] The Constitution mentions only the *préfectures*, CRDs, and CUDs in its list of *collectivités décentralisées*, casting further doubt on the status of the districts and *quartiers*. On the other hand, the inclusion of the *préfectures* in this list implies that this level should be devolved upon locally-elected leaders as well- a position supported by the opposition in the National Assembly.

councils - almost half - are controlled by opposition parties.)

2. Local Revenues

2.1 Structure of Local Financing

It is difficult to get a comprehensive overview of all of the revenue sources available to local communities to finance their expenditures. Data are not collected systematically or housed with any single government entity.[8] In this section, we concentrate on tax revenues because formal transfer programs have remitted only trivial sums to local governments in the last few years and because we uncovered no evidence of borrowing by local governments. Even within the category of tax revenues, data are incomplete, so we present first an analysis of taxes collected centrally for which comparative data are available for a majority of Guinea's *préfectures*. This is followed by an analysis of a few local budgets to place the importance of centrally-collected taxes in perspective.

2.1.1 Local taxes. As in many Francophone African countries, the structure of local taxes in Guinea is complex, building on a colonial legacy only partially adapted to local capacities to pay and collect. The *Nomenclature Budgétaire* which defines and classifies local budgets lists over 40 separate taxes and fees for CRD's, not including grants, subsidies, and other transfers. The revenue side of CRD budgets is divided into two categories, sources for funding operations (*fonctionnement*) and for funding investments. Operations sources are further divided into "fiscal receipts" (six taxes, which are discussed in detail below), "non-fiscal receipts" (eight taxes or fees, including fees on civil certificates, taxes on shows and performances, fishing, and road fines), "domaine revenues" (eleven fees such as market and kiosque fees, rents on locally owned public housing, and mineral extraction fees), "patrimony revenues" (four fees, such as rents on nationally owned public lands or buildings), "grants and subsidies from the state," "revenues from the public investment portfolio" (six categories), and "exceptional revenues" (four categories). There are eleven general categories of revenue sources for investment, ranging from a variety of grants and subsidies to loans, donor funds, and revenues from the sale of publicly-owned equipment and property. These categories are further divided into 32 specific sources. As we discuss later, however, examinations of several CUD/CRD budgets reveal that less than a handful of these categories exhibit non-zero budget entries.

The assignment of taxes among various levels of government is itself somewhat fluid, owing to a combination of factors, including the infrequent publication and distribution of legal texts and the apparent possibility that an annual *loi de finance* (annual budget law) can take precedence over existing texts and alter the allocation of tax revenues among the different jurisdictions. This assignment is further complicated in that many revenue sources are distributed among various levels of government and the formulas for this distribution are not readily

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[8] A thorough analysis would require the independent collection of all local budgets and the aggregation of their contents, since this does not seem to be routinely done within the government.

available.[9]

A number of local tax reforms have taken place since 1985 when a 1966 tax code essentially prevailed. Most significantly, revisions in 1995 modified local tax thresholds and brackets and adjusted the base for *patentes* to include new professions. These reforms also saw the introduction of the *Taxe Professionnelle Unique*, a presumptive tax intended to capture informal sector activities which were escaping *patente, impôt minimum forfaitaire*, and various other professional and commercial taxes.[10] Table A.1 reflects our best available information on the structure of local taxes in the category of "fiscal receipts" and the allocation of revenues among local governments. It summarizes what is known about the components of the fiscal receipts of the Guinean budgetary nomenclature.

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[9] We observed this first hand when discussing the distribution of revenues for the IMDL with a high level central government budget official who did not know the formula and took careful notes as we discussed this breakdown.

[10] A TVA was introduced in 1996 at a uniform rate of 18 percent. Unlike some other Francophone countries, none of the TVA revenues are earmarked for local governments.

Table A.1 Local Taxes and Distribution of Revenues among Jurisdictions

Tax/Definition	Rate	Central Gov	Préfecture	Sous-Préfecture	CUD/CRD
Patente (P): Professional tax based on employment categories.	Varies by category	70%	30%	NA*	NA
Taxe Prof. Unique (TPU): Presumptive tax on informal sector activities intended to recover a variety of taxes, e.g. patente.	5% of previous year's value of trade	30%	56%	0%	14%
Impôt Min. de Développement Local (IMDL): Head tax imposed on all individuals between the ages of 14 and 60.	2 MGF	0%	25%	15%	60%**
Taxe Foncière pour Propriétés Baties (TFPB): Tax collected from owners of buildings, assessed on the basis of rents received or presumed.	10% (≤300MGF) 15% (301-1,000) 20%(≥1,000MGF)	50%	0%	0%	50%
Taxe d'Habitation (TH): Tax on occupation based on value of lease	10%	0%	100%	NA	NA
Taxe des Armes à Feu (TAF): tax on ownership of guns.	225-5,000GF	0%	0%	0%	100%
Taxe Unique sur Véhicules (TUV): assessed on the size/tonnage of vehicles and pleasure boats	10 MGF-450MGF	75%	25%	NA	NA

* NA indicates that the division of the allocation to the next higher level is not known; it could be completely retained at the next higher level or passed on wholly or partially to lower levels.
** of which 10% is earmarked for the district or *quartier*.

Note that there are no taxes assigned to the governorate level on the theory that this level of government is purely an administrative extension of the central government with no expenditure responsibilities of its own.[11]

Jurisdictions do not have any legal authority to alter tax rates, which are set by the central government and applied uniformly across all jurisdictions. In theory, jurisdictions also have no discretion over the definition of the tax base. However, since not all taxes are assessed on taxpayer rolls, meaning that a census is provided by the central government to local collectors (which label could represent either agents of the central government at the *préfecture* or sous-*préfecture* level or local government employees), local governments have some latitude in defining what constitutes eligible economic activities.

[11] This treatment of the region level precludes certain possibilities on both the expenditure and revenue sides that might be desirable on equity as well as efficiency grounds. While scale economies are sometimes observed on the provision side, it is also possible that the region is a more encompassing level of aggregation appropriate to the capture of a large proportion of economic activity.

Only two of the seven taxes presented in table 4.1 account for any significant potential contribution to local tax revenues, based on assessments generated by the central government (the TPU is omitted because it is a new tax first imposed in 1996 and there are no assessments available and little experience with recovery).[12] The most important source of revenue from this set of taxes at the non-central government level is the IMDL. We estimate, based on calculations derived from data on assessments, that IMDL revenues could account for close to 68 percent of "fiscal receipts" at the aggregated *préfecture* level.[13] The patentes constitute the second significant source of these revenues, accounting for approximately 22 percent of the potential of local "fiscal receipts" as measured by assessments.

At the CUD/CRD level, the reliance on IMDL is even more dramatic, accounting for close to 78 percent of potential fiscal receipts. Table A.2 provides summary details on revenue sources for the 31 *préfectures* for which we have full data (*préfecture* level results are presented in Tables A.6 and A.7 in the Appendix). These calculations result from applying the allocation percentages of Table A.1 to data on assessments by tax type at the *préfecture* level. Note that the *préfecture*-level data here refer to the aggregate assessments for the jurisdiction rather than assessments over which the *préfecture* ultimately has control, whereas the CUD/CRD data reflect the average of the distribution of assessments accruing to all CUD/CRD jurisdictions within the *préfecture*. Although the majority of *préfectures* and CUD/CRD conform to the representative average patterns, there are a number of significant deviations where potential revenues from *patentes* exceed those of the IMDL. Only three *préfectures* have potential revenues from the TFPB tax exceeding 25 percent of their potential fiscal receipts.

[12] We use assessed amounts here rather than recovered amount as an approximation of the tax base. This is more indicative of the maximum potential for local government financing, independent of factors affecting the successful collection of revenues.

[13] This calculation and all others that follow are based on data provided by the *Direction Nationale des Impôts*. These data are incomplete and not always directly comparable and the analyses based on them require a number of assumptions which we report as they are invoked.

Table A.2 Potential Revenue Sources: Préfecture and CUD/CRD[14]

	IMDL	TH	TFPB	Patentes	TUV
Préfecture-Level Aggregate Revenue Sources Distribution (%)					
Group Mean	61.1%	2.9%	6.4%	27.1%	2.4%
Mean of Individual Préfecture Distribution	67.9	2.8	4.6	22.2	2.5
Maximum of Individual Préfecture Dist.	94.0	13.7	33.6	55.5	7.3
Minimum of Individual Préfecture Dist.	7.1	0.2	0.1	2.7	0.7
CUD/CRD Level Average Revenue Sources Distribution (%)					
Group Mean	77.1%	3.7%	8.1%	10.3%	0.8%
Mean of Individual CUD/CRD Distribution	79.8	3.6	6.7	9.1	0.8
Maximum of Individual CUD/CRD Dist.	97.0	19.4	56.0	28.0	2.0
Minimum of Individual CUD/CRD Dist.	11.8	0.2	0.1	0.8	0.2

To gain a perspective on the importance of these tax sources of revenues relative to other available taxes, we examined the 1996 budgets of one *Préfecture* (Fria), one CUD (Kindia), and one CRD (Ouassou). It is, of course, not possible to generalize from these results to the country as a whole, since revenues from *Domaine* category taxes may be heavily skewed by the presence of natural resources within the territory. Nevertheless, the summary findings presented in Table A.3 below complement available information and provide some indication of the potential contributions of the various tax categories to local financing.

As expected, given the statutory assignment of taxes and the distribution of some revenues to various levels, the composition of local government revenues varies significantly across levels. At the *Préfecture* level, fiscal receipts constitute the vast majority of revenues, with the largest contributor (about 70 percent) within this category being the *patente* tax. The only other revenue source of some significance is a direct subsidy from the national budget, used largely for operations and salaries. The *préfecture*, of course, is an administrative arm of the central government and exhibits a very different revenue pattern from the elective local government units. There, the importance of revenue sources is relatively more evenly distributed although differences exist between the CUD and the CRD. *Domaine* taxes are most important for both CUD and CRD levels; together with *prélèvements* (transfers to local governments of tax shares collected by the *préfectures*), they account for 78-87 percent of potential local revenues and 79-90 percent of actual local revenues. The most important *Domaine* taxes (in terms of potential and realization) for the CRD are the market, kiosque, and vehicle parking taxes or fees. Nearly all Domaine-generated revenues for the CUD come from extraction fees on quarries.

[14] This distribution omits the TAF and licenses fees because they make only a trivial contribution to total tax revenues and data for these two taxes are often missing.

Table A.3 Revenues of Local Governments, from all Sources		Fiscal	Non-Fiscal	Domaine	Prelevement	Subsidies	Total
Pref. Fria	Assessed	342,814,750	3,355,219	4,150,000	—	35,868,000	386,187,969
	Recovered	281,270,431	4,211,219	238,000	—	32,879,000	318,598,650
	Recov Rate	82.05%	125.51%	5.73%	—	91.67%	82.50%
CUD Kindia	Assessed	48,924,210	5,200,000	108,572,000	80,871,591	—	243,567,801
	Recovered	30,507,355	4,375,850	82,896,125	51,507,392	—	169,286,722
	Recov Rate	62.36%	84.15%	76.35%	63.69%	—	69.50%
CRD Ouassou	Assessed	6,307,818	200,000	25,400,000	23,000,000	—	54,907,818
	Recovered	4,442,000	115,000	24,141,300	20,607,600	—	49,305,900
	Recov Rate	70.42%	57.50%	95.00%	89.60%	—	89.80%
		Expected Revenue Sources by Tax Category (Assessed Amounts)					
	Pref. Fria	88.8%	0.9%	1.1%	—	9.3%	
	CUD Kindia	20.1%	2.1%	44.6%	33.2%		
	CRD Ouassou	11.5%	0.4%	46.3%	41.9%	—	
		Actual Revenue Sources by Tax Category (Recovered Amounts)					
	Pref. Fria	88.3%	1.3%	0.1%	—	10.3%	
	CUD Kindia	18.0%	2.6%	49.0%	30.4%	—	
	CRD Ouassou	9.0%	0.2%	49.0%	41.8%	—	

2.1.2 Grants, transfers, and subsidies. Until 1993, local communities received subsidies to their budgets but since then communities have received dwindling amounts of assistance which are no longer formally subsidies under the Guinean nomenclature. Most often, special subsidies that take the form of transfers are earmarked for specific activities like the operation of markets or take the form of in-kind subsidies such as teachers for locally-provided and built schools. An example of the former is a 12 million GF subsidy in 1996 to the CRD of Kindia to assist in the operation of its market. More often, these sum transfers are in reality earmarked for the salaries of local officials. Sometimes these funds spill over into the more general operational budgets but rarely, if ever, are they used for social investments. The central government has an investment fund which is used to finance "normal" state investments which may provide greater benefits to some local communities than others, but there is no formal system of formula-based transfers as they are used in most decentralized economies. Although in the recent past most subsidies have gone to the Conakry *Communes* (CUDs), subsidies are sometimes granted to local communities to complete projects which they initiate.

The subsidy/transfer process is fundamentally hampered by the division of responsibilities between the Ministry of Finance, which determines and initiates subsidies, and the Ministry of Decentralization, to which local budgets are submitted for approval. Hence the funding agency makes decisions without direct information about the expenditure requirements and plans of its clients. Moreover, since transfers are not formula-driven, it is not possible to determine whether transfers are used to equalize access to resources across jurisdictions. As a matter of theory, all subsidies, no matter what their eventual use, are supposed to be routed through the *préfectures*. In practice, however, many complaints have been recorded about the tendency for subsidies destined for CUDs or CRDs to never reach their final destination. Presently, there is a lively debate going on about proposed new legislation that would allow subsidies to be transferred directly to their final recipients.

2.2 Tax System Effectiveness

2.2.1 System of collection. Some taxes are collected by CRDs and CUDs entirely for their own accounts, and others are shared between central, prefectural, and local levels. Tax shares destined for the central government pass from the CRD/CUDs to the *préfecture*, then the region. The *Trésorier Principal* at the regional level accounts for the region's expenses, offsets them with the tax shares, and reconciles the balance with the central treasury. The region is also a pass-through point for salaries, subsidies, and other payments by the center to lower levels. (Concerns about delay and corruption at this point led to the proposed law to cut the region out of this payment stream.)

In theory, taxes shared according to a formula provide for greater local autonomy than conditional or cost-reimbursement grants,[15] but the Guinean system in effect restricts autonomy without the offsetting benefits of the other systems, by means of the exercise of strong supervisory power and the approval of local budgets by the *tutelle*. Another compromising factor is the lack of reliable information on the tax-sharing formulas- the percentages in use conflict with the language of the decentralization laws, and the definitive texts are hard to find or non-existent.

While the IMDL and several local taxes are collected by the CRDs and CUDs, the TPU is, in principle, collected by central government tax service representatives at the prefectural level. There is general consensus among Guinean officials and observers that tax collection capacity at the level of the CUDs, and the CRDs especially, is weak, and that both assessments and collections fall far short of expectations. For this reason, representatives of the *tutelle rapprochée* have been involved in support at this level, including the *secrétaires communautaires* (CRD level), *secrétaires communaux* (CUD level), and the treasurers at the regional and prefectural levels. These "technical" personnel sometimes come into conflict with local elected officials and the *préfets*, whose functions are political. On the other hand, the *préfectures* do not have the personnel to collect all taxes for which they are responsible at the local level. As a result, some *préfectures* delegate tax collection to private individuals or representatives of the CRDs and CUDs, sometimes in return for a fee or percentage commission. CRD tax collectors are not specialized; on paper there is a technical service to assist the CRD but in reality they get no help. *Préfectures* cannot handle VAT collection -- it is beyond their capacity. They inspect and collect at all levels. They have agents at the *préfecture* who delegate at the *sous-préfecture* level and these go to the CRD level to assess and recover, even to villages. Sometimes they send the rolls

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15 Bahl (1986).

to the *quartier* chiefs who do the collection alone.

In practice, the amount that the CRDs and CUDs actually receive also tends to depend on who is collecting the tax, and therefore the type of tax. Revenue transfer arrangements between the *préfectures* and the CRDs/CUDs also affect the amount realized by the latter. The CRD/CUD share tends to be guaranteed when they do the collecting and deposit the receipts in a bank, as they are required by MEF procedures to do, and some are now doing. The old practice was to transfer the entire amount collected to the *préfecture*, with the latter dividing the shares. The older practice creates opportunities for undue influence by the *préfectures*, and has usually resulted in the *préfectures* protecting their expected shares at the expense of the local communities when there has been a shortfall in collections. Although the CUDs/CRDs are, in theory, supposed to have technical staff appointed by the center to handle local tax collection and financial control, they generally do not.

2.2.2 Recovery. It is widely assumed that low rates of tax compliance are a significant impediment to the capacities of local governments in SSA. While we present evidence below that substantiates this assertion, the data also show that there is considerable variance in the success rate of regions in collecting taxes, suggesting that it is possible to remediate to some extent the chronic underfinancing of SSA local governments. The under-collection problem is much larger than simply non-compliance, however, and a number of factors must be addressed simultaneously to improve recovery rates.

Several studies, interviews, and data collected show the magnitude of shortfalls in revenue collection. By one estimate, the annual shortfall of tax receipts, from a "normal" overall total, amounts to 5 percent of GDP, i.e. some 150 billion GF.[16] A 1993 workshop revealed annual local revenue collection in the *préfectures* of Forecariah and Kankan of 711 GF and 260 GF per capita, respectively.[17] The *Direction Nationale des Impôts* in 1993 released figures for local tax assessments equaling 0.18 per cent of GDP, about 5.5 billion GF or under 1,000 GF per capita (2800 GF per capita in Conakry, and 500 outside the capital). Worse still, rates of recovery in 1992 and 1993 were estimated at only 23 percent and 14 percent respectively.[18] Among the reasons for this poor performance are: poor economic conditions, a large and difficult to tax informal sector, lack of trained staff and management systems, collusion between corrupt officials and taxpayers seeking improper exemptions or reductions in their tax bills, lack of information by the population on the destination of tax revenue, ingrained attitudes and practices of the old centralized system, and popular perceptions of the unfairness and level of corruption in the system.[19] Additional reasons that can be cited include the existence of a confusing array of

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[16] UNDP (1995) p. 79.

[17] Lebreton (1993) p. E.

[18] UNDP (1995) p. 235.

[19] *Id.*, ARD p. 81-2.

overlapping taxes, particularly in the area of business and real estate levies, and such factors as the halving of the percentage of the *Impôt Minimum pour le Développement Local* (IMDL) to be returned to the urban *quartiers* in 1993, which undercut the incentives of local *chefs du quartier* to pursue the collection of this tax with any real vigor.[20] Local officials cite the late arrival of the necessary tax receipts ("tickets") from Conakry as a factor that delays tax collection. Timing can be important in rural areas where, if collection is delayed beyond the harvest season, farmers may no longer have the means to pay.

One issue on which there is general consensus is that local taxpayers have very little information on the public benefits that their tax payments bring. Studies have shown a substantial increase in taxpayer compliance as a result of information, training, and compliance campaigns. This was an element of the *villes marchés* project financed by USAID, which demonstrated a close link between merchants' compliance with market fee requirements and a major market facility improvement program. By the account of the *Direction Nationale de la Décentralisation* (DND), improved collections have been sustained, and there is demand for further such projects or at least the dissemination of the project's experience into other towns. Apart from problems in collection itself, the oft-cited taxpayer "*réticence*" is abetted by the comparatively opaque system of public sector budgeting, investment planning, and subsidies to localities. A lack of credibility, due to public perceptions of fraud and improper exemptions given to the well-connected, also plays a role.[21] An indication of this is the success of some of the local tax campaigns supported by the *villes-marchés* program. Among the elements of the campaign were posting information and charts concerning official posts and services, making public the amounts of local tax collections, and planning improvements to public amenities such as urban marketplaces and funding them with increased revenue from market fees and taxes. While these approaches were not successful everywhere, in some cases revenue increases were dramatic. Kankan doubled its revenue from market taxes in one year.[22]

Corruption in the system also leads to significant leakages and under-collection; different taxes afford opportunities for different individuals to abuse their positions. Corruption is a problem between different levels of government as well as between agents of the state and private individuals. We have already discussed allegations of transfers destined for CRDs being sidetracked at the *préfecture* level. But other forms of intergovernmental theft also occur. A *préfecture* which is carrying out the collection for taxes which are meant to be divided among several levels of government, for example, may exceed its allocated percentage for a certain tax if recovery is less than 100 percent, by filling their quota first before sharing tax receipts. This is a relatively mild form of abuse but with real negative implications for the lowest levels of government. Several local officials suggested that their community often did not receive their due *ristournes* from central tax collections.

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[20] UNDP (1995) p. 236.

[21] UNDP (1995) p. 171.

[22] Lebreton (1993).

Non-compliance by eligible taxpayers is another problem. Non-compliance varies tremendously by type of tax. Tax officials at all levels of the government were in general agreement that the IMDL was the most easily recovered of all, with some appealing to its history to explain its acceptance by the population as a normal social responsibility. In general, there was widespread consensus that compliance rates could be markedly improved by demonstrating to taxpayers a larger return on public services for their tax contributions. The use of numerous service taxes or fees makes the link between the two more visible, often to the detriment of tax collection. It is evident to the taxpayer whether his or her market taxes, for example, generate improvements in market infrastructure as intended. Some officials also believe that the new presumptive tax (TPU) will lead to significant improvements in compliance rates in the next three years as eligibles realize that less and less of their income can escape taxation.

There was general agreement that the *patente* was the most difficult to collect, on technical grounds because of the number of professional categories covered and the variance in income within each category. The capacity of local officials to collect taxes is limited; few outside of the capital would be able to conduct their own fiscal cadastre and so must depend on the central government-provided census. Depending on the share assignment of tax revenues, it is obvious that for some taxes, the central government has little incentive to maintain accurate tax rolls. Sometimes, capacity is constrained by more mundane reasons. Tax officials in Kindia, for example, get their market tickets to collect market taxes from Conakry but the tickets always arrive late in the year. For rural communities, the timing of collection is important because farmers have money only at harvest time.

Table A.4 provides some evidence on recovery rates for the 38 *préfectures* and Conakry CUDs for which we have both assessments and receipts for each type of tax in 1996. *Préfecture*-level detail is presented in Table A.8 in the Appendix. The top half of the table reports the percentage of assessments that were recovered at the regional level by tax type within the budget category of "fiscal receipts."[23] The bottom half of the table presents some sample statistics of *préfecture* level recovery rates.

First, it is evident at first glance that there is a tremendous amount of variance in recovery rates both with a tax type and across regions. At the regional level, overall recovery rates range from lows in the mid-forty percent to highs in the mid-eighty percent. It is useful to remember that almost 90 percent of revenues flow from IMDL and *patentes* and the sample wide recovery rates for these two taxes are 76 percent and 51 percent, respectively. On the whole, the regional data confirm the assertion that the IDML is relatively easier to collect than the *patentes*, but not overwhelmingly. Intra-regional comparisons might be instructive on this point since the same collection mechanism and capacity is in place for both taxes. These comparisons show significantly higher recovery rates for IMDL in only three of the six eligible regions.

[23] These regional percentages for each tax type are the ratio of total receipts to total assessments in each region, for the *préfectures* for which both assessment and receipts data are available in each tax category. The original data included a number of *préfectures* for which either assessments or receipts exist but these were dropped from the sample.

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Second, for each tax type except the TH, at least one *préfecture* is declaring 100 percent recovery, suggesting that very high recovery rates are feasible across the range of "fiscal receipt" mechanisms. Hence there might be real value to follow-up investigations of some of the very high recovery *préfectures* to identify the conditions that enabled these achievements. Finally, overall recovery rates are reasonably high, with over half of the *préfectures* reporting 70 percent recovery rates for the combination of all tax types in this category.[24]

Table A.4 Recovery Rates for Various Taxes, by Region, 1996 (%)

	IMDL	T.H.	T.F.P.B.	Patentes	Licences	Armes	T.U.V.	All Taxes
By Region								
Kindia	23.0%	4.5%	46.9%	58.8%	40.9%	—	100.0%	47.6%
Boke	52.0%	39.4%	52.2%	40.8%	10.1%	75.5%	99.5%	49.1%
Mamou	100.0%	29.0%	33.1%	48.5%	100.0%	—	250.5%	86.0%
Labe	97.0%	44.1%	45.2%	28.6%	100.0%	—	70.9%	82.1%
Faranah	64.2%	10.9%	27.0%	61.1%	—	17.4%	52.0%	62.0%
Kankan	74.4%	73.7%	90.3%	43.5%	39.4%	—	233.8%	67.7%
N'Zerekore	85.5%	5.4%	5.0%	83.7%	23.0%	100.0%	100.0%	83.4%
Conakry	—	31.7%	24.5%	50.1%	71.3%	—	100.0%	44.1%
All regions	75.5%	31.1%	32.1%	51.4%	50.2%	82.4%	103.6%	58.0%
By Préfecture								
Mean	74.0%	33.2%	31.6%	55.1%	46.3%	79.6%	100.9%	65.4%
Median	94.1%	28.1%	25.2%	57.8%	35.2%	100.0%	100.0%	70.0%
High	103.8%	87.2%	100.0%	108.9%	100.0%	100.0%	407.5%	103.0%
Low	15.4%	1.9%	0.1%	6.7%	3.0%	17.4%	9.0%	8.8%

Unfortunately, it was not possible to obtain any systematic data on recovery rates for the remainder of the tax portfolio of local governments. It should be noted, however, that recalcitrance is a behavior that does not only afflict taxpayers. As Table A.3 makes clear for three local governments, "recovery rates" for transfers from the central government and *ristournes* from higher-level non-central governments can deviate significantly from 100 percent.

2.2.3 Equalization. Although there is clear evidence for some widespread dispersion of wealth across jurisdictions, there is no explicit mechanism designed to equalize resources across jurisdictions. In the *préfecture* we visited, for example, the tax receipts of the wealthiest CRD/CUD in Kindia *préfecture* are about twice those of the poorest. In this particular *préfecture*, the local council has considered and plans to implement a modest system of equalization among the nine CRDs of this *préfecture*. This is a purely local initiative designed to accomplish a function traditionally assigned to higher levels of government. As a policy, it seems

[24] It is entirely appropriate to regard these data with a healthy degree of skepticism. Yet, it is also clear that there is no systematic bias or obvious misreporting. Eleven *préfectures* report 100 percent recovery of the IDML and two report 100 percent recovery of *patentes*. Moreover, half of the *préfectures* report recovery rates over 94 percent for the IDML and 58 percent for the *patentes*.

to exist with no national counterpart, although other regions appear to also be considering some program of equalization.

2.3 Potential for Increasing Local Revenues

In the absence of any authority to alter the tax base, raise rates, or introduce new instruments and with little apparent influence in rationalizing transfers and no special avenues for borrowing, local communities are left with the option of increasing recovery rates to increase local revenues. This means they must turn to raising compliance rates, reducing corruption, and increasing efficiency. Estimating the potential of local communities to raise revenues is a complex exercise which is beyond the scope of this project. Nevertheless, we have a good sense of what recovery rates can be like, since some communities do much better than others with their recovery and this provides guidance as to where recovery rates might reasonably be expected to finish, given improvements in any or all of the three major factors influencing recovery rates.

We can use the data on assessments and recovery of previous sections to create a simple, deterministic model to estimate the impact of improving certain recovery rates. The objective of this exercise is to estimate a reasonable upper bound on what one set of taxes ("fiscal receipts") from the portfolio available to local jurisdictions could contribute to local financing. This simple model relies on the application of threshold recovery rates based on sample statistics to under-collecting *préfectures* without discussing explicitly how these recovery rates could be accomplished. Thus it assumes that there is nothing exceptional about the conditions enabling high recovery in some jurisdictions and that these conditions could be replicated elsewhere. In this simple model, the benefits of improving collection rates are distributed mechanistically among the various levels of local jurisdictions by applying the allocation formula detailed in Table A.1. From this allocation, one might assume that if collection is undertaken by the CUD/CRD, it will apply its marginal resources to the collection of IMDL first, whereas if the *préfecture* is charged with collection, its representatives will focus their additional efforts on the *patente* and the TPU.

Table A.5 first presents the recovery rates for each tax type of the 50th, 75th, and 90th percentiles of jurisdictions for which recovery data are available for each tax type. These rates are compared to actual recovery rates and the higher of each comparison pair is applied to the assessment of each jurisdiction to yield the estimated receipts for that jurisdiction. The first block reports total baseline and estimated receipts along with percentage increases resulting from all jurisdictions meeting or exceeding the percentile thresholds. The second and third block distribute receipts according to the formula of Table A.1.[25]

The most conservative assumption of this model, that all jurisdictions can bring their collection rates up to the median level for the sample for each tax, would yield an additional 1.6

[25] The following assumptions were used in allocating receipts where existing information is silent or contradictory on the current allocation: Patente: 15% *Préfecture*, 15% CUD/CRD; TH: 50% *préfecture*, 50% CUD/CRD; TUV: 12.5% CUD/CRD, 12.5% *préfecture*.

billion GF (an increase of 31 percent) annually. Approximately one third of a billion GF would accrue to the *préfectures* in the sample and approximately three quarters of a billion GF to the CUD/CRDs located in these jurisdictions. Under the most optimistic assumption, total "fiscal receipts" would increase by 3.1 billion GF (a 60 percent increase). To put these figures in perspective, it costs a CRD approximately 6 million GF to construct a local meeting house. It is likely that these estimates of potential are biased downward because they omit jurisdictions with no data; presumably these jurisdictions have lower recovery rates and hence greater potential for revenue growth through better collection.

Table A.5 Potential Increases in "Fiscal Receipts", 1996 GF

	IMDL	T.H.	T.F.P.B.	Patentes	Licences	Armes Feu	T.U.V.	All
Recovery Rate, by Tax and Percentile								
50th Perc	94.1%	28.1%	25.2%	57.8%	35.2%	100.0%	100.0%	
75th Perc	100.0%	56.0%	52.2%	74.4%	74.4%	100.0%	100.0%	
90th Perc	100.0%	74.8%	73.8%	82.5%	100.0%	100.0%	100.0%	
Increase in "Fiscal Receipts" from applying new recovery rates								
Baseline	2,361,252,150	158,032,237	428,165,360	2,024,306,765	3,525,000	2,646,650	296,065,684	5,273,993,846
50th Perc	3,358,706,345	199,430,248	527,164,417	2,491,992,204	4,104,199	3,148,750	314,838,779	6,899,384,942
75th Perc	3,478,727,500	316,231,617	668,252,645	2,963,890,507	6,213,929	3,148,750	314,838,779	7,751,303,727
90th Perc	3,478,727,500	413,881,024	930,635,181	3,267,073,393	7,570,000	3,148,750	314,838,779	8,415,874,627
Percent Increase in "Fiscal Receipts" from applying new recovery rates								
50th Perc	42.2%	26.2%	23.1%	23.1%	16.4%	19.0%	6.3%	30.8%
75th Perc	47.3%	100.1%	56.1%	46.4%	76.3%	19.0%	6.3%	47.0%
90th Perc	47.3%	161.9%	117.4%	61.4%	114.8%	19.0%	6.3%	59.6%
Préfecture Only, Increase in "Fiscal Receipts" from applying new recovery rates								
Baseline	590,313,038	79,016,119	0	303,646,015	1,762,500	0	37,008,211	1,011,745,881
50th Perc	839,676,586	99,715,124	0	373,798,831	2,052,099	0	39,354,847	1,354,597,488
75th Perc	869,681,875	158,115,808	0	444,583,576	3,106,964	0	39,354,847	1,514,843,071
90th Perc	869,681,875	206,940,512	0	490,061,009	3,785,000	0	39,354,847	1,609,823,243
CUD/CRD Only, Increase in "Fiscal Receipts" from applying new recovery rates								
Baseline	1,416,751,290	79,016,119	214,082,680	303,646,015	1,762,500	2,646,650	37,008,211	2,054,913,464
50th Perc	2,015,223,807	99,715,124	263,582,208	373,798,831	2,052,099	3,148,750	39,354,847	2,796,875,667
75th Perc	2,087,236,500	158,115,808	334,126,323	444,583,576	3,106,964	3,148,750	39,354,847	3,069,672,769
90th Perc	2,087,236,500	206,940,512	465,317,590	490,061,009	3,785,000	3,148,750	39,354,847	3,295,844,209

2.4 Resource Mobilization Alternatives

2.4.1 Fees. An alternative type of resource mobilization is fees for services. One could consider the *villes-marchés* program as being a kind of fee-for-service program, since market stand rental fees and taxes were identified with a specific set of improvements to the public marketplaces. Another area where this has been used with some success in Guinea has been in vaccination programs, where reasonable fees (100 to 2000 GF) have been charged to willing parents having their children vaccinated.[26] This approach has been under-utilized in the education sector, but by one estimate, the potential for school fees that could have been raised in the 1992-3 school year was some 56 million GF for primary schools in Conakry alone, and some 333 million GF for secondary schools throughout Guinea.[27]

2.4.2 Contribution of NGOs and associations. As stated earlier, some 80 percent of Guinea's overall public investment budget comes from international donors, and by one estimate, at least 10 percent of local investment is funded by local private resources. This takes several forms. Within the local communities themselves, the *Associations Parent-Elève*, as in other societies, are heavily involved in the running of local PTAs or schools. In Guinea, this appears to go along with substantial resource commitments by the members -- in the form of building materials, labor time, and financial contributions. Health and other facilities are often managed by local *Comités de Gestion* which also contribute labor time and other resources, and oversee the operation of these facilities. As expected, the commitment of resources by those involved fosters a sense of ownership and an expectation of appropriate use of committed resources. However, many express doubts about the transparency and propriety of local resource management and governance -- of all kinds, but above all in the official arena. Experience with private groups may be better, but this issue has not been well studied.

An additional factor are the *Associations des Ressortissants*, organizations in the major cities that provide assistance to the home regions (*préfectures*) of their members. These associations apparently supply a significant amount of the private resources that are used for social infrastructure and services. Members meet to decide about projects and to raise subscriptions for their support. These organizations are most common among individuals from the Fouta Djallon region. It is not uncommon for a given project to have some support from government, international donors, and private groups locally and in the major cities. Some of this activity also proceeds in parallel, with private groups making independent investment decisions without involvement by the official structure -- hence the complaints of some officials of failures of coordination and skewed distribution of social services. The advantages that private groups have over the government in this area include not only greater motivation and more legitimacy, but also the apparent ability to draw on the services of more highly educated people -- at least with respect to local development.

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[26] UNDP (1996) p. 224.

[27] UNDP (1996) p. 234.

It is impossible to say with certainty which types of associations raise the most resources for development in Guinea, although it is likely that the *Associations des Ressortissants* raise more -- at least in terms of financial resources -- for their particular localities than local groups on the ground. In the budgeting of national sectoral investments, private local participation -- in terms of labor and materials -- is commonly valued at 20-25 per cent of the total.[28] Among the development projects completed by local NGOs (largely in their communities of origin) are the following:

194 classrooms built by 18 NGOs
375 km of rural roads built by 10 NGOs
36 health stations built by 5 NGOs
27 boreholes drilled by 9 NGOs for their communities
10 mosques built.[29]

2.4.3 Challenges to private resource mobilization. An important concern here is the fact that all associations and political parties must be authorized by the *Service de Coordination des Interventions des ONGs* (SCIO) of the DND. New NGOs receive provisional recognition for two years before obtaining their charters from the DND, which reserves the right to dissolve them if they break the law or threaten public order. Economic and "apolitical" associations have more freedom, i.e. less scrutiny, than human rights groups and political parties. It should also be borne in mind that the formal NGO sector in Guinea is quite new, its approximately 450 members having come into being since 1985. Apparently, a relatively small proportion of this number are actually in operation.[30] The newness of the NGO movement and its involvement in social services and infrastructure presents other challenges. By one assessment, despite their involvement in the evaluation and physical improvement of schools, the *Associations Parent-Elève* are generally ineffective in Guinea, due to the long state domination of the education sector and the passive attitude of most people towards this system. This same problem appears in the health sector. One result of the lack of local responsibility exercised over health centers is a significant level of embezzlement and other wrongdoing in those centers. On the other hand, where local associations are active in creating new facilities, the state is not always able to live up to its responsibility to provide the necessary personnel and other support.[31]

[28] Africare (1996) p. 71.

[29] Africare (1996) p. 69-70.

[30] Africare (1996) p. 58-60, ARD p. 64.

[31] Africare (1996) p. 38-9, UNDP (1995) p. 224.

3. Expenditures on Local Public Services

3.1 Budget and Expenditure Processes

3.1.1 Budgeting. The budgeting issues that affect local communities most directly in ways relevant to the current study are the preparation of the triennial and annual social investment budgets, and the preparation of annual local and *préfecture* budgets. The process of approval of local CRD/CUD budgets presents several problems. At the community level, the previous year's operating expenses (estimated to average 80 percent of all the communities' budgeted public expenses) are taken into account, as well as proposals by members of the councils concerning needed investments in their *quartiers* or districts -- these latter can be the subject of items in the CRD/CUD and prefectural budgets, the national investment program, donor-cofinancing, and/or associational coproduction. Prefectural budgets go up the line to the region and then to the *Direction Nationale du Budget* (DNB) in the Ministry of Economy and Finance (MEF) for approval. CRD and CUD budgets go via the *préfectures* and regions (which exercise preliminary approval authority) to the DND in the MATD for approval -- specifically to the *Division de la Tutelle Financière*. Officials of the MEF complain about this, saying that DND personnel are not part of the chain of public accountants, and therefore have neither the skills nor the accountability to the *Directeur National du Trésor* to handle the job properly. Moreover, these separate approval processes do not foster coordination between *préfecture* and CRD/CUD budgets.

There are also reports of undue influence by the DND over local community leaders in this process -- including the solicitation of bribes for expedited approval. In any event, the system of approval is non-transparent and subject to no apparent policy criteria -- apart from the need for budget balance, feasibility, policy consistency, and in some cases a rough proportionality between operating and capital budgets. Moreover, community leaders are sufficiently concerned about winning the favor of responsible central officials that some of them travel to Conakry to negotiate over the approval of their budgets, and some arrange expensive receptions on the occasion of visits by the *préfet* to their localities. This reinforces the overwhelming dependence of local communities on the center in the Guinean governance structure.

The programming of expenditures, hence the distribution of resources regionally within the public sector, is highly centralized. Little or no input is solicited from the field, and the shares of lower levels of government are determined more or less unilaterally, without much coordination between the center and lower levels. In order to look after their interests, accountants from the field travel frequently to Conakry to access their share of the budget. Both within the central government, between central and deconcentrated levels, and between central government and the local communities, there are many reports of rent-seeking in the expenditure allocation process. Lower-level budget directors complain that, in order to obtain an adequate allocation, they must promise a percentage of their allocation as a kind of commission to the disbursement agents. This process results in the center taking the lion's share of the national budget -- a typical example being a ministry in which 70 percent of the operating budget went to the ministry's offices in

Conakry.[32]

At the end of the day, the official budgeting and allocation processes in Guinea are of somewhat limited importance currently, in view of the fact that national resources cover only an estimated 20 percent of the overall de facto national investment budget, with the rest coming from donor organizations. Moreover, at the local level, these sources cover perhaps 90 percent of overall social investment, with an estimated 10 percent coming from resources and effort supplied by local associations and their representatives in major Guinean cities (see below). In terms of central/local comparisons, the total 1993 budget for the city of Conakry, the CUDs, and the CRDs is estimated to equal some 4 percent of central government expenditures (not including debt service).[33]

3.1.2 Investment programming. The social infrastructure investment process involves both central projects (including projects proposed at the prefectural level) that are part of the *Programme des Investissements Publics* (PIP), and the *projets de microréalisation*, in which local communities seek central (and international) support for small-scale public goods investments. The approval process for the latter has been described as follows:

Submission of financing requests to the MATD
Selection of projects and transmission to Ministry of Plan
Cost appraisals by accounting firms
Opening of a tender
Evaluation of offers by the *Direction Nationale des Investissements Publics* (DNIP), DND, and prefectural officials
Notification letter by MATD
Drafting of contracts
Award and appraisal
Advance payment
Implementation and oversight.[34]

The public investment process at the central level in Guinea involves the submission of proposals to the DNIP by sectoral ministries, their approval as part of the PIP, and in the annual *loi des finances*. The approval process at the DNIP is based in part on the *carte scolaire* and *carte sanitaire* which, in principle, reflect the level of services and infrastructure already available to the community. The criteria for these determinations are quite flexible, opening up areas of discretion that may in some ways be useful, but at the same time subject to political pressures -- not an unexpected result in any system, especially one involving a recently-created and increasingly aggressive legislative assembly including members elected from local constituencies.

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[32] ARD p. 79-83.

[33] UNDP (1995) p. 234.

[34] UNDP (1995) Annex 3.

Subsidies to local communities tend to follow the same criteria, although their limited amounts and linkage to specific short-term needs make them a less worrisome and less important issue. Since the National Assembly elections, the deputies elected from geographic constituencies have begun to represent their home districts in the budget and investment processes. By all accounts, the forest region of Guinea has been the most disadvantaged in this area -- perhaps a result of the Malinke and Sousou domination of Guinean politics since independence -- and there is no equalization formula to make up for it.

The annual PIP included in the budget law, though theoretically part of a rolling 3-year investment program, is in fact determined by horse-trading (*"sessions d'arbitrage"*) between sectoral ministries (and in some cases local *préfets*) and the DNIP. The result of these negotiations is a draft PIP that is subject to further change -- first, through paring down by the DNB, based on unstated macroeconomic and fiscal imperatives, to a level actually consistent with fiscal resources; and second by the existence of off-budget projects financed by ongoing donor commitments and not included in the formal PIP but part of the *de facto* investment program.[35] By one account, the PIP essentially reflects the DNIP's understanding of donor priorities, although no comprehensive information on external grants is available to officials and others for purposes of comparing and coordinating the nationally-funded part of the PIP (*Budget National de Développement* or BND), the donor-funded portion (*FINEX*), and for coordinating the two (and indeed for distinguishing expenditures made under each rubric).[36] In its implementation, the national budget is subject to mid-year revisions (a *loi rectificative* is developed), in practice largely aimed at adjusting for revenue shortfalls. The government has established a hierarchy of priority expenditures that trump others (at least within the operating budget) in such cases of shortfall; these include the public wage bill, international debt service, Ministry of Foreign Affairs expenditures, and security, particularly military, expenditures.[37]

3.1.3 Local expenditure process. CRDs and CUDs, as well as *préfectures*, also have capital and operating budgets. In principle, the local budgets are constructed to take into account projects proposed at the district and *quartier* levels. Especially in light of the share of taxes going to, and being programmed by, the *préfectures*, this whole process is dominated by the *tutelle*. One example of a CRD investment budget contained a majority of such "investment" items as improvements to the *sous-préfet's* residence, administrative buildings, etc. The amount destined for social investment -- latrines and a dispensary -- was derisory. The law attributes certain tax receipts to capital vs. operating expenses, and does not permit the use of the capital budget for operating expenses.[38] Even while local tax collections are extremely feeble, the *préfectures* in many cases draw on the CUD and CRD budgets for their needs, including salary payments for

[35] World Bank, Country Economic Memorandum (1996) p. 28.

[36] World Bank, Public Expenditure Review (1996) p. 50-51, UNDP (1995) p. 110.

[37] *Id.* at p. 56, UNDP (1995) p. 119-120.

[38] *Ordonnance* 091- Articles 34, 50-51.

prefectural staff. This has helped undermine the ability of local communities to finance public investments. At the same time, the central government pays the costs, mainly operational, of the *services déconcentrés* that are meant to serve or cooperate with local communities -- the 1993 total for these "subsidies" to the local level is given as 2.7 billion GF.[39]

What expenditures are carried out through the state are subject to delay and failure of control. Multiple controls result in long delays in the execution of expenditure decisions by the central government. Typically, only 70 percent of centrally budgeted funds are spent in the budget year.[40] Expenditures under the PIP have been described by the World bank as "extremely complex and lengthy," and payment delays in this context are suspected of being used intentionally to disrupt programs and to shift expenditure priorities informally.[41] Delays in government payments can further harm the treasury, since they sometimes cause the state to incur contractual penalties.[42]

Apart from investments approved as part of the national plan and the annual finance law (see below), transfers from the central to the local level (i.e. CRDs, CUDs, and *préfectures*) take the form of ad hoc transfers (referred to as *subventions* or *aides de l'état*) for emergencies, funding shortfalls for selected local investments, etc. Transfers to the CRDs/CUDs are the subject of a legislative proposal that would require the funds to be put directly at the disposition of local communities, rather than being disbursed by the *préfectures*,[43] as in the current system, or alternatively to require immediate disbursement by the *préfectures.* There are no discernible criteria for the distribution of such funds, a level of official discretion that clearly gives rise to opportunities for collusion and abuse, as well as distortions.[44]

Moreover, sources such as the World Bank confirm the existence of massive disbursement of funds, by central, deconcentrated, and decentralized government units, without proper documentation.[45] As for the problem of unapproved expenses at the local level, DND officials attribute this to the lack of training and understanding by mayors and CRD presidents. Given the

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[39] UNDP (1995) pp. 237 and 240.

[40] UNICEF (1995).

[41] World Bank, Public Expenditure Review (1996) p. 54-5.

[42] UNDP (1995) p. 124.

[43] These funds are currently made available by the regional *Trésoriers Principaux* to the *préfectures*, which then provide them to the local communities. The DNT admits that this process is slow and cumbersome.

[44] The DND has expressed interest in getting help with the definition of standards and criteria in this area.

[45] The ratio of actual to authorized payments in certain sectors has reached as high as 500 percent, with overall ratios of 156 percent in 1993 and 111 percent in 1994 for central expenditures. World Bank Country Economic Memorandum (1996) p. 31.

state of information on this issue, in many cases one can only imagine what the relationship of expenditures to budgets at this level is really like.

3.2. Financial Control

Accounting and audit functions in Guinea are weak and hard pressed to keep any control on rampant corruption. The World Bank Country Economic Memorandum cites problems of corruption in petty extortion, embezzlement, civil service fraud, customs duty exemptions, and procurement.[46] The Penal Code and Article 12 of the Civil Code spell out standards of behavior and sanctions for public officials, but these appear generally not to be enforced.[47] Moreover, any judicial check on government action is undermined by the courts' tendency to side with the government.[48] This is no doubt encouraged by the executive-dominated appointment procedures envisioned by the constitution and the organic law.[49]

3.2.1 Internal control. Within the MEF, the Treasury (*Direction Nationale du Trésor* or DNT) is responsible for government accounting -- controllers are placed at the regional and prefectural levels, and provide their accounts to and submit to the discipline of the *Directeur National du Trésor*. At the local community level, there are supposed to be *receveurs* who send local accounts to the Treasury,[50] although this has not been implemented (see below). As a result, for example in the CRDs, the *secrétaires communautaires* have taken on accounting functions, even though they are generally not trained for it. Internal control is exercised by the Inspectors General within each ministry, the *Inspection Générale d'Etat* (IGE), and the *Inspection Générale des Finances* (IGF). The inspectors in the Ministries carry out occasional audits at the request of their ministers. There are also inspectors in each region, who visit the *préfectures* to monitor expenditures, at least in principle. The IGE and IGF operate with a total of about 45 inspectors and controllers. The IGE exercises direct financial control over all agencies of the executive, and reports to the President. The IGF, created under an *arrêté* of the MEF and reporting to the Minister, oversees the work of all accountants and managers of public funds. The work of the ministerial IGs and the IGF concerns the present budget year, while the IGE's control is *a posteriori*. Neither the IGE nor the IGF has budgetary autonomy nor sufficient personnel, pay, and other resources to exercise its functions properly.[51] There is also a *Brigade de Vérification du Trésor*, charged with overseeing all stages of the work of government accountants under the

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[46] World Bank Country Economic Memorandum (1996) p. 37.

[47] ARD p. 86.

[48] ARD p. 66.

[49] Constitution, Article 81; *Loi Organique* L/91/008, Article 10; *Loi Organique* L/01/011, Article 2.

[50] *Décret* No. 91/167/PRG/SGG, section 2.

[51] World Bank, Public Expenditure Review (1996) p. 73, ARD p. 87-8.

authority of the Treasury.[52]

The limited authority of these entities renders them incapable of dealing with the pervasive failure of government agencies to conform their expenditures to the annual budget law, and to sanction late submission of accounts. What findings they announce tend to be ignored. Moreover, the IGE is especially known as a haven for patronage appointees, with the expected result that it shows little initiative in preventing or pursuing irregularities. These failures of control encourage waste and improper use of government resources, a budget that has little impact on many types of expenditures, and an intensifying problem of undermotivation and evasion among taxpayers.[53] Further, the internal control mechanisms that are supposed to exist at the local level do not exist in fact -- the appointment of *receveurs communautaires* required by law has generally not taken place, due in part to lack of resources, with the result that the *sous-préfets adjoints* and *secrétaires communautaires* are performing both expenditure programming and accounting functions at the local level.[54]

3.2.2 Audit. External control is, in effect, virtually non-existent. Article 61 of the constitution and Article 35 of the organic law of the Supreme Court place responsibility for *a posteriori* control of compliance with the annual budget law *(loi des finances)* in the hands of the *Chambre des Comptes*, which reports, in principle, to the President and the National Assembly. Local and national accounts go to the *Chambre des Comptes* once they have been processed and (in the case of local accounts) consolidated by the DNT. The *Chambre des Comptes* replaced the former *Cour des Comptes*, and under the new system operates as a section of the Supreme Court under the authority of the President of the Supreme Court. The other two sections of the Supreme Court include one handling civil and criminal appeals, and one handling administrative and constitutional matters. The chamber has jurisdiction over the *Directeur National du Trésor* (the principal government accountant), the prefectural treasurers, and the *receveurs communaux* and *communautaires*.[55]

Local accounts are frequently provided late, and in many cases are not provided at all. National accounts have only begun to arrive at the *Chambre des Comptes* after a five-year delay following the chamber's establishment under the new constitution and the organic laws that followed shortly thereafter -- despite an administrative requirement that the year's accounts be submitted to the chamber no later than September of the following year. The requirement that all public accounts -- local and national -- be consolidated and passed on to the chamber by the DNT, rather than being transferred directly, appears to cause the biggest bottleneck. As of mid-1996, the Treasury was liable to the *Chambre des Comptes* for 50 billion GF in fines for late submission

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[52] UNDP (1995) p. 128.

[53] UNDP (1995) p. 130-1.

[54] UNDP (1995) p. 241.

[55] UNDP (1995) p. 129.

of accounts.[56] An *arrêté* imposed on the Treasury by the chamber for 36 billion GF of unjustifiable payments discovered in the accounts for 1989 has been ignored.[57]

The *Chambre des Comptes* has clearly been marginalized as a control point, as evidenced by the absence of any sanction for late submission of accounts, and the fact that the President of the Supreme Court is appointed by the President. By one account, the incumbent is a political crony of the President and does not allow critical auditing reports to be released. Moreover, the staff of the *Chambre des Comptes* are civil servants who owe their appointments as auditors to the MEF (DNT) as well as the *Ministère de la Réforme Administrative et la Fonction Public*,[58] and hence have no autonomy in auditing these (and in effect other) ministries. The small staff of the *Chambre des Comptes* deals with all central, local, and state enterprise accounts -- a task that would hardly be feasible for them even in the best of circumstances.[59] Moreover, they are subject to the universal problems of low civil service pay -- the top rate reaches only about 350,000 GF (approximately U.S. $350) per month -- and inadequate training.

Additional means of external control exist. To combat embezzlement, the government created the *Agence Judiciaire de l'Etat* by decree (93/170/PRG) in 1993, for the purposes of recovering debts owed to the state. Its rather dismal success rate of 6.6 per cent in 1994 has been attributed to problems of cooperation with the police, judicial corruption, interventions by high officials, and the limits of binding arbitration in certain cases.[60] Procedures also exist for obtaining independent audits of government programs from private accounting firms, but these are subject to the same overall governance constraints, since their reports are not made to an autonomous audit agency.

3.2.3 Oversight. The National Assembly is only at the very beginning of its task of imposing discipline on budgeting and expenditures. The Assembly's *Commission des Finances et de l'Economie*, headed by Mr. Sekou Soumah (a PUP deputy), has little capacity to develop budget estimates independent of those provided by government, and has not been involved in the approval of prefectural budgets; this has been a preserve of the MEF until now, although prefectural budgets form part of the central government budget. Given the failure of the financial control system, there is little reason to think that the information they are provided on budget execution is reliable. Moreover, while the Constitution provides the Assembly with the authority to call Ministers and officials for questioning, there exists no power of contempt to compel

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[56] World Bank, Public Expenditure Review, p. 50.

[57] UNDP (1995) p. 132.

[58] Initial nominations are made by the President of the Supreme Court.

[59] ARD p. 88-9. In the French model that their system is based on, there are regional *Chambres des Comptes* which audit lower-level public spending, and from which there are appeals to the central level. Brown (1983) p. 34-5.

[60] UNDP (1995) pp. 129 and 132.

officials to respond. Article 73 of the constitution and the organic law governing the Assembly together undermine the binding character of official testimony before legislative commissions and severely limit access to committee hearings and findings.[61] Finally, while the commission intends to exercise some power of control over government expenditures, to date it has not yet convened an inquiry into government accounts or expenditure decisions. Some deputies, particularly opposition deputies elected from geographic constituencies, have expressed an intention to examine the nature and effects of government expenditure in their constituencies; however, their ability to do so will again be limited by information and other constraints. There are unconfirmed reports that MPs, especially members of the opposition, have in effect been denied access to their local constituents by MATD officials who have withheld them permission to hold political meetings.[62]

Some observers in Guinea were encouraged by President Conté's 1996 creation of the extraconstitutional position of Prime Minister, and his appointment of Sidaya Touré, an Ivoirian with a reputation for competence and incorruptibility. Mr. Touré was given powers over the economic ministries, with the apparent goal of improving integrity in these areas, tracking government expenditures, and thereby increasing the government's credibility. Mr. Touré's mandate was changed in early 1997 so that his portfolio is general, and the Ministries of Economy and Finance, and Plan and Cooperation, now report to the President, not the Prime Minister. This has led to speculation that the President was, in effect, diluting Mr. Touré's control over the economic ministries for the President's own purposes, and elevating ministries more closely linked to him.

3.2.4 Procurement. Government procurement, predictably, is among the most problematic areas of expenditure control, if not the worst. Currently, implementation of central investment projects is handled by DNIP, the Ministry of Public Works, and the relevant sectoral ministries. Tenders are put out and selections made centrally. Severe weaknesses in the procurement system result, by most accounts, in massive corruption. By one account, each of the relevant ministries -- MEF, Planning, Public Works, and the relevant sectoral ministry -- takes its cut from the winning contractor, who is compensated through overinvoicing and other means.

Added to this set of problems, the central government's ability (even assuming serious intent) to supervise from the capital projects executed in the interior appears to be quite minimal. Affected communities appear to have little voice in this, and perhaps little incentive as well, since the budget for these projects is not under their control -- nor is much known about it. This system substituted for a previous arrangement under which local public works were handled at the prefectural level. Central officials have described this as an unacceptably corrupt system -- a result of limited capacity for evaluation, selection, and control at the prefectural level. It is fair to say that the newer system also shows signs of being quite inadequate. The two interministerial

[61] L/91/015 of December 23, 1991, ARD p. 62.

[62] IFES p.8.

commissions dealing with public works projects are said to be under constant pressure from ministers to favor particular vendors. In cases where the responsible procurement agent refuses to succumb to this pressure, then procurement orders have been canceled.[63] Most accounts indicate that problems exist with locally, private, and donor-financed projects as well, although some report that they are less severe. Moreover, the *Génie Rural*, charged with agriculture-related projects, has maintained a reputation for effectiveness. These are among the reasons for a proposal before the National Assembly to move procurement directly to local levels, or at least to bypass the prefectural level in the provision of central government subsidies to the local levels.

By one very rough estimate, losses and excessive costs due to faulty procurement practices amount to some 100 billion GF per year across all sectors, including some 15 to 20 billion GF directly affecting social investments in such areas as education and health.[64] There are even alleged to be corrupt arrangements between vendors to the public sector and government accountants charged with project control, under which the latter demand bribes to speed their review or look the other way.[65]

[63] A third committee, under the authority of the MEF, has oversight and advisory powers in this process. UNDP (1995) p. 136-7.

[64] This can be compared, for example, with a typical national education budget of 51 billion GF, for 1994. UNDP (1995) pp. 74 and 137.

[65] UNDP (1995) p. 123, *Renforcement des Capacités*.

Table A.6 Assessments: Préfectures with data available for all taxes (except Licences and Armes), 1996 GF							
Region	**Préfectures**	**IMDL**	**T.H.**	**T.F.P.B.**	**Patentes**	**T.U.V.**	**Total**
Boke	Fria	35,922,000	11,316,558	169,675,009	280,775,930	7,995,000	505,684,497
	Boffa	90,600,000	1,617,000	1,944,000	15,689,200	3,727,500	113,577,700
	Gaoval	106,022,000	1,256,000	342,000	4,098,321	1,758,000	113,476,321
	Boke	126,054,000	6,011,940	1,002,136	29,299,998	8,175,000	170,543,074
	Koundara	66,886,000	1,730,360	44,430	14,213,310	2,015,000	84,889,100
Faranah	Kissidougou	150,870,000	1,694,180	646,242	52,254,750	8,662,500	214,127,672
	Dabola	66,956,000	2,528,400	3,175,750	6,528,000	3,200,000	82,388,150
	Faranah	103,676,000	6,593,920	10,154,280	25,084,709	6,187,500	151,696,409
	Dinguiraye	79,084,000	680,580	275,724	9,736,000	2,056,250	91,832,554
Kankan	Kouroussa	105,912,000	1,635,789	707,040	3,010,000	1,393,750	112,658,579
	Kankan	192,378,000	15,547,150	7,903,800	173,725,415	6,631,250	396,185,615
	Siguiri	196,178,000	3,200,000	2,750,180	35,195,346	2,230,000	239,553,526
	Kerouane	82,246,000	3,725,525	1,666,066	69,801,302	2,534,525	159,973,418
	Mandiana	111,429,400	760,000	620,000	8,500,000	1,581,250	122,890,650
Kindia	Kindia	148,040,000	30,336,528	132,647,493	187,133,603	14,000,227	512,157,851
	Telimele	156,220,000	3,198,920	1,333,320	5,839,162	1,662,500	168,253,902
	Dubreka	18,464,000	3,336,124	20,712,712	47,117,305	938,750	90,568,891
	Coyah	34,956,000	3,830,980	11,524,463	66,584,138	3,753,750	120,649,331
Labe	Koubia	67,416,400	977,461	754,183	3,137,656	525,000	72,810,700
	Tougue	94,138,000	2,293,941	1,184,650	20,053,371	4,031,250	121,701,212
	Mali	64,884,600	2,343,384	1,761,276	6,235,999	5,900,000	81,125,259
	Lelouma	117,926,000	264,230	929,288	7,986,312	2,443,750	129,549,580
	Labe	168,428,000	12,854,366	4,474,828	97,482,834	11,858,750	295,098,778
Mamou	Mamou	45,704,300	18,589,988	15,112,887	51,948,851	4,052,500	135,408,526
	Dalaba	98,090,000	2,083,250	849,900	14,208,665	895,000	116,126,815
N'Zerekore	Beyla	143,232,000	5,783,870	3,449,540	21,433,325	1,850,000	175,748,735
	Lola	86,062,000	1,941,950	1,212,440	30,616,635	2,565,000	122,398,025
	N'Zerekore	160,194,000	10,781,860	7,566,360	121,429,581	12,738,800	312,710,601
	Macenta	147,104,000	6,241,135	5,504,040	48,749,971	7,086,750	214,685,896
Total:		4,153,802,100	199,520,933	437,823,119	1,841,705,211	166,926,577	6,799,777,940
Allocation:		61.09%	2.93%	6.44%	27.08%	2.45%	100.00%

Table A.7 Assessments: Préfectures with data available for all taxes (except Licences and Armes)

Region	Préfectures	IMDL	T.H.	T.F.P.B.	Patentes	T.U.V.
Boke	Fria	7.1%	2.2%	33.6%	55.5%	1.6%
	Boffa	79.8	1.4	1.7	13.8	3.3
	Gaoval	93.4	1.1	0.3	3.6	1.5
	Boke	73.9	3.5	0.6	17.2	4.8
	Koundara	78.8	2.0	0.1	16.7	2.4
Faranah	Kissidougou	70.5	0.8	0.3	24.4	4.0
	Dabola	81.3	3.1	3.9	7.9	3.9
	Faranah	68.3	4.3	6.7	16.5	4.1
	Dinguiraye	86.1	0.7	0.3	10.6	2.2
Kankan	Kouroussa	94.0	1.5	0.6	2.7	1.2
	Kankan	48.6	3.9	2.0	43.9	1.7
	Siguiri	81.9	1.3	1.1	14.7	0.9
	Kerouane	51.4	2.3	1.0	43.6	1.6
	Mandiana	90.7	0.6	0.5	6.9	1.3
Kindia	Kindia	28.9	5.9	25.9	36.5	2.7
	Telimele	92.8	1.9	0.8	3.5	1.0
	Dubreka	20.4	3.7	22.9	52.0	1.0
	Coyah	29.0	3.2	9.6	55.2	3.1
Labe	Koubia	92.6	1.3	1.0	4.3	0.7
	Tougue	77.4	1.9	1.0	16.5	3.3
	Mali	80.0	2.9	2.2	7.7	7.3
	Lelouma	91.0	0.2	0.7	6.2	1.9
	Labe	57.1	4.4	1.5	33.0	4.0
Mamou	Mamou	33.8	13.7	11.2	38.4	3.0
	Dalaba	84.5	1.8	0.7	12.2	0.8
N'Zerekore	Beyla	81.5	3.3	2.0	12.2	1.1
	Lola	70.3	1.6	1.0	25.0	2.1
	N'Zerekore	51.2	3.4	2.4	38.8	4.1
	Macenta	68.5	2.9	2.6	22.7	3.3
Mean		67.9%	2.8%	4.6%	22.2%	2.5%

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Table A.8: Recovery Rates

Region	Préfectures	IMDL	T.H.	T.F.P.B.	Patentes	Licences	Armes	T.U.V.	All Taxes
Boke	Boffa	15.4%	—	—	78.3%	11.1%	—	100.0%	27.2%
	Boke	22.7	—	—	30.8	3.0	19.2	100.0	27.9
	Fria	16.7	35.4	52.2	38.4	—	—	98.4	42.4
	Gaoval	100.0	75.9	73.8	72.8	—	100.0	100.0	98.7
	Koundara	100.0	—	—	59.6	38.7	—	100.0	93.0
Conakry	Dixinn	—	53.8	0.1	9.9	—	—	—	24.8
	Kaloum	—	87.2	2.7	41.8	—	—	—	36.1
	Matam	—	17.3	4.5	44.4	100.0	—	—	34.6
	Matoto	—	1.9	2.3	17.2	—	—	—	8.8
	Ratouma	—	27.3	2.7	6.7	15.9	—	—	13.6
	Ville de ..	—	—	54.4	70.8	40.0	—	100.0	70.0
Faranah	Dabola	91.3	3.6	25.2	61.6	—	17.4	69.1	82.6
	Dinguiraye	93.7	—	—	72.3	—	—	41.5	90.2
	Faranah	40.8	13.6	—	79.8	—	—	25.6	45.8
	Kissidougou	52.9	—	35.7	49.9	—	—	67.1	52.7
Kankan	Kankan	36.4	—	—	37.6	31.8	—	407.5	43.5
	Kerouane	35.4	—	—	41.9	—	—	100.0	39.4
	Kouroussa	103.8	—	—	76.4	50.0	—	100.0	103.0
	Mandiana	95.9	73.7	90.3	85.3	—	—	26.2	94.1
	Siguiri	100.0	—	—	63.1	83.3	—	100.0	94.4
Kindia	Coyah	—	—	4.7	74.3	26.7	—	100.0	65.5
	Dubreka	61.5	4.5	67.5	74.9	—	—	100.0	68.1
	Forecariah	—	—	—	—	—	—	—	—
	Kindia	18.2	—	47.4	49.3	71.4	—	100.0	40.7
	Telimele	—	—	—	—	—	—	—	—
Labe	Koubia	100.0	2.3	—	57.0	—	100.0	100.0	96.8
	Labe	100.0	—	—	26.9	100.0	—	100.0	74.4
	Lelouma	100.0	37.8	—	34.5	—	—	100.0	95.8
	Mali	81.9	—	—	89.7	—	—	9.0	76.9
	Tougue	96.0	62.6	45.2	11.1	—	100.0	54.6	79.6
Mamou	Dalaba	100.0	—	—	13.2	—	—	28.8	88.5
	Mamou	—	29.0	31.3	50.3	100.0	—	299.5	54.1
	Pita	100.0	—	100.0	100.0	—	—	—	100.0
N'Zerekore	Beyla	94.1	5.4	0.2	77.4	—	—	100.0	87.4
	Gueckedou	56.4	—	—	58.5	23.8	—	100.0	58.8
	Lola	35.2	—	11.6	—	—	—	100.4	36.8
	Macenta	97.6	—	8.7	66.3	—	100.0	100.0	88.1
	N'Zerekore	100.0	—	3.3	108.9	25.0	100.0	100.0	101.1
	Yemou	100.0	—	—	52.2	20.3	100.0	100.0	85.5
All regions		75.5	31.1	32.1	51.4	50.2	82.4	103.6	58.0%

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Annex B

Country Case Study: Mali

1. Political and Administrative Overview

Mali is undergoing a process of fundamental reform, which complicates any discussion of the situation on the ground there. A series of decentralization laws has been enacted since 1993, but the first local government elections that will bring them into operation are slated to take place in June, 1997. Thus, this discussion will partly concern the structures that have been in place until now, although it is the new structure of decentralization that is of most interest. It is worth noting in passing that the implementation of the decentralization reforms is not without some confusion. Laws detailing a new set of governance and fiscal relationships, and related procedures, are now on the books, but the transition provisions are not entirely clear -- giving rise to questions as to whether certain provisions are currently in effect, while others await elections at the municipal level (and still others await the organization and election of decentralized authorities at higher levels).

Like Guinea, Mali has a modified French presidential system with weak countervailing institutions. President Alpha Oumar Konare, elected the first chief of state of the Third Republic in 1992, in the wake of the Traore dictatorship's fall and the National Conference, was re-elected to a second term by an overwhelming majority in May, 1997. Legislative elections held a few weeks prior were annulled following protests and accusations of disorganization and fraud. As a result, there is no sitting legislature, and the schedule for new elections has not yet been established as of this writing. As in Guinea, the Malian constitution envisions a sovereign head of state who holds residual power of decree in all areas not explicitly conferred to the assembly. The *Haut Conseil de la Magistrature*, which appoints and disciplines judges; the Constitutional Court; and the Supreme Court, including the highest administrative review and audit bodies, all depend to a very large extent on the President. President Alpha has been a primary motivator of the current decentralization program, has declared his assets annually for the public record, and enjoys a good reputation for leadership and probity. As in many African cases, it is not at all clear that he is in control of powerful elements in the government and the ruling party, whose behavior and aspirations reflect patterns established in the old regime. This power base appears to be driving the decentralization process forward without full consideration of issues of capacity and governance.

Mali is currently organized into eight administrative regions and the District of Bamako. The regions are further divided into *cercles* and *arrondissements*, all staffed by centrally-appointed administrators and representatives of deconcentrated technical services. The regions, *cercles*, and *arrondissements* make up their own budgets (with approval of the *tutelle*) and exercise some limited managerial autonomy. Regional budgets, as they are comprised largely of central government funds, appear as subsections of the central government budget. The lower levels of government control budgets financed by municipal tax receipts and local shares of taxes

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split with the regions. The *communes*, six of them comprising the District of Bamako, and 13 spread across the rest of the country, currently exercise a level of governing autonomy akin to the CUDs and CRDs in Guinea. As in that case, all but a very limited scope of services, such as sanitary services and maintenance of urban facilities including marketplaces, are provided and funded centrally. The 1996 communal code gives central ministries the power effectively to control the use of local government budgets and to overturn council decisions.[1] Hence, the six *communes* of Bamako operate under the *tutelle* of the District Governor, and the regional, *cercle*, and *arrondissement* councils relate in the same way to their centrally-appointed territorial *commandants*. Even apart from their quite limited policy and financial discretion, the regional, *cercle*, and *arrondissement* councils have at times not been constituted or in operation, such as during a hiatus after the 1991 overthrow of the Traore regime, and the village councils did not hold elections for a period of at least six years. Locally-provided services and infrastructure are funded by a multiplicity of small local taxes, fees, shares of the head tax or TDRL (*Taxe de Développement Régionale et Locale*) and the *patente*, and occasional subsidies from the central budget. Supervision by the central *tutelle* includes prior approval of all local budgets, revenue instruments, and indeed most decisions involving communal resources. The central level also has (and continues to have under the new decentralization laws) authority to dismiss local governments on the basis of fairly general criteria.

2. Decentralization

Decentralization has received repeated attention in Mali during the last twenty years, although the political movement in this direction has reached its greatest intensity only since 1992. The *commune* or municipality has until now been the only decentralized jurisdiction with autonomous legal status and limited fiscal authority. The decentralization reform of 1977, effected by *Ordonnance* 77-44, established the region as the key level of deconcentrated authority, placed representatives of sectoral ministries at that level, and made it the focal point for development planning and management of public services. The district of Bamako, containing six *communes*, was created by the same law as a single deconcentrated administrative unit. The 1977 reform, significantly, also called for the establishment of elected councils at the village, *arrondissement*, *cercle*, and regional levels, and for development committees above the village level. In principal, the implementing decree of 1982 (*Decret* No. 14) laid the basis for the independent operation of these councils, since they would not be convened by the territorial administrator. Finally, following further discussions at the 1987 National Seminar on Decentralized Planning, the FDRL (*Fonds de Developpement Regional et Local*) was established in 1988 to provide a mechanism for self-financing of local development initiatives.[2]

The 1992 Constitution (Arts. 97 and 98) calls for local governments "freely administered by elected councils in conditions defined by law," and created the *Haut Conseil des Collectivites*

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[1] *Loi* N. 9-66.

[2] Hall et al. 1991.

to represent the interests of local and regional governments vis-a-vis the central government on policy matters affecting them. A task force, *La Mission de Décentralisation*, has undertaken a comprehensive restructuring of governmental authorities. The decentralization laws envision the devolution of decisionmaking powers and resources to all existing levels of the administrative hierarchy[3]. The first step is to devolve responsibilities and resources to the existing urban *communes*, and to do the same with a series of rural *communes*. The latter are being formed to take over the role of the existing *arrondissements* as the base administrative units, as well as additional central responsibilities devolved to all *communes*. The devolved responsibilities include the first cycle of primary education, basic health care, and the construction and maintenance of certain infrastructure. In the case of rural *communes*, new responsibilities will also include those already handled by urban *communes*, and those which are now handled by the *cercle* and *arrondissement* levels. Major decisions by all decentralized government units, including the adoption of a budget, the setting of tax rates and fees, loans, and other uses of resources, remain subject to *a priori* approval by the *tutelle* under the new decentralization laws.[4]

Financial resources will come from several sources. In recent years by one estimate, central revenues, which go to the national level as well as the deconcentrated regional and local authorities, have comprised some 96 percent of public revenues. The remainder are accounted for by the *communes*, with their autonomous legal and fiscal status (in principal). The weakness of the *communes'* financial base and tax collection has made them increasingly dependent on central government subsidies.[5] This, combined with the electoral calculus discouraging mayors and fellow council members from proposing tax hikes or improved assessment and enforcement, has led to an increasing dependence on central subventions. The same problem has brought into being a host of alternative financing mechanisms for such services as health and education, including user fees, collections or *cotisations*, and the sale of medicines. The FDRL was intended as a way of addressing these problems, providing "local money for local problems," but at least during one-party rule, a significant proportion of this funding has gone to support local political party organizations and pet projects.[6] International donor agencies and their NGO partners will continue to play a primary role.

Public finance to support additional new communal responsibilities will come from increased central tax shares, mainly the TDRL (80 percent) and the *patente* and *licence* (60 percent to the District of Bamako, 40 percent to the *communes* of Bamako, and 100 percent to other *communes*), as well as additional taxes and fees (within the limits of the law) that could be levied by the *communes*. Communal councils may set rates for local taxes, but only up to a

[3]*Loi* N. 93-008 du 11/02/1993, *Loi* N. 95-034 du 12/04/1995.

[4]*Loi* N. 95-034 du 27/01/1995, Arts. 15, 84, and 132.

[5]All *communes* in Mali have received subsidies to make up revenue shortfalls (Hall et al. 1991).

[6]Hall et al. 1991.

maximum fixed in the decentralization laws. The tax base and other administrative issues are governed by the central tax code. On the other hand, *communes* are free to impose fees.[7] The other sources of finance will be the *Dotation Generale de Decentralisation*, the *Dotation du Fonds de Perequation*, and *Subventions Speciales*.[8] The sources of these fund transfers have not yet been finally determined as of this writing, but will be the subject of ministerial *arrêtés*. Currently under discussion are the earmarking of one billion FCFA per year from VAT, plus the transfer of "credits" equivalent to the 1996 budgeted cost of service responsibilities transferred to the *communes*. The formula for distribution of these funds is also being debated. The transfer of credits, presumably, will be based on current service budgets. The proposal for the *Dotation Générale* is to use a formula based on population numbers.

A critical issue in the decentralization process is the partition of territory into *communes*, or *decoupage*. The initial proposal of the *Mission de Décentralisation*, the Government of Mali's unit charged with elaborating plans and legislation for the decentralization program, was to devolve power to units that would essentially match the existing *arrondissements*, numbering close to 300. However, once the process was opened up to discussions at the community level, a host of social, political, historical, and ethnic considerations came into the process. The criteria provided by the *Mission* for partition included economic viability, access, demographics, and existing patterns of social (e.g. ethnic or historical) solidarity. The last appears quickly to have become the primary consideration. In principle, of course, using this criterion is sound. Dividing units according to existing patterns of solidarity can help transform artificial units with little legitimacy among the citizenry into units capable of exercising leadership and mobilizing the energy and resources of groups united by shared history and patterns of interaction. However, emphasis on this factor has meant compromising other factors, notably that of economic viability, as a program has taken shape, which involves creating some 682 *communes* ranging in size from nearly 100,000 in Bamako to 2,000 or so in the smallest rural groupings. Some controversy arose around a condition imposed by the *Mission* that urban *communes* stand alone, and that only rural *communes* can combine more than one existing locality. As one would expect in Mali, historical vestiges of kingdom borders, vassalage, alliance, and enmity became important parts of the *decoupage* process. There are also complaints that politics intervened, with the ruling party seeking to ensure its political base through a kind of gerrymandering. All of these factors could well have a significant bearing on the future success or failure of decentralized *communes*.

3. Local Revenues and Resources

3.1 Structure and Effectiveness of Local Taxes

While the scope of fiscal authority devolved to the *communes* under the decentralization laws is encouraging, the limited tax base of most (especially rural) *communes*, and the

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[7] *Loi* N. 96-051 du 16/10/1996, Arts. 2 to 8, 11, *Loi* N. 96-058 Arts. 1 and 5.

[8] *Loi* N. 93-008 du 11/02/1993, Art. 180.

disappointing yield of most local taxes under the current regime, do not bode well for the financial sustainability of those jurisdictions. The three broad categories of fiscal instruments available, as mentioned above, are the *patente* and *license*, the TDRL, and the series of local taxes and fees that run the gamut from livestock taxes to firearm taxes to taxes on markets and various means of transportation. The *patente* and *license* far outperform the others, due to their relative ease of assessment and especially the means available to local officials to enforce payment -- namely the withholding of other necessary approvals and benefits to professionals and businesses who fail to pay. Urban officials cite recovery rates of 80 to 90 percent, and the District of Bamako reports that its share of *patente* revenue currently makes up some 90 percent of its total tax receipts.[9]

The situation of the TDRL and local taxes and fees is entirely different. The TDRL is a head tax whose value varies across *cercles*. Despite its simplicity, it has proven difficult to collect. Officials report a gross disparity in collections between Bamako and other urban areas on the one hand, and rural areas on the other. The apparent lack of any link between the payment of this tax and the taxpayer's access to any local public services is one possible explanation of its poor performance. Officials also report that urban residents are more conscious of this than others, and rural tax collectors, aided by local chiefs, appear more willing to apply strong-arm tactics than would be feasible in urban areas -- hence fear and perhaps occasional demonstration effects encourage compliance.[10] Data collected by the *Mission de Décentralisation* show TDRL rates from 875 FCFA to 2600 FCFA per year, and a range of recovery rates from near zero to near 80 percent. Local taxes and fees show at least as much unevenness in collection rates. The *arrondissement* of Fana in Koulikoro region reports average recovery rates of only 10 to 15 percent. There has been some suggestion that the recovery of fees for market maintenance and refuse collection are higher than that for taxes on livestock, arms, and conveyances, at least in well-managed *communes*. This, again relates to local willingness to pay for visible services -- and perhaps equally to selective incentives such as the *commune*'s ability to deny market space to those not holding payment tickets. Some local governments, for example the District and *Communes* of Bamako, have experimented with commissions and other incentives for tax agents, apparently without notable success.

There is a question whether the *communes*, particularly rural ones, have an adequate tax base. Currently, the *patente* and *licence* make up the lion's share of local tax receipts. However, this is not likely to prove adequate in the future. First, many rural jurisdictions will not soon have an adequate base of business and professional activity from which to collect these revenues. Second, where new businesses are established, especially outside Bamako, they often benefit from tax exemptions under the investment code, or pursuant to special agreement. The relevant provisions include exemption from the *patente*, usually for ten years. No compensation for such exemptions -- at least under the investment code -- is contemplated by pre-existing law or the

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[9]A similar situation likely is obtained in the regions, or at least those containing a significant number of urban *communes*.

[10]It has been suggested that earlier colonial practice continues to be followed in some rural areas -- namely, that heads of household are sometimes made to sit in the sun until they agree to find some immediate means of payment.

decentralization statutes.[11] The need to attract business activity in many cases encourages the sacrifice of a major part of the local tax base. Third, all *communes* will have to exploit additional sources of revenue in order eventually to pay for central government responsibilities being transferred to them. Among currently underexploited sources is real property, which is subject to a direct payment to the state for a transferred use right, plus a tax on rent received. There is no tax on the value of real property -- apparently there had been one, but it has since been abolished. Reinstituting such a tax, which some urban officials admit they would like to do, faces a number of difficulties. First, property taxes are not listed among the transferred and local taxes available to the *communes* in the decentralization laws, and therefore a legislative change would be required before such a step.[12] Second, there are the additional costs and complications involved in assessments, although new techniques and technologies appear to be driving these costs down elsewhere in the region. A special difficulty is that real property assessments would entail the valuation of use rights, since title is held by the state. One could imagine fairly easily administered systems based on a presumptive tax, or following a simple formula.

As mentioned above, tax administration appears to be far from adequate. Interviews did not turn up major concerns about corruption by tax officials, although the low recovery rates may signal some major problems of this kind. Indeed, the World Bank estimated losses of income tax revenue due to fraud at 35 billion FCFA in 1989, equal to the level of receipts recorded at that time, and put losses in customs at the level of 100 billion FCFA.[13] The collection of taxes destined for or shared with the central government, down to the *arrondissement* level, is performed by agents of the state, who get help from local chiefs, and who turn their receipts over to central tax service representatives *(percepteurs)* at the communal or *cercle* level. Shared taxes are then divided, and the local share returned. There is some indication -- though not consistent -- that *communes* have trouble obtaining their share, for example, of the TDRL, since "the priorities of the state come first." The local share of the TDRL apparently is commingled with Treasury funds, and the possibility that the state will exhaust these funds on its own brings mayors to Bamako to plead for their share. Local taxes destined for communal budgets are to be collected by communal personnel.

3.2 Other Resources

A number of additional resources are currently available to finance local services in Mali. The system of central government transfers under the decentralization laws was discussed briefly above. Experience with the existing FDRL is not necessarily encouraging, but the new transfer funds could, if present plans are implemented, be both better supplied and more transparent in

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[11]See *Loi* N. 96-051, Art. 4.

[12]*Loi* N. 96-051, Arts. 5 to 8.

[13]World Bank, *Public Expenditure Review* p. 11.

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their sharing out. The sharing formulas are to be determined by decree.[14] Cost recovery schemes, an area where Mali has been a regional innovator, have led to fee arrangements in health and education. A 1983 decree authorized user fees for selected health services, imposing a fee schedule applicable to national and regional facilities, and allowing local health centers the option to charge fees up to a prescribed ceiling.[15] More recently, the "Bamako Initiative" to improve health services in the West Africa region through decentralization, has encouraged greater local initiative, leading to the recovery of 60 to 100 percent of recurrent costs in community health centers in Mali. Local communities have been primarily responsible for school construction since colonial times. In recent years, school fees and private schools have become increasingly common. A policy has been instituted of encouraging schools to collect some 500 to 5,000 FCFA per student to defray costs.[16]

By far the greater share of resources comes from the international donors, via budget support and NGOs. The entire central government investment budget, and some 50 percent of the overall central budget, is funded by foreign donors. Local NGO contributions to development at the base are also funded, by and large, by the donors. The total NGO contribution to development in Mali was estimated, loosely, at 27 to 30 billion FCFA in 1992, and has likely experienced a steady rise since then.[17] Also significant are local private donations. The case of the *arrondissement* (soon to be *commune*) of Fana, where the local cotton enterprise contributes about 15 percent of its earnings to local development projects, does not appear untypical. Agricultural cooperatives and other entities are apparently also expected to contribute directly, beyond whatever taxes they may pay. By one estimate, contributions by local populations (usually in kind) amount to some 10 percent of health center costs. Local financial contributions also sometimes pay for supplementary personnel, beyond those provided by the state, at health centers. As elsewhere, remittances by emigres living in Bamako or abroad figure here as well, though these are not thought to account for a significant portion of local development funding across Mali. Local officials are clearly aware of, and no doubt encourage, this activity. However, whether these efforts are targeted to projects that will achieve the maximum benefit for the community, and whether the use of those resources is well-managed, is unclear.

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[14] *Loi* N. 93-008, Art. 180.

[15] Hall et. al. (1991) p. 29.

[16] UNDP p. 55. Save the Children (U.S.) reports that its efforts have resulted in the addition of 400 new primary schools in Sikasso region, each with local start-up contributions, and all operating on a fee basis.

[17] Caution is warranted in accepting estimates of NGO contributions. A separate estimate put the contribution of 69 major NGOs reporting (out of a total of 90) at 7.1 billion FCFA in 1989. At the same time, some 400 agreements with the government (*Accords Cadres*) were said to exist as of 1993. *Centre Djoliba* (1993) p. 64-65. The transition to civilian rule, and consequent flowering of associational activity, no doubt accounts for some of the difference in these figures.

4. Expenditures on Local Public Services

4.1 Budget and Expenditure Processes

The budget process in Mali appears to be consistent with practice in the region. Operating expenditures, especially civil service salaries, consume virtually all of the domestically-financed state budget. Budgets appear to be constructed on the basis of past practice and projected revenues, rather than any real programmatic or zero-based methodology. Investment programming is non-transparent. The DNP (*Direction Nationale du Plan*) compiles submissions from various sectoral ministries concerning donor and counterpart-financed projects -- and as elsewhere, the existence of such projects drives the investment program. The dominant criterion for investment decisionmaking appears to be the existence of donor and domestic counterpart funding, donor funds comprising some 50 percent of total public expenditures, by one estimate.[18] An approval process exists, consisting of the submission of projects to the DNP for review and approval, then the transmission of the project to the DNB (*Direction Nationale du Budget*) for inclusion in the national budget. However, this process is rarely used. Recurrent costs are exempt from the procedure, and donor projects are generally not subjected to the process because of fears of undue delays and other problems. Indeed, many donor projects are executed off budget, and often only the counterpart contribution (overall, two percent of government expenditures in 1994) appears on-budget.[19] Local government budgeting and expenditure practice appears to follow the same pattern.

In general, government budgeting in Mali is plagued by planning failures, slowness of execution under normal procedures, and consequent recourse to exceptional procedures. This is especially true of investment projects, but is also true of other areas. At all levels, "*charges communes*" comprise a significant portion of the budget. These contingency funds require a budget appropriation from the DNB at the time their use is determined, which slows the execution process without apparently improving expenditure transparency. Also common is the use of provisional expenditures that remain on the books without being regularized -- these amounted to some 80 billion FCFA in 1992. Despite these irregularities, there often remain unspent appropriations at the end of the fiscal year.[20]

One bright spot appears to be public works projects affecting local services and infrastructure, which are now largely handled by AGETIP, a publicly-owned government contracting unit similar to units that have been set up throughout Francophone Africa (with the notable exception of Guinea). Small counterpart contributions are required of the localities. In the past, the *commandant de cercle* apparently handed out jobs as favors, and fraud was common.

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[18] World Bank, *Mali Public Expenditure Review*, p. 11.

[19] *Id.* at 48-50.

[20] *Id.* at 42-3.

With the advent of AGETIP in the early 1990's, these problems have significantly diminished. Much more rigorous bidding procedures are in place, derived in part from international standards. AGETIP's procedures adjust bidder incentives and capabilities through the application of *a priori* tax and regulatory compliance criteria, the provision of training and information to potential bidders, and the use of performance bond-like arrangements. Local needs are reported up the administrative chain, through the Interior Ministry to the sectoral ministry. When a project is planned, AGETIP visits the site, works with the local *Comité de Gestion*, and assures local oversight and followup by its project consulting engineer. Although good information could not be obtained on the performance of this system on the ground, interviewees cited major improvements over the previous system and complained, if at all, not about failures of governance but of the strict criteria applied to contractors. One potential problem is the fact that the sole-source contract limit is set very high in comparison to the usual size of projects awarded, which opens up a large avenue of bureaucratic discretion.

4.2 Financial Control

There does not appear to be effective control over the use of public resources in Mali. The positive example set by the President does not control the behavior of powerful ministers and politicians, nor lower level bureaucrats in many cases. The front-line investigative and control bodies, the *Contrôle Générale* and the *Inspection des Finances*, are compromised by their position within the civil service and their lack of autonomy. The ultimate *a posteriori* audit power has never really been exercised under the current regime, since the Supreme Court's *Section des Comptes* has not (at least until quite recently) had the opportunity to verify state accounts.[21] The audit court, like the Supreme Court, generally lacks full independence and therefore cannot serve as a reliable check on the executive in any event.

In this environment of weak control, tax fraud and misappropriation of public resources continue. Furthermore, there have been reports of local government officials accepting bribes in return for favoritism in the sale of urban land use rights. These cases, with the other evidence cited above, indicate that significant leakages of public resources due to corruption are likely to be a continuing problem, albeit less severe than under the previous regime. Public finance experts in Mali are especially concerned that the political imperative of decentralization is leading up to the creation of local governments whose responsibilities and revenue powers outstrip the available mechanisms of accountability. Hence, they point to the potential for a substantial increase in corruption after the decentralization reforms are implemented, at least in the near term. Once the five-year transition period for the institution of these reforms elapses, a relatively hard budget constraint should foster efficient use of local revenues. This may yet be the case, but the history and politics of decentralization in the region weigh in favor of modest expectations.

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[21] As of late 1994, the *Section des Comptes* had never verified any state accounts. *Le Développement du Secteur Public (1994).*

List of Persons Interviewed: Mali

Mission de Décentralisation, La Primature
Ousmane Sy, *Directeur*
Lassine Bouare, *Inspecteur des Services Économiques*

Mohamed El Haky Keita, *Directeur des Impôts du District de Bamako, Direction Nationale des Impôts, Ministère des Finances*

Kloussama Goita, *Receveur du District de Bamako*

Aminata Sow, *Premier Fondé de Pouvoirs, District de Bamako*

Boubacar Kardigue Coulibaly, *Inspecteur des Impôts Commune I, Bamako*

Mama Diane, *Perception, Commune I*, Bamako

Tenema Togola, *Secrétaire Permanent de la Commission de Développement Intégré, Commune I*, Bamako

H.A. Maiga, *Chef de Centre et Inspecteur des Impôts, Commune II*, Bamako

Oumarou Bocar, *Directeur Général de l'Institut National de Formation Judiciaire*

Abdoulahi Fani, *Secrétaire Générale, Commune de Segou*

Demba Sow, *Chef de Centre et Inspecteur des Impôts, Commune de Segou*

Karounga Diawara, Member of Parliament, Segou

Mohamed Ag Aboubacrine, *Chef d'Arrondissement de Fana*

Konimba Sidibe, *Koni-Expertise, Conseil Fiscal*

Abou Bakar Traore, *ABT, Conseil Fiscal*

Sanoussi Toure, Consultant and Tax Expert

Theodore Nkiko Mpatswenumugabo, Senior Economist, UNDP, Bamako

Maiga Sina Damba, *Directrice Executive, Comité de Coordinnation des Actions des ONG au Mali*

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Association Malienne pour le Développement
Bakary Some, *Secrétaire Général*
Amadou Keita, *Coordinnateur, Projet Migrants*

Duncan Last, Chief of Party, PRED -- Budget Reform, Chemonics International

Curtiss Reed, Program Representative, CLUSA/NCBA (National Cooperative Business Ass'n)

Peter Laugharn, Regional Director, Save the Children

Moussa Daffe, *Entrepreneur Nioro du Sahel, Travaux de Génie Civil et Rural*

Annex C

Country Case Study: Senegal

1. Political and Administrative Overview

Senegal was an early participant in the decentralization reform movement, having a undertaken a very gradual policy of decentralization since 1966, when the first administrative communal code was enacted. Since then, there have been several amendments to gradually move the system of local governance forward but the implementation of these new acts reflected the ambivalence of the ruling party towards decentralization and its implications for democracy and governance. In October of 1990, a new Communal Code was promulgated that transferred the management of communes from the *sous-prefets* to the presidents of the rural elected councils. Under the new law, there has been substantial redistricting going on. The current regional organization consists of 60 towns, 43 *communes d'arrondissement*, of which 19 are in Dakar, 103 communes, and 320 *communautés rurales.* Even with these latest changes, this movement remained essentially one of deconcentration of state activities through the strengthening of regional administrative structures rather than true decentralization.

The latest advance in the decentralization movement formally began on March 22 1996, with the enactment of a package of six laws and one decree altering the competencies, authorities, and organization of various territorial units.[1] On December 27, 1996, 22 accompanying decrees were published in the government's official journal.[2] The most visible accomplishment of this package was the creation of a new layer of elected government at the regional level. This new level of government, however, was explicitly given no taxing authority and no automatic share of existing taxes to accompany its new powers. More subtle, but potentially important to the ultimate achievement of decentralization, are a number of provisions that shift the balance of power from the state and its extended administration to local elected governments. One such provision, for example, shifts the local budget review process by the prefecture from *ex ante* to *ex post.* A second provision gives local councils the power to nominate the councils' *secretaires generales*. These modest changes have the potential to shift the balance of power from the center to the local communities by disrupting the well-entrenched mechanisms by which the center established and retained control over local decision-making.

Given the slow rate of progress on this issue over the last 30 years, it is legitimate to ask what is motivating the latest reforms and how deep the new changes can go. On the one hand,

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[1] Loi 96-06 through 96-11 and Decree no. 96-228. *Recueil des Textes de la Décentralisation.* Imprimerie Nationale, February 1997.

[2] December 27 was the last issue of the year for this journal. There is a persistently told anecdote that the decrees were actually finished in the first week of 1997 but their official publication in the government's official journal was back dated to abide by the President's request that the decentralization legal framework be finished in 1996.

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there is official political support, as evident by President Diouf's presence at the forefront of the public debate on decentralization and his having coined the movement's latest slogan "*Moins d'Etat, Mieux d'Etat*". There are also external pressures to keep decentralization on track. There appears to be, first of all, some public recognition of hard resource constraints and new limits on what the state (and traditionally the central apparatus) can provide. There is mounting pressure from donors for increased decentralization, both as appropriate administrative and economic reforms and as a reflection of increasing democracy and local participation in government.[3] The World Bank, among others, is expecting to get in place its "Urban 3" project to support *collectivités locales* by setting up the *Agence de Développement Municipal*, "institution building", and direct funding of some services provided by municipalities, either through outright grants or projects requiring a maximum 20% local contribution.

On the other hand, there is a sizeable amount of resistance to change, sometimes originating from surprising sources. *Prefets* are looking very closely at local budgets, even *ex post* because they are frustrated and need to justify their existence. The Ministry of Finance, drawing on a macroeconomic stabilization argument, does not seem very open to giving more fiscal autonomy to local governments because they see the need to rationalize taxes and keep rates low. The Ministry of Finance also believes that the capture of informal sector activity should be accorded top priority. The extent to which the Socialist Party will stand aside as reforms take hold is an open question. In 1984, the Party reorganized itself to conform its organization exactly to the new deconcentration structure. That year, the Party won all 317 local elections.[4] Finally, some believe that the mayors are the most resistant to change; although there are a few who are true mayor-managers, most are not and there are now new jurisdictional battles over taxes and expenditures being waged between mayors, regional councils, and the *communautés rurales* and *urbaines*.

In some sense, this Senegal fact finding mission occurred at an inopportune time for a comparative assessment of decentralization issues, since not enough time has elapsed for any of the impacts of reforms to be observable. Nevertheless, it did provide some insights into implementation issues associated with decentralization. Since Senegal is clearly ahead of some of its WCA neighbors, lessons learned about the process of decentralization reforms will prove valuable to those countries which are only beginning what must be a gradual and drawn-out process. Most notable among the implementation difficulties was the great deal of confusion and apparent misinformation about the mayors' authority, the allocation decisions that had already been reached, and the implications of the new law. Although everyone knew of the law's existence, many did not exhibit close familiarity with its contents. Fewer yet were familiar with

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[3] There are differences among donors also, apparently. The IMF, for example, did not think this was the appropriate time to embark on the new regionalization initiative.

[4] In 1996, their performance only approached perfection, and they lost a small number of local elections. It is widely believed that the Party exhibited extreme sophistication in the redistricting process, particularly in drawing up the boundaries of the newly created *communes d'arrondissements*. A similar dynamic has characterized Mali's decentralization process (see Annex B).

the numerous accompanying decrees. Some local government officials did not know whether some important grant components of their budgets were earmarked or general funds. Three months into the year, many still had not been notified of the size of the transfers to be received by their community. No one even claimed to know how the transfer allocation decision was made and several drew unfavorable comparisons with other communities slated to receive more funds.[5] At the lowest levels of government, in the rural communes, council presidents often have not even seen the new laws. Finally, it became apparent that a significant remaining problem to deal with is that not enough thought had been given to an appropriate redirection of the state's central administrative structure.

As in other decentralizing developing countries, the government has done a much better job at devolving expenditure responsibilities than revenue sources. In Senegal, the state is now actively encouraging mayors to create new revenue generating structures because it explicitly recognizes that the communes have not fully realized their tax potential. Perhaps this new emphasis also represents a tacit admission of their reluctance to transfer real autonomy over revenue sources. Under the new law, local governments can interact directly with donors and may borrow up to 100 million FCFA without authorization.

Formally, this new orientation has been made possible by the granting of statutory authority to *communes* to engage in direct solicitation and engagements with bilateral donors. Most of these engagements to date have taken the form of more traditional sister cities/regions partnership programs, and most often with French communities. The quality of assistance provided by these programs is extremely varied, as one might expect but some, at least, have worked quite well and yielded real benefits for local Senegalese communities. Although the bilateral negotiation authority is quite new, the Dakar USAID Mission, for one, already reports a fairly steady stream of mayors looking for financing for their public investment projects.

Less formally, mayors are now encouraged, and will certainly feel pressure given their inadequate resource base, to create profitable public investments. With limited resources, these public investments will naturally reduce available funds for basic, and non-profitable, investments like schools. Moreover, mayors, in their eagerness for profitable projects, may be displacing private sector investment from the small set of profit opportunities in local communities. Projects being considered by some community leaders, for example, include investments in refrigerated trucks, refrigerating facilities, and canning and food processing plants. None of these examples possesses the characteristics of standard public goods. Hence, incentives are being created for new public sector interference in commercial affairs, albeit at a more decentralized level.

[5] Decree no. 96-1126 establishes some rules for the allocation of state funds but it is not entirely clear how criteria such as population and land surface are weighted. *Recueil des Textes de la Decentralization.* Imprimerie Nationale, February 1997.

2. Local Revenues

2.1 Structure of Local Finance

Senegal, not surprisingly, adheres fairly closely to the French model of local public finance, with the revenues for a number of taxes shared among various levels and a certain number of less significant non-fiscal, "activity" taxes specifically earmarked for the operations and investment budgets of different units of local government.[6] Except for the latter non-fiscal taxes, collection is usually conducted by the local extensions of the central administration and then returned to the local government. The law determines the types of taxes which local communities can impose but appears to give the local councils discretion on the amounts or rates applied. In the past, there was a surcharge on top of the VAT which was returned to local governments. Recently, some have suggested that the VAT should be raised to 20% and that one quarter should go to the local communities; unfortunately, 95% of VAT revenues originate in Dakar, and so this option would not work for all other localities. The state, through its *Service de Trésor* manages the tax base (and rolls) of local fiscal taxes, including the *patentes* (enterprise tax), *taxes foncières* (for built- and unbuilt property), the *minimum fiscal*, and the *licences*. This principle of *unité budgetaire* creates certain disincentives against vigorous collection and some opportunities for inter-governmental abuses which we observed in other countries with similar systems.

Fiscal receipts account for approximately 80% of the revenues of the city of Dakar but the city does not manage or control all of the administration of these taxes. For example, the state still provides the rolls (assessments) but since no part of the truly local taxes goes back to the state, the central administration has no incentive to maintain or improve the accuracy of these rolls. In fact, last year, Dakar did not get its official rolls until July; when it did finally receive them, 20 to 30 percent of listed taxpayers were not current.

The region level, even though newly empowered with an elected council, has no independent tax sources. Although there was some debate over this question, it was decided that since the tax base would remain the same after the introduction of this new region, it would be more prudent not to add another level among which to distribute a fixed tax base. Hence, regional budgets are financed from central government transfers.

In addition to taxes, local communities have several grant sources for financing local expenditures. The most important is the *Fonds de Dotation* (FD), which is financed out of VAT revenues (about 17% of total VAT revenues go into this fund, which totaled approximately 4.9 billion FCFA in 1996). The Fund is managed by the *Direction des Collectivités Locales* (DCL) and was created in order not to further burden the tax base. Some portion of this fund is used for equalization, according to "what is known about the needs of the various regions". Transfers from this fund to local communities, appear, ultimately, to be general and non-specific. In this

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[6] Article 250 of the *Code des Collectivités Locales*, no. 96-06 itemizes the operating budget revenue sources for a commune. It lists six fiscal sources, 17 indirect taxes, and 18 types of fees.

first year, however, the transfers may not seem unrestricted to the recipients since they essentially match and are intended to replace what was budgeted for central government spending. Whether local officials use this newly-found spending discretion is an empirical question. One factor arguing in favor of this new independence is that the provision of what were previously centrally-delivered government services to the local communities must now be explicitly contracted for by the local unit. Model contracts exist which specify the type and extent of services to be performed by the representatives of the central administration, much like standard consulting contracts. One example of such a contract provided to us was for a contract between a local council and the *prefét* to provide technical advice in the improvement of the land cadastre. This is a potentially significant administrative and procurement reform that might fundamentally change the way local governments interact with the center, but elected officials, while generally aware of this new arrangement, seem not to attach much importance to it.

This Fund apportions a specific amount to each commune. None of the mayors we interviewed (five in all) knew the formula for the distribution of these funds. Some believed that it was a transition mechanism which came after local budgets were already voted and the first year's allocation only reflects the sums the government was planning on spending through its ministries before it devolved expenditure authority. The subtext of the majority of our discussions about the Fund was that it was a political tool and allocation decisions could best be explained from that perspective.

The second important transfer mechanism available to local governments is the *Fonds d'Equipement des Collectivités Locales* (FECL) which consisted of about 3 billion FCFA in 1996. This fund is to be strictly used to finance investment projects. The distribution among eligible projects is established by the Ministries of the Interior and Finance. These funds are supplemental to commune budgets and largely trivial, at least for the bigger towns and cities (e.g. Dakar with an 11.7 billion FCFA budget received about 40 million FCFA in subsidies in 1996). The FECL is the oldest of the government support transfer programs. Project selection is conducted by a national steering committee which includes representatives of the primary *tutelle* ministry of local communes, the DCL. The three basic criteria for project selection are: 1) that personnel cost be no more than 40% of total costs, 2) prior experience with and effective use of previous project funding under the FECL, and 3) justification of the benefits of the proposed projects for the clients. This fund held 2.5 billion FCFA in 1996 and is expected to remain about the same in 1997.

Although local governments traditionally have limited access to credit for financing operations, in Senegal a special instrument was created to finance certain types of investment projects, on competitive terms. The *Compte de Crédit Communal* was conceived by the government and the World Bank with little consultation with end users. It offers credit for income-generating projects at a 6% interest rate and seven year repayment terms. By most accounts, this program has not been successful and a number of reasons have been offered to explain its lack of utilization. First, many believe that application procedures are too complex, requiring too many approvals from various ministries and government agencies. In fact, there are two levels to get through in the approval process, a project committee, housed at the DCL, which reviews the appropriateness of the project, and a banking committee which applies standard loan evaluation tests. Second, many mayors consider the terms too difficult to live with. In this respect, it is possible that AGETIP presents too much competition by offering much better terms. Third, the fund has a difficult and unresolvable political problem because of a 600 million FCFA contribution by the government of Senegal. Local officials almost uniformly object to having to pay commercial lending rates on government funds which they felt were theirs to begin with. Finally, even sophisticated applicants had difficulty with the process. The city of Dakar, for one, submitted several investment projects to the CCC which received all required approvals but for which funds were never disbursed.

User fees are a common source of finance in certain sectors in Senegal. In the health field, fees are estimated to account for some 8 percent of recurrent costs of hospitals, 10 percent for health centers, and 28 percent for health posts.[7]

The final source of funds for public social investment in many communes remains donations from emigres. In some cases these can be substantial, paying for various social investments like schools, mosques, health centers, and irrigation systems. The majority of these relationships occur in the Fleuve region and in Senegal Orientale; there the role of donations in local public finance is quite substantial. Some preliminary data has been collected by the *Caisse Française de Développement* (CFD) for January 1997 in the Fleuve region. Monthly postal money orders cashed in a sample of *arrondissements* range from about 6 million FCFA to over 60 million FCFA. CFD officials estimate that this method accounts for about 30% of foreign remittances, implying total monthly inflows 3 times greater than the numbers reported above. Some sources indicate that these funds are drying up as emigres begin to realize that their contributions are no less susceptible to diversion than other public revenues and that alternative profitable investment opportunities are surfacing in Dakar and other cities.

2.2 Tax System Effectiveness

Senegal follows the French system's principle of separation of assessments and collection, although there are exceptions, particularly for some of the non-fiscal local taxes. These invariably account for a minor proportion of revenues. The collection of taxes itself is broken out along similar lines, with the national *Service du Trésor* recovering for all levels for many taxes excepting, again, non-fiscal taxes which are collected by the municipalities. Since 1995, Dakar has enjoyed the unique distinction of doing its own recovery for the local fiscal taxes. Perhaps not coincidentally, by taking over from the state, they have increased their collections by 30%.

Rural *communes* face several problems with respect to tax collection. First, tax evasion of universal taxes such as the individual head tax is rampant; in one community we visited, only 26% of a very modest 9.5 million FCFA local tax assessment was collected. The general sentiment is

[7] Bitran, Brewster and Ba (1994) p. 62-75.

that taxpayers are refusing to fulfill their obligations because they get nothing tangible or visible in return. Second, a great deal of the local economic activity is seasonal and informal. Even in coastal communities not far from Dakar where there is strong evidence of significant building activity, for example, local officials have difficulty taxing masons and construction workers. The extent to which Senegal engages in presumptive taxation is not obvious from its statutes or our conversations with tax officials.

Some *communes* have exhibited remarkable improvements in recovery by making this a priority of the administration, and improving procedures and reducing corruption. In one *commune*, for example, the new mayor claims to have increased recovery of the daily market tax from 2,500 FCFA to 30,000 FCFA, and for the weekly large market from 75,000 FCFA/month to 700-900,000 FCFA/month. This was done through minor revisions and careful attention to collection. The *commune* used the 1996 tickets with a 1997 stamp, rather than wait for the new tickets from Dakar. A supervisor was added to the recovery team. This supervisor caught one collector pocketing taxes without issuing stamps.

The issue of weak recovery of owed taxes is sufficiently grave that there is currently a working group, supported by the IMF, consisting of representatives from the *Service du Trésor*, the Ministry of the Interior, and a number of mayoral representatives addressing the issue of improving recovery rates at local level. Their preliminary report was due at the end of March.

One significant problem faced by the smallest units of government, and especially rural *communes*, is that economic activity is difficult to identify and capture because the value-setting transaction may take place outside the community even though the activity has taken place within the boundaries of the *commune*. Coastal villages are prone to this phenomenon because many do not have proper refrigeration facilities. Local fishermen will travel to nearby larger communities with facilities and established markets. The transactions take place there and taxes on the activity are collected there. Likewise, the lack of facilities means no possibility of value-added processing and hence lower revenues for the community. This suggests that there may be a better, regional scale for the collection of "local" taxes which might provide a fairer provision of public goods.

Despite the obvious variance in local resources across the country, equalization per se is not an important factor in central-local fiscal relations. One of the transfer programs discussed above, the *Fonds de Dotation*, has an explicit equalization component but it is capped by decree at a fairly small proportion of available funds. This decree, however, does not address the equalization formula explicitly except in the most general terms; there is no other widely-known and public authority on apportionment of public funds through transfers. Although the FD is intended as a transition mechanism to ease the transfer of expenditure assignments to local communities, some government officials perceive that it will continue after this phase of decentralization is completed because it is a "solidarity" fund which will be then used exclusively for equalization.

3. Local Expenditures

3.1 Budget and Expenditure Processes

New procedures have been elaborated for the creation, approval, and execution of local budgets. A budget approval council meeting, involving all counselors (a typical *commune* of 19 villages with a population of approximately 26,000 will have a council with 30 or so members) takes place in the presence of the *sous-prefét*. While the representative of the state may be there to provide advice, he/she must attend all deliberations of the councils (at all level) and voting on budgets cannot be held in his/her absence. In practice, rural *commune* budgets are still often drafted by the *tutelle*. The new decentralization law transfers procurement responsibility to the local elected officials. In the past the *prefét* "executed" the expenditures, meaning he procured goods and services for the *communes*.

The regional *tutelle* is, in theory, much less intrusive into the local *commune* budgeting process than in the past. According to the new law, the role of the *tutelle* is one of *ex-post* review (after enactment) and the *sous-prefét* in attendance has only an observer's role in the budget drafting process by the council. Still, it seems that the *sous-prefét* can reject a budget but only as an entire document, not piecemeal. When a budget is rejected by a *sous-prefét* it is returned to the community and the council addresses the rejection. If it refuses to accept the recommendations of the *sous-prefét*, then the matter goes to the court. *Sous-prefèts* may reject budgets for a variety of reasons, but the general guidelines now seem to stress accounting weaknesses (e.g. unrealistic revenue projections) rather than problems with allocation among various uses. In the past, there were standard ratios (e.g. operational expenditures/investment expenditures) which had to be adhered to; if the new guidelines are followed, this does represent a reduction in interference by the central apparatus. It is not clear how often these conflicts arise but in one large region (Thies), the head of the *Bureau de Tutelle* indicated that there had never been a court case in his jurisdiction involving such disagreements. We did later uncover anecdotal evidence of one dispute taken to court in a *commune d'arrondissement* of Pikine.

A significant problem with removing ex ante review of local budgets when there is such a large dependence on central funding is that, without coordination, there is little constraint on the expenditure side and no guarantee that the sum of resource demands on the state will be anywhere close to available resources. In the past, all local community budgets would come to the DCL for review and evaluation. The Directorate would then convene a budget conference to systematically review individual budgets and sum their implications for the state budget. That experience showed that the majority of the problems were related to the perception of soft public budget constraints on the part of local officials; resources were insufficient to cover planned expenditures. A smaller set of problems were related to unrealistically high project costs. These reviews have now been discontinued. As one government official familiar with the results of the old and the new processes put it: "Either the local budgeting process has miraculously gotten a lot better this year or there is a lot of abuse going on".

The education sector provides a good example of how expenditure assignments and responsibilities have changed over the years. Some provisions in this sector have already been deconcentrated: budgets for schools, texts, and furniture, as well as inspections, for example, are done at the level of the department (region). Personnel remains at national level as does school construction through a *Unité de Coordinnation de Projets*; in the latter case, a large proportion of funding is external aid, providing schools at all levels, but mostly primary. The latest reforms are expected to complicate things somewhat. Construction, it is said, will be in the hands of the local governments, but the number of schools is tied to a national education plan, giving rise to the question of how the activities of the two levels will be reconciled?

On the question of whether there are "local" preferences in some public goods, Senegal is still a distance away from the notion of "local education policies". In large part this is because people fear that the system is too fragile to bear the consequences of truly local policies. People are even afraid to debate the notion that the choice of which language to teach in the school belongs at the regional level. At a recent conference on local education provision in St. Louis, for example, the conclusion was that there should be at least 25 percent local content.

3.2 Public Works

In the area of public infrastructure provision, AGETIP (*Agence Générale d'Exécution des Travaux d'Intérêt Publiques*) is a major source of financing and implementation capability. The agency was created in response to the fact that the country had a very weak absorption rate of the available donor funds. Its primary objective is to "package" resources from all sources (e.g. local governments, the central government, foreign donors) more effectively to permit financing of projects which wouldn't otherwise succeed. The agency prefers to finance small projects over large ones and all projects are executed through private sector contractors. Originally, projects could be undertaken with no local contribution. Recently, a requirement for a local community contribution of 10% of project costs was introduced and AGETIP management expects to gradually increase local contributions to 50%, although it recognizes this as an ambitious target. A major facet of AGETIP's charter implies a limited role for the agency in the provision of base public services at the lowest level of government. An expressed part of their mandate is poverty and unemployment alleviation; this mandate will loom even larger as an objective in the future, according to the World Bank. This focus also will presumably exclude a number of worthwhile local public investments.

AGETIP is often presented as an organizational model for other quasi-governmental agencies in Senegal and as a leader in the African local finance movement. The AGETIP institutions are quasi-independent because they have a special convention with the Finance Ministry and operations and overhead costs are closely monitored. Their management is recruited from the private sector. The planned *Agence de Développement Municipal* (encouraged and supported by the World Bank, among others) is expected to be established along similar lines. This new agency will help the fiscal planning process in local communities and will coordinate local plans at the regional levels to balance needs and resources. Eleven communes have been selected to participate in the first phase.

3.3 Auditing and Expenditure Control

Some auditing of local budgets and expenditures takes place, in theory, in the *Contrôle Financier à la Présidence*, an executive service divided into three sections: state operations, quasi-public sector, and regional/rural communities. The last is charged with regular and detailed audits of local *communes'* expenditures. There are two levels to the budget review conducted by this service. The first is simply to analyze the budgets to see whether the resources available to the community are real and sufficient to finance planned expenditures; in the past, the section could reject budgets that did not meet certain ratios (e.g. investment/operations) but this prerogative was taken away in the new decentralization law.[8] A second level is a more comprehensive on-site audit of expenditures, management, and procedures. In practice, the section has had great difficulty in undertaking on-site audit missions because it did not have a travel account. In the last year, for example, on-site audits were conducted only in the *Communauté Urbaine* of Dakar. In the past, there have been cases where the President, acting on reports of this service, has removed mayors and replaced them with special delegations to investigate the situation further. There is a second auditing function, called the *Commission de Vérification des Comptes*, in the government that is attached to the State Council and functions as a *Cour des Comptes* equivalent.

The functional supervision of the activities of local communities rests with the *Direction des Collectivités Locales*, a directorate within the Ministry of the Interior that is charged with providing technical direction for the Ministry of Decentralization. In the past, this office studied all the projects being proposed by the local communities. It exercised *tutelle* over the local communes by applying two types of control: a *contrôle d'opportunité* and a *contrôle de loi*. The first was tantamount to an *a priori* review of the complete budgets and a request for the justification of expenditures undertaken by the local communes, at the *tutelle's* discretion. The second was more of a control for compliance with the various relevant laws. Under the new law, the *contrôle d'opportunité* is eliminated at this level, but augmented for the local representatives of the state.

[8] A local expenditure guideline, for example, stipulated that salaries should not exceed 25% of total local budget expenditures.

List of Persons Interviewed: Senegal

Seydou Cisse, Ousmane Ndao, USAID

Ousmane Sané, USAID

Magatte Wade, Directeur Général; M. Jay, *Directeur de Développement, AGETIP*

Cadman Atta Mills, Country Representative, World Bank

Babacar Néné Mbaye, *Ministre, Modernisation de l'Etat*

Lamine Bâ, *Chef de Service, Contrôleur financier des Régions, Communes, et Communes Rurales à la Présidence*

Thierno Birahim Ndao, *Maire de Kaffrine, Sec. General de l'Association des Maires de Senegal;*

Balla Moussa Daffee, *Maire de Sedhiou*

Mme. Aïssatou Gueye Sy, *Directrice de l'Administration Générale et des Finances, Commune de Dakar*

Mme. Olimata Ndao, *Présidente de la Communauté Rurale de Popinguine*

D. Banba Sylla, *Sous-Prefét de Sindia*

Abdou Karim Kamara, *Gouverneur, Région de Thiès*

C. Bassi Falle, Chef, *Bureau de Tutelle des Collectivites Locales*

Papa Alane Ndao, *Conseil Régional de Thiès, ex-maire of Thiès; Délégué à l'Assemblée Nationale*

Mohammed Gaye, *Secrétaire elu du conseil régional de Thiès*

Omar Ndiaye, *Conseiller municipal de Thiès*

Dr. El-Hadji Guèye, *Maire de la Commune de Gandiaye*

Mamadou Ndoye, *Ministre de l'Education de Base et des Langues Nationales*

Ousmane Ndiaye, *Secrétaire Général du Gouvernement*

Jean-Marie (?) Bellot, *Caisse Française de Développement*

Samba Thiam, *Représentant Résident, Fonds Monétaire International*

Seydou Cissé, Ousmane Sané, Kifflé Negash, Robert Navin, USAID

Birame Owens, *Bureau d'Appui à la Coopération Canadienne, Agence Canadienne de Développement International*

Abdoulay Lô, Adjoint to the Director, *Direction des Collectivités Locales*
Mamadou Diouf, Directeur, Direction des Collectivités Locales

David Stasavage, OECD

Jean Marie Cour, *Club du Sahel*

Claude Praliaud, *Ministère de la Coopération*

Annex D

A Review of the Literature[1]

The present paper touches on a number of different subjects discussed in the existing literature, which in some areas is quite substantial. This annex briefly reviews and links together the most relevant bodies of literature. The subjects range from fiscal policy to decentralization, to corruption. This review does not pretend to be comprehensive. Rather, it focuses on the key theoretical issues, on studies of- or relevant to- West Africa, and on the interconnections between public resources and decentralized governance.

1. Fiscal Policy

Meaningful reforms towards fiscal decentralization will have much broader repercussions than their impact on total available revenues, since they directly alter the distribution of income and wealth (including between generations) and affect the use of resources in the economy. In this initial section we briefly review salient aspects of these questions.

1.1 Tax Incidence

For the sake of simplicity (or feasibility, given donor reform prescriptions and likely pressures), we assume that any restructuring of the tax system towards greater local autonomy must be at least revenue neutral. If we assume central government reductions in expenditures to reflect revenue reductions from shifting tax structures, then an important concern that remains regards shifts in tax incidence and burden sharing.

Some public finance economists, notably Shah and Whalley (1991), argue that traditional incidence analysis, relying on conventional assumptions about burden shifting, is inappropriate for developing countries and may actually lead to incorrect policy conclusions. This is largely because the non-tax institutional features of developing countries can have economy-wide and dominant impacts. Institutional features which must be taken into account in most developing economies include the fact that international taxes loom large if not dominant, income taxes are only marginally relevant as a revenue source, there is significant government ownership of the corporate sector, there is fairly extensive quantity and price interventions, and black markets constitute a large proportion of economic activity. Each of these characteristics is reason enough to reject conventional incidence analysis in evaluating potential tax reform.

[1] This section is based in part on a literature review produced earlier for this project. S. Kahkonen, G. Korsun, P. Meagher, C. Voland, "Revenue Expectations and the Decentralized Finance of Education and Health in West and Central Africa" (IRIS draft paper, 1996).

1.2 Relationship Between Tax Rates and Revenues

One of the defining characteristics of a local tax is that the local administration establishes the rate. In a few rare instances where no external shifting is possible or where supply is inelastic (e.g. site value taxes), the choice of rates is rendered less important. In the remaining instances, the choice of rates is important in two ways, through incentive effects on the use of the taxed resource, and through cross-jurisdictional competition.

The theoretical literature on optimal taxation, while ample, offers little guidance to the practitioner. In the case of consumption taxes, for example, most public finance economists writing in a development context regard Ramsey tax schemes (optimal commodity tax) as undesirable because, in practice, they require different rates for each commodity. This runs contrary to the standard advice to keep tax schemes simple in keeping with limited implementation capacities.

The empirical evidence on the relationship between tax rates and growth in developing countries is sketchy. Shalizi and Squire (1988) report the findings of two studies, that raising tax revenues from 11 percent to 16 percent of GDP in the Subsaharan Africa (SSA) countries from 1966 to 1982 resulted in significant reductions in GDP growth rates. A significant difficulty that empirical researchers will have to confront in addressing this question is that the structure of tax rates and the assignment of taxes across different levels of government is likely to be just as important as the amount of total taxes collected.[2]

1.3 Tax Revenues and Tax Structure

Two trends stand out in comparing the tax structure and performance of these economies. First, developing countries generate significantly lower tax revenues (measured as a percentage of GDP) than developed countries. Second, developing countries generate their revenues by emphasizing a different mix of tax instruments than industrial countries, with the former relying much less on direct taxation. (Burgess and Stern 1993).

OECD countries generate the equivalent of about 30 percent of their GDP in tax revenue, a figure that is approximately twice as high as other country groupings. African countries as a group (not just the WCA subsample), are second highest, but their 18 percent average is far short of the OECD figure. Looking at individual countries in the WCA set, one finds a broad range of values from a low of 7.2 percent (Cameroon and Senegal) to highs over 20 percent in Côte d'Ivoire and Togo, with the median around 13 percent. Over time, there seems to be a slight trend towards reduction in revenue generation, with the majority of the countries reporting lower values for the latest period. In the past two or three decades, this indicator was often used to

[2] Tax structure can also help determine the susceptibility of a country's revenue function to external shocks since it affects the tax base and sectoral composition of an economy. For a demonstration of this factor in an SSA economy, see Dawkins and Whalley (1994).

argue for increases in taxation under the assumption that the government would increase national savings, enabling investment and future growth. This argument has been largely discredited because increases in revenues have nearly always been accompanied by increases in expenditures. (Bird 1990).

Turning now to the structure of revenue sources comparison, it appears that developing countries rely mainly on domestic taxes on goods and services (about 30 percent of revenue), foreign trade taxes, and income taxes (but mainly on corporations, and then again mainly on foreign or joint ventures). Alternatively, developed economies rely primarily on income taxes (but mainly individual), domestic taxes on goods and services, and social security. (Burgess and Stern 1993). The governments of developing countries also tend to rely more extensively on non-tax revenues than their developed country counterparts (21 percent of total government revenues as against 10 percent) (IMF, 1989). These revenues come primarily from state production or regulatory control over nationalized industries, mineral sources, and agricultural marketing boards. Recently, taxes on goods and services have become a rising source of revenue for developing countries, as VATs and excise taxes are introduced.

Within the WCA countries, however, there has been a fairly diverse set of tax structures in the recent past, a fact that is somewhat obscured by the unweighted average calculations. In four countries (Burkina Faso, Côte d'Ivoire, Liberia, and Zaire) collections from individual income taxes exceed those from corporate income taxes. Four countries also exhibit greater contribution from direct taxes than from international trade taxes (Cameroon, Gabon, Liberia, and Nigeria). Finally, and perhaps of more relevance to the potential for fiscal decentralization, four countries (Burkina Faso, Chad, Côte d'Ivoire, and Mali) show property tax contributions close to or exceeding the OECD average of 2.6 percent, which is still far from the 10 percent some economist estimate as the maximum contribution of property taxes.

1.4 Tax Reform Policies

More than most economic policies, tax reform is a constant process in all economies. Market economies have been actively experimenting with tax reforms, with some convergence evident in reform trends. "Recent evolution ...[in tax policy] reflects a fundamental shift in taxation philosophy away from interpersonal equity objectives and toward economic efficiency objectives". (Faria 1995, p.276). Among the trends contributing to this convergence, we note the following. In the area of the personal income tax, there has been a shift towards globalization (all income receiving the same treatment), a flattening of the rate structure, and a reduction in the top marginal rate. Moreover, there has also been a shift in the structure of tax systems, with more emphasis on consumption taxes and less on income and wealth taxes. The consensus on consumption taxes seems to have settled on a consumption-type, destination-based, invoice-backed VAT as the most appropriate implementation for market economies. Just as importantly, there has been a similar shift away from external trade taxes which are now viewed as neither good revenue handles nor effective protectionist tools.

In the case of developing economies, some public finance economists argue for a reform approach that considers simultaneously both the revenue and expenditure sides. Bird (1990), for example, argues that expenditure reform should accompany any and all tax reform. Further, he argues that there should be closer links between expenditures and revenues, going so far as to recommend more use of benefit taxes. Even in case of education and health expenditures, he cites studies showing that the principal beneficiaries of health and education policies are usually those who can afford it anyway.

Burgess and Stern (1993) review the reform experience of eight countries (only one of which, Malawi, is SSA) and conclude that secure regimes with longer horizons are more likely to embark on comprehensive tax reform. Pre-reform conditions vary greatly but one generally finds some combination of an over-reliance on particular sources (real or perceived), narrow bases, a complicated indirect tax structure resulting from extensive ad hoc modifications over time, and a weak administration. They observe, however, that these conditions can be in place for extended periods before the reforms begin. Often, the catalyst seems to be new pressures for related reforms such as macro-economic imbalances, changes in trade or industrial policy, or agreement on a "structural adjustment program" favored by the multinationals. For these eight case study countries, they find that income tax changes are often an integral part of the reform. The objective, however, was less to raise additional revenue but rather to rationalize the system by a greater integration of the treatment of corporate and personal income. Clearly, however, the emphasis on these eight countries has been on indirect taxes: reduction in foreign trade taxes offset by increased taxation of domestic goods and services, usually through the introduction of VAT. With respect to the last, Burgess and Stern conclude that the "Revenue effects of introduction of VAT can be substantial, even over short period... VAT revenues (rose) from one percent to four percent of GDP between 1984 and 1989 in Indonesia." (p. 812).

The types of reform undertaken by these eight countries are quite consistent with the recommendations of the international financial institutions. Shalizi and Squire (1988), for example, recommend, in a World Bank policy paper, a shift away from taxes on international trade and towards domestic consumption with restructuring of the incentives to invest. Further recommendations include a reliance on broad-based taxes (some form of consumption tax), that excise taxes be used selectively to introduce some progressivity, that import duties be limited to providing protection if needed, and that export taxes be eliminated.

It is interesting to note that there seems to be little in the multilaterals' tax reform prescriptions that deals explicitly with fiscal decentralization, particularly when dealing with unitary states where there is no natural impetus for rethinking tax and expenditure assignments.[3] This is somewhat surprising, given that fiscal decentralization can provide the vehicle for a broader, coherent combination of economic, democratic, and good governance reforms. The notable exception has been the attention given to fiscal decentralization in the FSU and some

[3] In fact, while pressure to reform the national tax system often gets formalized into loan conditions, we know of no case where more explicit decentralization objectives were used as benchmarks for continued borrowing privileges.

Eastern European countries. Clearly, one important part of this reform has to focus on the intergovernment transfer process. As Prud'homme (1995, p.214) states: "The area of transfers is very promising for policy improvements, because in many developing countries, transfer systems are often crude." Silverman (1992) adds that ..."[i]t has been asserted that 'fiscal transfers in many developing countries probably constitute one of the least reliable sources of revenues' because of frequent changes in the decisions of central government officials."

2. Fiscal Federalism

The fundamental economic rationale for devolving taxing and spending authority to local governments may be found in Oates' Decentralization Theorem, which states "For a public good . . . [with 'local' consumption characteristics and equal cost of provision at any level of government] . . . it will always be more efficient (or at least as efficient) for local governments to provide the Pareto-efficient levels of output for their respective jurisdictions than for the central government to provide *any* specified and uniform level of output across all jurisdictions" (Oates, 1976 p.35).[4] Given this result, a huge body of work has evolved to address the ways in which the allocative function of government (in contrast to its stabilization and redistributive functions) might be distributed among different levels of government. (Musgrave and Musgrave, 1980; Atkinson and Stiglitz, 1980).[5] In economic terms, these concerns are relevant for unitary as well as federated governments.

The Decentralization Theorem implies two associated necessary conditions that characterize local jurisdictions. First, it requires that local governments have available ways to elicit information on local demand, and further, of course, that local governments are responsive to constituent desires (as represented, for example, by the median voter of the local community). Second, the theorem assumes that consumers inhabit a "... world of mobile households that 'vote with their feet' by choosing as a jurisdiction of residence a community which provides the most desirable fiscal package."(Oates, 1993).[6] This condition implies a jurisdictional arrangement where there is both sufficient variety in preferences and sufficient autonomy for local governments to vary public goods provision so that these mobile households sort themselves into relatively homogeneous communities. When discussing developing countries, Oates (1993) stresses the need for independent revenue sources for local authorities. Typically, current arrangements in developing countries result in over-reliance on grants from the central government, which nearly always come with strings attached and, so, can distort local fiscal decisions by providing incorrect

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[4] We use several terms interchangeably to denote the transfer of some or all taxing and expenditure decisions to subnational governmental units. Some other authors distinguish between deconcentration, delegation, and devolution. (Silverman, 1992).

[5] There is a second, non-economic strand to the decentralization argument that advances democratic ideals, local empowerment, and better governance as rationales for decentralization. This perspective is covered in the next chapter.

[6] WCA rural-urban migration would not qualify as evidence of mobile households since it is generally motivated by factors other than the optimal supply of public goods.

incentives. In a related vein, Oates stresses that the structure of local revenues is an important consideration because inappropriate instruments may also distort local behavior. At a minimum, local taxes should not induce distortions in the movements of goods and activities across local jurisdictions and should reflect, if only approximately, the benefits received by local taxpayers.

Despite some skepticism about the reality of the Theorem's fundamental assumptions (especially as applied to developing countries), public finance economists are in general agreement that the model has useful properties for describing potential efficiency gains. A few dissenting voices to the pro-decentralization chorus may be heard; Prud'homme (1995) effectively summarizes the potential problems associated with decentralization. His case is severely weakened, however, by an assumption of "pure decentralization" where there is no interaction among levels of governments on fiscal policies.

Prud'homme argues that decentralization can increase interjurisdictional disparities by making redistribution across jurisdictions more difficult. Competition among jurisdictions (which can have positive, efficiency-enhancing effects) may be pushed to destructive levels if jurisdictions have complete independence in fiscal matters. Decentralization makes stabilization policies more difficult to implement by reducing the amount of leverage available to fiscal stabilization tools. On the latter point, he cites examples from the developed world (US and UK) where local expenditure decisions ran counter to national policies and their aggregate effect was sufficiently large to offset central policies.

Moreover, Prud'homme, like many others, believes that the necessary conditions for efficiency results are not likely to obtain in developing countries because many of the assumptions of the decentralization model cannot be met. He asserts that the main differences among residents is not taste but rather income level and that, more importantly, the level of provision of most public services is inadequate in any case. Consequently, the welfare gains associated with meeting differentiated local demands are likely to be very small, relative to welfare gains associated with meeting minimum standards of provision. Prud'homme also questions the validity of the preference-revelation mechanisms that underlie local government decisions and also argues that there might be economies of scope that would imply efficiency gains from the national provision of public goods and services.[7]

The objective of decentralizing tax and expenditure decisions then is to realize potential Pareto-improvements by giving local jurisdictions more autonomy in both choosing the mix and levels of provision for local public goods and in collecting revenues, provided that an appropriate level of official accountability exists. An underlying assumption of this study is that there is under-provision of health and education services, implying that local jurisdictions are going to have to increase revenue collection to finance these additional expenditures. Given pervasive pressures from the multilateral donor community for macroeconomic stabilization in many developing

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[7] Prud'homme also contends that corruption is likely to be a bigger problem at the local level but this issue is dealt with later in this chapter.

countries, generally to include deficit reduction through restraints on government expenditures, alternative ways to finance this additional consumption must be devised.

There are two dimensions to the objective of increasing consumption of certain public goods while transferring control over provision to local jurisdictions: how to increase revenues to finance the increased consumption and which tax mechanisms are most appropriate for control by local jurisdictions. On the first point, there seem to be three ways to increase revenues:

1. A change in the mix of tax instruments to increase efficiency by enabling better resource allocation (thus increasing revenues in the long run by encouraging economic growth, for any given tax system and level of tax rates);

2. A change in the mix of tax instruments (broadly defined to include intergovernmental grants) which, in the immediate future, would increase revenues by restructuring the tax system toward more revenue-elastic instruments, instruments with broader bases, or instruments more easily administered. (We include in this category "supply-side" policies that presume to raise revenues by lowering tax rates); and

3. A change in the administration or governance of the tax system (independent of the properties of individual instruments) that reduces leakages resulting from inefficiencies or corruption. This third option is considered later in this annex.

Local governments have other ways, of course, to finance expenditures, including borrowing in its many forms. Many developed countries (e.g. in Europe and Japan) have special municipal credit organizations or institutions such as municipal bonds (US) that have worked extremely well to finance local spending. For a number of reasons, including the unavailability of independent borrowing to local governments in SSA and the difficulty of determining credit-worthiness in non-government credit, most non-tax finance mechanisms have an unimpressive record in developing countries. Sector-specific cost recovery mechanisms, including fees for health and education services, have had much more success. These are discussed in section 4, below.

Turning to the second dimension of the problem, it is important to note that there is nothing inherently "local" about most of the available tax mechanisms, except those that are based on benefit received rather than ability-to-pay principles, and then again only for local public goods, i.e. those yielding benefits at some sub-national level. The converse is true of most tax mechanisms used at the national level such as corporate or personal income taxes, which can and often are easily implemented at the local level, with the exception of external trade taxes and some VATs. A combination of factors, however, can be used to help guide the determination, in increasing degree of "localness". A tax may be said to be local if its proceeds accrue to local governments, and further, if collection is undertaken by local authorities, if its rate, and more rarely, its base are determined by local governments. A decision about which instruments should be used depends on whether local authorities will have the right to determine rate and base as well as the relative contributions of other revenue sources to the local budget, including central government grants and borrowing, if feasible. (Norregaard, 1995).

3. Local Taxes

As we have seen, the relationship between the tax instrument and the level at which it is administered cannot be completely defined technically. That is, actual and potential use for any particular country will depend to a large extent on institutional factors such as history or colonial tradition, or on specific economic conditions. Still, in designing a shift towards decentralization, it is useful to evaluate the various mechanisms according to certain desirable properties.

For our purposes, there are seven criteria (which overlap to some extent) that can usefully be applied to this evaluation: efficiency, the tax base, the taxes' revenue elasticity or buoyancy, its ease of administration, it ease of avoidance, its incidence or distributional implications, and finally, because we are considering local governments, its exportability. Efficiency refers to the extent to which a tax distorts economic activity, thereby enlarging deadweight or welfare losses by its imposition. All taxes, with the exception of lump sum taxes, impose some welfare loss. The tax base defines which individuals or activities will be subject to the tax; the broader the base, the better the tax since lower (and thus less distortionary) rates can be imposed to collect a constant amount of revenue. Buoyancy refers to the tax's ability to increase revenue collection as resources increase. Ease of administration and ease of avoidance are self-evident concepts which are dealt with more extensively later in this annex. Incidence refers to who ultimately bears a tax, that is whether those who pay the tax can shift some or all of the burden onto others. Consequently, the incidence also determines the level of progressivity of a tax and hence whether it can be used to achieve some redistribution, or more likely avoid imposing an additional burden on those who can least afford it. Exportability, in this context, is a special case of incidence that refers to the ability of local jurisdictions to shift a tax burden to other jurisdictions or to individuals residing in other jurisdictions.

A brief discussion of available mechanisms, summarizing their properties in accordance with the criteria laid out above follows.

3.1 Taxes on Income, Wealth, and Profits

Income Tax. By most accounts, the income tax is a good candidate, in theory, for imposition at the local level because its incidence is known, its burden difficult to shift, it is buoyant and can easily be made progressive and would thus permit intra-jurisdictional redistribution. Unless there exists a wide variance in rates across jurisdictions, it would not distort the location decisions of households. Although some developed countries make use of local income taxes, they are not commonly found in developing countries because of difficulties in assessment, monitoring, and collection. When local income taxes are used in developing countries, they generally take the form of local governments adding a surcharge to a national income tax. Local freedom to define the base would probably introduce additional spatial

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distortions in economic decisions. In any case, the ability to locally optimize the base implies assessment capabilities that are probably beyond what may be found in most developing countries' local tax administrations.

Given the difficulties associated with the assessment and collection of individual income taxes, particularly in economies with large informal sectors, the income tax is a good candidate for some form of presumptive taxation. In practice, a presumptive income tax can use either a standard assessment of income (based on labor categories, for example, in which case it becomes a lump-sum tax within each category) or attempt to estimate income through some proxies such as land or other asset holdings.[8] In fact, presumptive taxes (in many forms) already enjoy widespread use in many SSA countries; of the WCA countries Ghana, Sierra Leone, Burkina Faso, Gabon, Cameroon, Senegal, Côte d'Ivoire, and Benin all make use of some form of presumptive taxation. (Tekper, 1996; Taube and Tadesse, 1996).

Property Taxes. While property taxes are the tax instrument most closely associated with local government financing throughout the developed world, they do not contribute much to the consolidated revenues of developing country governments. Their popularity is justified in that land and property taxes, being clearly defined as existing within given localities, are fundamentally better suited to local public finance. It is therefore difficult for communities to export their tax liabilities. (Prud'homme, 1989). Incidence within the community is more difficult to establish because it depends on the use of the land. When ownership is separated from use, it is possible for the burden to be shifted forward to the renter; otherwise, owners fully bear the burden since land supply is nearly perfectly inelastic.[9] In the latter case, a property tax can add progressivity to the tax system since property owners tend to be better off.

While the property tax has considerable revenue potential, it is not especially buoyant, requiring adjustments in the assessed value of properties or the tax rate to increase revenues.[10] There is some disagreement as to the administrative burden or required capacity for this class of taxes. Advocates tend to minimize the difficulties associated with the requisite valuation and record keeping. Critics argue that for a well-administered property tax, it is necessary to maintain an updated, accurate cadastre and that the costs of administering the tax may outweigh its benefits.[11] Finally, Silverman (1992, p.31) points out that such taxes are much more easily identified and collected in urban areas and, thus, "often create imbalances in revenues and hence

[8] For a fuller discussion of presumptive taxes see K. Bulutoglu (1995) and G. Taube and H. Tadesse (1996). The latter source is particularly good on SSA experience with presumptive taxation.

[9] Technically, all owners of capital may bear the burden of a property tax on land because functioning capital markets imply equalization of tax burden across all uses of capital.

[10] Keith (1993) estimates that property taxes have the potential to generate up to ten percent of national budgets, including total revenue from all sources. No WCA country comes close to this potential.

[11] Technology may be driving down the cost of such cadastre systems and change the calculus on the benefits of using property taxes.

services and investment between urban and rural populations".

Corporate Taxes. For various reasons characteristic of developing economies, including a large state sector and a targeting of foreign corporations, taxes on capital or particular organization of asset ownership do not seem to hold much potential for directly financing local expenditures. If local jurisdictions were given authority to determine rates, it is likely that the distortionary and destructive practice of tax holidays and other forms of competition we observe at the international level would be replicated at the intra-national level, presumably to the detriment of all local governments.

3.2 Indirect Taxes

Sales and Value Added Taxes. Sales, and more specifically VATs have become an important part of nearly every tax system in the world.[12] The current preference for VAT over a simple sales tax regime results in part because the VAT provides a great deal more flexibility in defining bases, creating an enforceable collection system, and avoiding distortionary multiple (or cascading) taxation.

A VAT can be applied to all expenditures, all expenditures minus depreciation, or all expenditures minus both depreciation and expenditures on capital goods. (Zee 1995).[13] More generally, the VAT is neutral in the sense that it does not favor production or consumption for a particular commodity since both uses face the same price. Administration costs for sales taxes and VATs are not likely to be different but there may be real differences in the amount and type of evasion likely to occur. Certainly, a VAT creates a much better audit trail since producers have an incentive to demonstrate prior tax payments on inputs through invoices. (McMorran, 1995). Both types of taxes can have limited redistributive scope (and modest progressivity) by exempting necessities and imposing higher rates on "luxuries".

On balance, it would seem that VATs are appropriate as local revenue sources only if there are constraints on rate and base determination. Even assuming this, it would remain difficult to administer. Clearly, allowing discretion over the VAT base at the local level through the design of the tax would result in a costly and inefficient tangle of contradictory, jurisdiction-based tax obligations with the potential to distort economic decisions at every step of the production and distribution chain. Experience with local VATs in developing countries has been largely negative.

Excise Taxes. Excise taxes are sales taxes levied on a small subset of available

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[12] In reality, a VAT is just a sales tax applied at several stages of the production-distribution stage. The tax is calculated only on the basis of the value added during the immediate preceding stage in the production-distribution chain. This excludes VATs paid out during earlier rounds and thus solves the cascading problem under most conditions.

[13] Aside from the possibility of exemptions, there are other design factors that determine the actual base of a VAT, including whether it is origin or destination based and whether it uses the credit or subtraction method. (Zee, 1995).

consumption goods, preferably in accordance with certain well-established conventions. These include the excise taxation of commodities with one or more of the following characteristics: goods either produced or "managed" in some way by the state sector, goods that have inelastic demand, goods that have income elasticities greater than unity (luxury goods), and goods that are bad in that they either generate negative externalities or are deemed as socially lacking in merit. (McCarent and Stotsky 1995). Most commonly, excise taxes are applied to the consumption of automobiles and petroleum, alcohol, and tobacco.

Excise taxes are generally held to be much less difficult to administer than sales taxes or VATs and somewhat harder to evade, hence it is sometimes recommended on these grounds that developing countries should make greater use of them. (Bolnick and Haughton 1996). When applied to goods with highly inelastic demand, of course, they have the potential to raise substantial revenue without greatly distorting purchasing decisions (at least relative to more general sales taxes). When applied to high income elasticity goods, they have the potential to be somewhat progressive. When the tax is levied on an *ad valorem* basis (as it is suggested, conventionally), it is buoyant. None of these benefits provides a particularly "local" rationale for devolving control over this tax to local governments. The arguments against doing so would be similar to those already advanced for sales and value added taxes. The single strongest argument in favor of granting local governments authority over excise taxes arises when they are applied to correct negative externalities, provided that the externality itself is local in nature.

4. Local Non-Tax Resources

In the previous section, we examined a number of tax mechanisms to determine which might be good candidates for assignment to local governments. Realistically, however, it is unlikely (and perhaps undesirable) that WCA central governments will shift a great deal of tax and expenditure authority to local governments in the near term. When they adopt a decentralization policy, central governments invariably reserve the best, i.e. highest yielding, tax instruments for themselves.[14] In this situation, which is common throughout West Africa, what alternatives are available to local governments? This section looks at a number of non-tax revenue sources.

4.1 Intergovernmental Grants

One alternative route for increasing the consumption of local public services is to provide additional resources through grants from the central government. This likely will require significant reform to the existing system of intergovernmental grants, which is already the major financing source (apart from foreign aid) for local governments in WCA countries. This strategy might be optimal if the tax reforms that can realistically be undertaken (be it for political or

[14] Our reading of the tax statutes of several developing or transition countries indicates that there is often conflict in the tax assignment to different levels of government, which sometimes grant more than one level access to particular tax instrument without specifying primacy. The end result is that the central government captures nearly all revenues generated by that particular instrument.

technical reasons) were more likely to raise revenue at the national level. Conversely, an increasing reliance on central government grants could further entrench that bureaucracy's control over local public good provision to the detriment of distinct local preferences. The answer depends on a careful analysis of institutional factors in each country. While all WCA countries have some form of revenue sharing in place, many, if not all, of these systems badly need rationalizing, in the sense that they fail to meet generally accepted principles of good transfer systems.

Grants can be used to accomplish several objectives: a) correct for imbalances among different levels of government in their ability to fund public expenditures; b) ensure that all local governments can provide a minimum level of service; c) induce an expansion in the provision of public or merit goods; d) correct for insufficient local financing systems; e) correct for horizontal imbalances across jurisdictions; f) ensure some minimum amount of redistribution. (Norregaard 1995 p.252, Oates 1972). In the context of developing countries, special attention needs to be placed on the weakness of local administrations because vastly more effective central collection might increase total revenue so much as to offset the loss of autonomy of local governments. The principles which one might use as targets for the reform of transfer programs include predictability, transparency, and constraints on the discretionary authority of grant officials.

There are three types of intergovernmental grants: surcharges, unrestricted grants, and categorical grants. (Silverman 1992, Musgrave and Musgrave 1980, Oates 1972). A surcharge is a simple vertical transfer from the center back to the local communities reflecting an amount added to national collection based on rates selected by the communities with no restriction on uses. Unrestricted grants, under which some fixed share of national revenues is allocated to a fund and distributed according to a formula, are used extensively in both developed and developing countries for access to central tax instruments and for equalization among jurisdictions. Categorical grants are designed to increase local expenditures on goods or services which generate positive externalities or, more ambiguously, may be considered merit goods. There is sometimes a matching requirement that stipulates a necessary contribution by the local governments.

The empirical evidence on the incentive effects of intergovernmental transfers on the local communities' willingness to raise additional revenue is ambiguous. Ostrom, Shroeder, and Wynne (cited in Silverman, 1992) reviewed studies which demonstrated disincentives (meaning grants tended to be viewed as substitutes for local revenues and hence not raise local expenditures) as well as studies that evidenced incentive effects (the grants were stimulative and expenditures increased by more than the amount of the grant).

4.2 User Fees and Coproduction

It is sometimes difficult to distinguish user charges from taxes. The theoretical advantage ascribed to user fees is that allocative efficiency is improved in two ways. First, user charges simulate market mechanisms; prices work for publicly-supplied goods just like private goods.

Second, user charges provide direct and easily observable information on the costs of provision, which is otherwise hidden in aggregate tax and expenditure patterns. The problem, of course, is that fees often do not reflect the real cost of providing a good or service, meaning that the price charged incorporates either a hidden tax or a hidden subsidy.

If user fees are to be properly applied (in an efficiency sense) to merit goods and the goods are properly priced, then this leads to the paradoxical result that there will be underconsumption. Conversely, if some portion of the user charge is subsidized and the price consequently set too low, there will be over-consumption of the public good. Many components of government supplied health and education are not public goods in any sense and have only weak, long-term, or difficult to measure positive externalities.[15] These goods and services would be good candidates for user charges that reflect actual provision costs.

Among the leading candidates for the application of user fees are health and education services, due to both the importance and the relative excludability of these types of services. Sectoral decentralization in Africa has seen the introduction of fee arrangements and other community resource-mobilization methods for the provision of primary education, and a similar move in the area of primary health care under the 1987 Bamako Initiative. In principle, these efforts are well-founded, given the clear evidence that households are willing to pay for many education and health services. (Gertler and van der Gaag 1990; Hecht, Overholt and Holmberg 1993; McPake 1993; Shaw and Griffin 1995). Household expenditure surveys indicate that African households expend substantial sums for health services. (World Bank 1994). Communities contribute to the provision of services in the form of fees, as well as labor and materials (see below). In the cases cited in the literature, this is understood to have brought new resources into the health sector (instead of displacing existing ones) and stimulated general awareness of health within the community. However, one limitation of community financing lies in its inability to address equity issues. Another is its failure to focus resources -- absent subsidies or education campaigns -- on those services with the most positive externalities (e.g. preventive health care).

Perhaps the most striking aspect of community financing of health and education in Africa is its great potential, whether in the form of user fees or in-kind contributions. In Uganda, household contributions to education services have been estimated at 65 to 90 percent of total costs at the primary level, and 70 percent at the secondary level.[16] Community contributions to public schools in Togo are also substantial, and a large network of private schools is also supported outside this system. While some school systems, particularly religious ones, place

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[15] In health care, for example, contrast the positive externalities associated with vaccination against communicable diseases versus those generated by mending broken bones.

[16] Apparently, President Museveni recently muddied the waters here by promising free primary education for up to four children per household. USAID officials are concerned about the impact of this announcement on community financing. A related issue is policies setting maximum school fees. In some cases, this has led schools to charge hidden extra fees in order to make ends meet (Bray 1996, p. 35-6).

special emphasis on avoiding or limiting state control per se, most community financing in Africa appears primarily intended to meet excess demand -- in other words, communities would prefer the government to make adequate provision. (Bray 1996, p.3-5; see DeStephano 1996). User fees in particular are often set at levels below their potential, often due to a failure to revise or index rates. In Ghana, for example, a major increase in health care fees in 1985 increased cost-recovery receipts as a share of Ministry of Health recurrent expenditures from 5.2 to 12.1 percent by 1987. (World Bank 1994, p. 156). By one estimate, a better effort on billings collection, and some inflation-adjustment for fees, could have increased recoveries from 5 to 20 percent of government spending for clinical health care in Zimbabwe. (Hecht et al. 1993).

In cases where the community does not have adequate resources to provide education or health services on its own, it can coproduce them with the government. The government could provide part of the funds and specific knowledge required, while community members could contribute cash or labor towards the design, operation, and maintenance of the facility. Coproduction can increase transparency and thereby reduce opportunistic behavior within the government. (Isham and Kähkönen 1996, Ostrom 1996).[17]

4.3 Debt Financing

A final mode of public financing for local infrastructure and services is debt financing. Local public debt financing is rare in the WCA region. Examples include debt instruments used by Nigerian municipalities and central loan funds made available to communities in Francophone countries such as Senegal. It is unlikely that any but a few of the largest cities in the region would have the management capacity and the necessary legal framework to tap financial markets on their own in the near future. Strengthening municipal accounting and management capacity, as well as secured lending and banking laws, are among the changes that would be needed to make this possible.

A more realistic alternative would be a central credit institution for local governments, perhaps financed and managed with international assistance. In some WCA countries, this credit could be made available to municipalities, but probably not to rural local governments, under current conditions. In Guinea, for example, financial management capacity in rural local governments is sufficiently low that credits might well be misused or misappropriated, and the yield of local tax instruments is sufficiently low that repayment will pose a challenge. Credit would need to be accompanied by some other changes, such as devolution of the *prefectural* level, that bring greater scale and management resources to the local government level, as well as some form of capacity-building. Even apart from this, the choice and management of central credit funds would obviously have to be such as to bring a return on loan projects that allows repayment. Thus, strengthened management and accountability, selection of projects with high enough yield, and improvement in the current pattern of tax collections, are all necessary conditions for the success of local government credit programs in this setting. (Davey 1983 p.

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[17] For further discussion of this point, see section 7.2 below.

102-8, Bahl and Miller 1983 p. 188-227).

There are tradeoffs involved in the choice of avenues to assist the financing of local public goods and services. Fees for services, assuming that they cover a significant share of costs and are recycled locally, reduce the opportunities for irresponsible central administration that plague tax sharing and other transfer mechanisms. On the other hand, fees are not as buoyant. Outright assignment of taxes to decentralized jurisdictions have a similar effect, though they may allow more discretion to local administrators than fees. Grants and subsidies in most developing countries, and especially in West Africa, are both unpredictable and subject to few criteria of selection. Private providers, like the Hometown Voluntary Associations in Nigeria and the *Associations des Ressortissants* in Guinea, are highly effective at mobilizing resources, and can in some cases offer a political counterweight to local officials whose main constituency is comprised of party elites in the capital. On the other hand, these associations often choose the most obvious or enjoyable projects rather than the most needed ones, and are sometimes inefficient or fail to adhere to standards of accountability. Moreover, their contributions can be difficult to capture in an accounting of local public goods, they often are not taken into account in budget decisions, and they present special problems of financial control when matched by government contributions (Davey 1983 p. 97-8, 132-8; Bennett 1994 p.151-7; Schroeder 1989 p.188).

5. Tax Administration

The dilemmas of local resource mobilization in the region are encapsulated in the following assessment of the situation in Mali:

> Three factors contribute to the population's unwillingness to pay taxes and to grant legitimacy to the municipal authority. First and foremost, there is a profound lack of information at the community level regarding the range of services that could be made available, the options in organizing service delivery, the costs of these options and the reciprocity that should exist between the local government and citizens as service users. Second, there is no visible link between services rendered and the taxes, fees, or charges paid to the municipality. The sole exception may be administrative fees for drawing up or notarizing documents, but from a citizen's perspective, it is difficult to see this as a service since the government requires this document for meeting government regulations. Third, lax enforcement in cases of non-payment of taxes reinforces taxpayers' tendency to evade their obligations.[18]

Tax policy and tax law determine the demands placed on the tax administration, as well as the ministries, courts, and other agencies involved in control and oversight. The question here is whether a tax system is administratively feasible. Non-revenue policy goals such as providing environmental or sector-specific incentives, or allocating urban land use, are difficult to meet in the best of circumstances, and present complications and even contradictions when the time comes to administer them. While growing and diversifying economies require increasingly complex tax instruments in order to support a modern public sector, it nevertheless makes sense to keep local tax systems in WCA as simple as possible. Indeed, simplification has been an important feature of tax reforms in recent years, from the U.S. to Jamaica to Bolivia. (Bahl et al.

[18] Hall et al. (1991) p. 42.

chs. 32 and 33 in Bird and Oldman 1990, Silvani and Radano ch. 2 in Bird and Casanegra de Jantscher 1992, Bahl and Martinez-Vasquez ch. 3 in *Id.*).

Even in the absence of conflicting policy goals, African tax systems confront daunting administrative hurdles. This is especially true at the local level, since more easily administered taxes tend to be administered by and for the account of the central government, whereas taxes that accrue to local budgets often require much more administrative effort to collect. Property taxes present perhaps the greatest difficulty. Urban property taxes, and even more so agricultural land taxes, present comparatively high administrative costs due to the need for assessments, and the maintenance of cadastres, although technological and other innovations help to limit these. Property taxes do not perform well in many developing countries, particularly in Africa, where administrative resources are few, and particular difficulties are presented by landholding patterns or conflicts, and by political pressures. Even if local governments or their counterpart ministries in the central governments wished to reform administration of property taxes, they would in most cases have to convince the central agency that administers the tax, such as the Ministry of Finance, to carry out the reform. The more usual local taxes in WCA, such as the *patente* and the rural head tax, are difficult to collect on any realistic -- and hence equitable -- basis where, as is often the case, local business record-keeping is rudimentary or non-existent, and rural census data on household assets are out of date or incomplete. (Local Revenue Administration Project 1985, Bahl et al. ch. 32 in Bird and Oldman 1990, Strasma et al. ch. 35 in *Id.*, Terkper 1996).

Tax administration in WCA countries thus suffers from a paucity of administrative resources and a set of political barriers that make collection of even fairly uncomplicated taxes for the account of local governments difficult. Tax administration staff tend to be few and not well-trained, paid or motivated. This makes regular assessments, audits, and statistical work difficult and in many cases impossible. Data such as taxpayer rolls, particularly unified taxpayer registers, estimates of potential revenue, and statistics on taxes collected tend to be difficult to access or are unavailable. (Wozny 1984, Local Revenue Administration Project 1985).

As a result, national mobilization of resources for social investments has suffered severely. The reality is "a tributary and regressive taxation system that spares the powerful and rich and drains the poor and those who can least afford it". (Dia 1993 p. 20). By way of example, a 1992 study found foregone customs revenues in The Gambia amounting to about five percent of GDP, and losses from income tax evasion totaling some 70 percent of revenues due. (Dia 1993). This evasion, and the illicit transfer of riches through corruption, has a regressive tendency, given the greater amounts of revenue foregone due to elite evasion.

The case of personal taxes in Africa, including the simplest form of tax, the poll tax, illustrates many of the difficulties faced by tax administrators. The difficulty of collecting taxes, particularly from rural populations and the urban self-employed, has been summarized as follows:

> In the case of the 1 1/4 million adult male farmers and traders of Uganda, tax collection is a far cry from "painless extraction" through employers or the posting of computerized rate demands by municipal accountants. It is a laborious process involving approximately 6,000 employees of poor education and salary, making face to face

contact with people living in small holdings scattered over the length and breadth of the country; the contacts must be made during the relatively short seasons of the year when people have money to pay.[19]

Tax assessments tend to be made by local committees presided over by village chiefs, town clerks, and the like. Taxes are collected by such means as making the rounds of each household, making collections at marketplaces, and requiring individuals to travel periodically to the local government center to pay. The local authority, a rural chief or urban committee head, will be responsible for distributing tax statements, updating tax rolls, and delivering the aggregate tax receipts to the next higher level of government. Tax liabilities for farming and self-employment income are usually imputed, based on the type of occupation, commodity, livestock, etc. Equity tends to suffer where uniform guidelines are not provided, and imputed incomes to different trades and sectors can be discriminatory -- in addition to being applied by people with little or no training. These systems, moreover, leave significant discretion to collectors and chiefs, opening up both potential embezzlement and favoritism, and more positively, the flexibility to treat individual cases appropriately -- for example by not pursuing unpaid taxes in times of poor harvests and other hardships. (Wozny 1984).

How can WCA countries optimize tax administration in a situation of public sector retrenchment and paucity of resources? The response that many countries have adopted to these problems is to simplify not only the provisions of the tax code, but its implementation as well. There are a number of tactics available here. One set of options is to provide for a presumptive tax as a replacement or alternative to an assessed tax. An example, the "graduated tax" in Uganda, has apparently been highly successful. Its success is due to the fact that a large part is collected at source from employers, the tax receipt is used as a form of indemnity document, there is local grassroots involvement in collections through "Resistance Committees," and the tax is not pushed beyond its capacity. (Keith 1993). Another example of a presumptive tax is that used in Ghana, where business associations are appointed as agents to collect a standard tax from each member periodically. As in group lending schemes, social pressure encourages regular payment. (Terkper 1996). Clearly these arrangements entail tradeoffs between administrability and revenue potential on the one hand, and the potential for overreaching and abuse by local entities involved in collection, on the other hand.

Another set of options involves cutting back the number of duties tax administrators perform, and focusing on the most profitable activities. These could include taxpayer preparation of returns, self-assessment of property tax, "privatizing" certain functions such as having tax payments made through designated banks, and channeling resources toward tax enforcement against the largest class of taxpayers, for example through the establishment of "large taxpayer" units. Payment through banks, used in several Asian and African countries, has the added benefit of avoiding the handling of cash by tax collectors, and thus reducing the opportunities for corruption. Examples of this are payment of market fees in some Nigerian localities, and payment of property taxes in Pakistan. (Olowu 1992, Keith 1993). As for large taxpayers, an average of

[19] Davey, *Taxing a Peasant Society* pp. 133-4, quoted in Wozny (1984) p. 29.

60 to 70 percent of tax collections in developing countries come from the top one percent of taxpayers. Argentina and Mexico have successfully mounted anti-evasion campaigns focusing on this tier of taxpayers. A third set of options involves simplifying and speeding the flow of revenue to the treasury, through withholding schemes, monthly or quarterly estimated tax payments, etc. Examples in the WCA region include income taxes withheld on a pay-as-you-earn (PAYE) basis, and VAT withholding in Nigeria. (Bird and Casanegra de Jantscher ch.1 in Bird and Casanegra de Jantscher 1992, Terkper 1996, Wadhawan and Gray 1996).

Another important method of improving tax receipts while minimizing the administrative burden is to encourage voluntary compliance. Numerous surveys indicate considerable (potential) willingness by ordinary Africans to pay taxes or fees provided they result in tangible projects and benefits. (Wozny 1984). How can tax administration foster this willingness? One aspect of this is the transparency of the system. Taxpayer perceptions of legitimacy and fairness, and in turn their willingness to pay, are likely to increase to the extent that the system minimizes special treatment for the rich and powerful as well as opportunities for corruption within the system. The same has been said about implicit, but not legally sanctioned, exemptions for international aid agencies consuming local goods and services. African tax systems generally fail in this area and are "at the farthest end on any scale of transparency". (Wadhawan and Gray 1996 p. 25). Perceptions of fairness, as stated above, are also affected by the extent to which taxes are seen as paying for actual infrastructure and services, rather than, for example, providing rural tax revenues to subsidize urban dwellers. Other important ways to encourage compliance include the publication and availability of the tax code, regulations, instructions, and forms. In Africa, given low levels of literacy, taxpayer information campaigns are especially important. (Wadhawan and Gray 1996).

Finally, of course, enforcement of penalties, as well as audits and high-profile investigations, while they use scarce administrative resources, can significantly boost taxpayer compliance across the board. In Malawi in the late 1960's, tough enforcement legislation was enacted in response to poor collections of the Minimum Tax. The result was a dramatic increase in both current year tax payments and payment of arrears. In several WCA countries, receipts or other proof of payment or exemption are required before certain public benefits can be obtained or certain transactions can be registered. In Guinea, this policy increased compliance but resulted in questionable practices, for example, tax payments on behalf of deceased relatives. (Wozny 1984, Terkper 1996).

6. Decentralization

A discussion of local public finance issues must confront the public administrative and political complexities that play a defining role in decentralization. Public management in the highly centralized states of West Africa is plagued by widespread and debilitating intrusion of patrimonial power relations into the workings of the state at all levels, abetted by failures of accountability, transparency, and the rule of law. All too often, potential competing sources of power that could place a check on the one-party bureaucratic state -- the legislature, judiciary, media, indigenous authorities, and interest groups -- have been rendered toothless by law or the operation of the political system, or have cooperated in the division of spoils. (Dia 1993).

Local government in Africa eroded during the colonial and immediate post-independence periods, with the decline of traditional authorities, the removal of colonial-style district administrators, and the rise of centralizing states and political elites. The perceived failure of centralized approaches led to swings in the direction of mixed or decentralized administrative structures since the late 1960's. (Mawhood, ch. 1 in Mawhood, ed. 1983). Two models of administrative reforms have competed for influence: deconcentration and decentralization.

Deconcentration represents the sharing of powers among central and regional/local units of the same central authority, and in parallel with this, among members of the same national political elite. The idea here is to delegate powers held in the capital to governmental units closer to the population, thereby extending the administration's reach into the periphery while retaining political and administrative authority within the central government. This is sometimes referred to as *bureaucratic decentralization, delegation of powers, or field/regional/prefectural administration*.

Decentralization refers to the devolution of powers from the central government to separately constituted regional or local governments with discernible administrative and fiscal autonomy. This is sometimes called *democratic decentralization, local self-government, municipal administration, devolution of powers, or federalism*. Some useful indicia of a decentralized local government body would be:

1. Its own budget (approximately balanced estimates of revenue, a separate bank account).
2. A separate legal existence (corporate status, power to sue, be sued, hold property).
3. Authority to allocate substantial resources (power to vary and apply revenues, decisions over staff appointment and discipline).
4. Power over a range of functions (i.e. not a single-purpose unit).
5. Decisions made by representatives of local population (elective, or in some cases appointed representatives).[20]

Despite the movement recently in the direction of decentralization, it will be clear that in most of the region it has not been achieved, in fact, to any significant degree. Despite the use of the term "decentralization," the operative model in most cases is that of deconcentration -- if not in formal and explicit terms, at least in informal political terms. This, in a way, is the worst of both worlds.

On the one hand, local authorities are often hemmed in by severe restraints on their resource base and freedom of action. The demands of patrimonial politics in any event can distort

[20] Mawhood, ch. 1 in Mawhood, ed. (1983).

local administrators' incentives away from local service provision towards service provision for the national political elite of which they are a part. (Marks 1996). On the other hand, deconcentration can abet centrifugal tendencies within the administration and the political elite. Local representatives of the national government, in the absence of any real oversight, manipulate the rules to maximize rents and to feather their own nests through corruption and nepotism. Dia (1993) analyzes this as a disconnect between "authority" and "control," to which the only effective response is formal devolution in which the state becomes re-connected to civil society, thus re-integrating authority and control, and establishing a basis for accountability. Mawhood (ch. 1 in Mawhood, ed. 1983) also views effective decentralization as an urgent matter in Africa, especially as compared to other regions of the world. Local governments in Africa have little leverage against the central state, hence it is imperative for them to control as much of their resource base as possible if they are to be responsive to local needs.

A review of decentralization and structural adjustment initiatives in Ghana, Nigeria, and Ivory Coast found the following problems:

- extreme dependency of local governments on central government policies and grants;
- central government underestimates of local government human resource capabilities and overestimates of local fiscal potential;
- limited credibility of local governments among constituents because of poor performance;
- inadequate monitoring and feedback within imposed local government structures;
- few local-level incentives to contain personnel costs, and to shift funds in operating budgets in order to improve public services such as health and education;
- "fiscal illusions" created by policies, usually originating from the central level, that encourage local officials to make lobbying for central grants the top priority, rather than more effectively mobilizing local resources;
- residual central resistance to devolving real political and fiscal power to local government units.[21]

Since fiscal transfers from the central government can be volatile, some certainty needs to be introduced. A fixed percentage of the national tax base, for example, can be assigned to local governments -- as has been done in Ghana. (Dei 1991, Terkper 1996).[22] This, ideally, should go together with a "localizing" of the tax base, with tax administration performed by agents accountable to the local government, and localities supporting themselves to a much greater extent through surtaxes and other charges. Sources of own revenues and a hard budget constraint are necessary to improve local public management from its current politicized and profligate status in much of the WCA region. (Marks 1996).

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[21] Garnier et al. 1994, p. 19.

[22] The difference from the usual practice is that such a provision would ideally be inscribed in the revenue code or the constitution and would touch all revenue sources- rather than being a sharing of specific revenue sources that changes with each new annual budget.

The U.S. experience, admittedly foreign to the African context of post-colonial unitary government, suggests that a constitutionally entrenched commitment to limited central government, unburdened by a long list of local government responsibilities, helps to ensure local government autonomy. A plethora of express local government duties reverses this equation, thus circumscribing local initiative, and often goes together with the absence of an adequate financial base to perform the duties -- as in the WCA countries, India, and others. In the end, sub-national governments can manage their affairs and bargain effectively with the central level only if they have secure local revenue sources and do not depend too heavily on central transfers. (Oates 1993, Garnier et al. 1994, Shome 1995).

Successful decentralization also depends on a series of factors such as a cooperative relationship with the central government, the existence of a viable economic base, and intelligent exploitation of revenue and capital sources. The comparatively successful local government systems of the U.S. raise some 40-70 percent of own funds. This may be sufficient to underwrite local autonomy, but clearly much depends on grants from higher levels of government -- grants that need to be made in a prompt and predictable fashion. Moreover, while central oversight can easily become overbearing if not properly limited, it is necessary to ensure that constitutional standards and national policy priorities are not overridden by untrained or unscrupulous local officials. (Olowu and Smoke 1992, Shome 1995). But, the converse is also true; the autonomy of sub-national governments will inevitably erode if constitutional rules and effective, central, enforcement mechanisms do not exist to keep central authorities from interfering in local matters.

7. Governance

The effort to mobilize local resources effectively for social infrastructure investments in the WCA region will clearly require more than decentralization and the improvement of tax collection. Systems of local governance, and the national systems in which they are situated, are burdened by widespread failures of transparency and accountability. Corruption and the associated decline of governmental legitimacy are causing increasing harm to economic development and vitiating democratic policy choice. This set of problems has led to calls for a number of serious administrative reforms, coupled with a new style of local governance more connected to indigenous institutions, both traditional and new.

7.1 Transparency, Accountability, Corruption

Enforcing transparency and limiting corruption in the mobilization and use of public revenues appears to be of at least comparable importance to tax policies, taxes bases, and other issues in public finance, particularly in West Africa. There is growing understanding of the causes and costs of corruption. The literature that has appeared on corruption in the last two decades, and especially in the 1990's, has helped transform corruption from an intractable phenomenon dealt with primarily by political scientists, to a set of institutional and policy challenges for which new analytical perspectives and responses are emerging almost daily. The dominant paradigm, which views corruption as a species of principal-agent problem, places the root of the problem in the bureaucrat's monopoly power over the grant of public benefits, his/her discretion to choose among a number of end results (e.g. the application of a particular tax rate or exemption), and the absence of a binding requirement of accountability to a higher authority. (S. Rose-Ackerman (1978), R. Klitgaard (1988), A. Goudie and D. Stasavage (1997)). Parallel to this is the realization that well-designed institutions and countervailing power centers such as the courts are not self-enforcing. Curbing corruption requires a moral and political commitment by top leadership, an elite cadre of civil servants and judges imbued with an ethic of professionalism and integrity, and a plurality of political forces in and outside government that brings institutional checks and balances to bear on the problem. (Transparency International (1996), P. Meagher (1997)). Finally, evidence continues to emerge of the costs of corruption to economic performance and political stability. Most dramatically, in the African and former communist countries, high levels of corruption are associated with stagnant investment, slow economic growth, and distortions. (D. Kaufmann and P. Siegelbaum (1996), IRIS (1996)). Among the distortions that arise in public finance are the relative impoverishment of the education and (less clearly) health sectors in countries with high rankings in corruption indices. (Mauro (1996)).

Governance failures in the West Africa region run the gamut from corrupt and collusive revenue administration to high level intervention in tax assessment and collection, non-transparent and at times unlawful budgeting and expenditure of revenues, unaccountable use of the *tutelle* or supervisory authority, and political manipulation or high-handed disregard for local citizen's groups. Tax corruption results from a combination of loose supervision of tax bureau staff and patrimonial politics. At the lower end of the scale, the discretion exercised by local chiefs to provide exemptions or forgiveness has been mentioned above, and provisions in some systems for the payment of commissions to local tax collectors creates even more corrupt incentives. At the higher end, in Tanzania for example, the Minister of Finance has had (at least until recently) discretionary power to exempt goods and individuals from duty payment, fully or partially. Serious leakages resulting from discretionary exemptions have resulted in lower effective duty rates. (Wadhawan and Gray 1996).

On the expenditure side, there are few controls. Several studies confirm the use of national grant funds for party-building and other political purposes, as well as the personal use of vehicles, fuel, and the like by local officials -- in flat contravention of the local development purposes stated in the legislation creating these funds. (Hall et al. 1991, Crook 1994, Marks 1996). The process of central approval of municipal budgets in Senegal has been, in many cases, an overtly political horse-trading encounter in which budgets are tactically bloated, slimmed down, and/or rubber-stamped depending on the mayor's political clout. The use of these budgets receives little oversight in practice. As a municipal official in Senegal put it:

> The budget of a legally constituted commune is a political instrument. There are certainly expenditures which can be made public, but others which can not because of their confidential character. The appropriateness of each case is left to the judgment of the mayor.[23]

This type of manipulation and corruption calls for independent layers of oversight.

[23] Marks (1996) p. 36. One could offer a similar critique of the system in Guinea- see the case study below.

Unfortunately, existing systems in WCA are generally not in a position to provide this. The political network, particularly where one governing party dominates, can prevent national and lower levels of government from acting as checks on each other. Instead, politician-officials in the capital and the regions are locked in a mutual embrace of reciprocal favors and patronage -- thus undercutting the rationale for "objective" central-level policy guidance and exercise of the *tutelle*. Moreover, national institutions of legal review and oversight -- appeals courts, auditors, ombudsman offices, and the Francophone *Conseil d'Etat* and *Cour des Comptes* -- usually lack a regional presence, sufficient resources to exercise oversight effectively (at least outside of the capital), or are part of the same elite political consensus. (Marks 1996).

Integrity in the administration of taxes, budgeting, and expenditure requires at least a minimum level of professionalism and the rule of law. Some African states have begun to make a serious effort to enforce public integrity at the top. Ghana, Tanzania, and Uganda are among the countries that have enacted strengthened rules on disclosure of assets by elected officials and have put stronger supreme audit institutions in place. (Kumado ch. 13 in Bennett ed. 1994, IRIS 1996). These efforts will help advance the decoupling of administration from systems of political patronage and campaign finance.

Meanwhile, stronger systems of review and oversight are needed. In some cases this will likely involve major changes in constitutions and organic laws. An important overall step would be to place local government on a firm independent legal footing. This involves changing central oversight from an administrative to a judicial (or at least administrative tribunal) task -- not of substantive oversight but of policing clearly drawn lines between local and national authority. Decentralization reforms have made some progress in this direction, but center-periphery relations remain far from transparent in most cases. In addition, systems of judicial review need to be strengthened -- at the center, and particularly in the regions. Effective review of budgets and expenditures, moreover, requires independent audit authorities and legislative oversight of expenditure and performance by the administration -- at every level of government.

Admittedly, it may take time for many WCA countries to mobilize the resources for this, but emphasizing legal oversight in preference to administrative oversight could conserve some resources, particularly if citizens are empowered to bring suit on administrative issues. (Chemerinsky 1983). In some cases, the answer may be the establishment of a free-standing oversight office that responds to citizen complaints, such as the ombudsman. For example, a "tax ombudsman" can not only receive and process taxpayer complaints about their treatment, but also openly assess the evenness of compliance and enforcement, thus encouraging voluntary compliance. Such an office exists, for example, in several Western countries as well as Japan (the National Tax Tribunal) and India (the All India Tax Tribunal). (Gordon ch. 4 in Thuronyi ed. 1996, Wadhawan and Gray 1996). Of course, the resources, breadth of jurisdiction, legal autonomy, and political constraints of such an office critically affect its prospects of success.

As for professionalism and performance incentives within the administration, several models have been tried, including in Africa. There have been several cases of the cleanup of local governments and revenue authorities -- Bolivia and the Philippines are examples -- where civil service rules were amended or suspended so that the administrative work force could be downsized, "ghost" employees eliminated, incompetent employees dismissed, corrupt officials prosecuted, and hardworking civil servants rewarded. Some forms of performance incentives, such as paying individuals percentage commissions for taxes collected, especially without real oversight as in some rural areas of Africa, amount to little more than corruption-inducing tax farming.

Several jurisdictions, including African countries such as Ghana, Kenya, Tanzania, Uganda, and Zambia, have experimented with replacing tax authorities with autonomous revenue boards. The objective here is to enhance professionalism in tax administration by removing it from the civil service and placing it under an autonomous board or authority. This takes it out of competition for general budget funds and enables it to fix appropriate personnel policies and governance mechanisms. Changing the conditions of work in this way can make a huge difference, by introducing accountability for revenue targets and other objective indicators, and providing improved salary and benefits as well as performance incentives. Secondly, this approach can help harmonize the formulation and implementation of tax policy. Of course, the effectiveness of such an approach in improving local revenue performance in WCA would depend, among other things, on greater accountability of local to central revenue offices. Apparently, this experiment in Ghana suffered when inflation eroded the incentives, and staff morale and efficiency declined until an overdue pay adjustment was made in 1994. This underlines the need for sustained commitment and attention for reform to succeed. (IMF 1981, Terkper 1994, Terkper 1996, IMF 1996, Dia 1996).

7.2 Decentralized Governance and Legitimacy

Decentralization in the sense of devolving functions to the private sector or citizen organizations, or creating partnership arrangements between the public sector and private actors has a number of other potential benefits. This can sometimes (not always) conserve public resources, it can increase information available to government, tightening the "feedback loop," and, depending on the nature of non-governmental involvement, it can improve accountability. The effectiveness of local governments can be expected to vary with the quality of associational life in the communities. According to Putnam (1993), a multiplicity of spontaneous organizations such as indigenously-created clubs, age-groups, and NGOs should be associated with higher demand for good public services as well as greater ability to self-organize to meet goals determined jointly with government. A less cohesive environment more characterized by hierarchical authority and lower trust would tend to be associated with less effective government (see also Widner 1994). This means that, other things being equal, hierarchical structures, including especially those imposed by a central or colonial authority, would tend to have less mobilizing power. Therefore, the processes of constituting decentralized communities and governments is critical to their effectiveness. At the same time, the existing legacy of social capital, good or bad, should have a determining effect on the effectiveness of whatever local government institutions are put into effect, and hence on their ability to mobilize resources.

There is no shortage of NGOs and watchdog groups in Africa today, although their capacity to perform service and oversight functions remains uneven. One cause of their historical underdevelopment has been political interference, including uneven and unaccountable application of the law to the NGO sector. The politically-motivated denial of approved status and tax waivers is far from unknown in the region. (Marks 1996). Even where this has not been a problem, local institutions have all too frequently been ignored. An assessment of Ghana, Ivory Coast, and Nigeria concluded,"Existing local institutional capital is excluded entirely from the decentralization initiatives examined in the three countries". (Garnier et al. 1994, p. 37).

One of the most frequently-cited benefits of partnerships with NGOs and traditional institutions is the legitimacy and mobilizing power that they can bring to public initiatives. Dia (1996) refers to this hybridization of governance structures as the "reconciliation" of state and indigenous governance. There has been ample discussion of "participation,""partnership," and "local ownership" in development circles. Equally, the importance of indigenous forms of legitimacy, cultural imagination, and legal norms has informed scholarship on African politics and law. (Moore 1978, Ayittey 1991). Involving indigenous institutions is not the same as manipulating or imitating them. Decentralization initiatives are fraught with attempts to fabricate or domesticate non-governmental groups as actors in local governance. (Marks 1996). Equally unsuccessful have been attempts by the state in parts of Africa and Asia to give central administrative or judicial institutions an indigenous flavor -- as a substitute for actually devolving power to the local or traditional unit. (Moore 1978).

An apparently successful attempt to boost revenue collection in Ghana (with USAID assistance) in the 1970's illustrates, among other things, the utility of cooperation with traditional structures. Local revenue collection before the 1971 Local Administration Act was grossly inadequate, due to such factors as local populations' perception of it as extractive, and failures of accountability. Taxpayer bargaining with tax collectors was rampant, as was collector theft of tax receipts, in the absence of any effective oversight. Taxes were known to pay primarily for local council staff salaries, with development projects all funded from central grants. In the region targeted by the USAID-supported program, pre-colonial tribute had long been paid to a hegemonic neighboring kingdom, and colonial administrators inadvertently repeated this pattern by their placement of the regional government center in a neighboring traditional area. After the 1971 law was enacted, few district officials knew its relevant provisions.

Under the reform program, the district officials received training in the provisions of the 1971 law and its administration. Information was collected and revenue targets set, with monthly audits and reviews of targets, as well as weekly deposits and performance reviews required of tax collectors. Those unable to meet weekly individual targets were dismissed. As important, local councillors, along with a budget committee and a standing market committee, held discussions and solicited several forms of local help on improving collections. A key change from the past was that the central government had agreed to place the administrative center, and change the district boundaries, to accord with long-standing traditional political criteria. This, together with friendly competition against neighboring districts drawn the same way, helped produce a dramatic increase in collections. (Warren and Issachar, 1983). The recent *decoupage* of new local administrative units in Mali appears to follow a similar logic, although the sustainability of many of those units is questionable (see the Mali case in this paper).

There are several implications to be drawn here. One would be that the delivery of services should be nuanced, with perhaps a greater and more proactive government involvement in communities with less "civicness," as well as the converse. This might mean a change in emphasis (towards or away from) state-supplied schools and user fees, as compared with devolved village schools, for example. Another implication is that local governments -- or the provision of certain local services -- should in some cases be designed with existing patterns of social solidarity in mind. This was the case with the Ghana and Mali examples cited earlier. Another model would be the racially-based community associations in Singapore, which receive governmental support and are engaged in providing education. (Bray 1996). There are several ways in which government can guide, support, and provide incentives to community provision or financing of services. These could include matching grants to the schools, clinics or districts, as well as tax exemptions for those making charitable gifts to them. Governments can also assure a certain level of support in the form of finance, personnel, or materials, or could guarantee a governmental takeover of a facility once the community has it up and running for a time. (*Id.*).

However, several caveats are in order. States such as those in the WCA region are likely to be sufficiently weak as not to be able to offer very much support. A response to this might be greater disengagement of the central state, and a more uniform provision of incentives and less costly support across the board. Greater reliance on community financing and provision carries two obvious and unavoidable risks: conflict and inequity. The allocation of services can easily become, and often is, a political arena, and can lead to instability. Moreover, groups such as local minorities or females can be marginalized, and in any event communities left to a great extent to themselves will not be able to support equal levels of service. There is also the potential for ethnic tenion, ever present in plural African societies. On the other hand, where governments have stepped in more strongly, they have tended to undercut community initiative and incentives to mobilize local resources. (*Id.*). The resolution of these dilemmas clearly must be context-specific.

In summary, a review of extant literature makes it clear that financing increased local consumption of public and merit goods, such as basic health and education services, requires a reconsideration of both revenue instruments and governance mechanisms. One of the major challenges is to institute the kind of relationship between central and local government that reinforces equity, transparency, and positive incentives for local initiative.

ARTICLE I - TITLE

Revenue Expectations and Decentralized Finance in WCA.

ARTICLE II - BACKGROUND

Introduction

High population growth, pressure to reduce public spending, and slow economic growth have combined to put persistent downward pressure on social investment expenditures, in real per capita terms, in most West and Central African (WCA) countries. At the same time these expenditures, which are primarily in the areas of health care and education, generally enjoy the broad public support. From an economic point of view, expenditures on public health can be viewed as primarily investments to maintain the stock of human capital in a productive condition. Those for education represent society's willingness to invest in improving its stock of human capital. Unfortunately, the current economic budgetary situation of most central governments in the WCA region is such that adequate investments are not being made in these areas. The result has been a general deterioration in performance variables, i.e., literacy and mortality rates, for these sectors. Prospects for future economic growth may also be being seriously compromised by failure to invest in human capital.

In general, most attention in analysis of the fiscal situation for most governments in the region has been directed at the central government budget deficit. Generally, pressure from the Bretton Woods institutions, donors and financial markets has been on governments to reduce central government budget deficits, resulting in downward pressure in spending in all areas financed by central government, including social sectors. This has represented a "macro" approach, which, however efficient in achieving economic stabilization, neglects numerous aspects of public finance, such as the ability and willingness of people to support public expenditures, and the governance level at which various types of public expenditures can be financed.

An additional problem for public finance in many WCA countries is that current fiscal receipts, not including donor support, are far short of budgetary outlays. In Niger, for example, fiscal receipts were recently reported at only about 20 percent of budgetary outlays. This situation presents several problems: (1) From a developmental point-of-view, no case can be made for sustainability. In these situations, attempts to eliminate, or even substantially reduce, public deficits will result in not even the barest minimum of state expenditures for infrastructure, social investments, security, transportation, etc., being maintained. (2) Development funds are consistently diverted away from their basic intent toward supporting the continuing expenditures (recurrent costs) of the state. Even in such situations of extreme imbalance, emphasis in deficit reduction efforts is generally through the setting certain broad goals, such as increasing revenues and decreasing expenditures by a certain percentage, which offers no protection to social investments.

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While the desirability of achieving fiscal balance is uncontestable, it must be recognized that central government deficits result from both deficiencies in revenue collection, and excessive expenditures relative to revenue collections. Furthermore, given the willingness of African people to pay for health and educational expenditures, models which rely strictly on revenue collection at the central level may underestimate resources which can be mobilized for health and educational expenditures, if revenue to support them were collected locally, and if expenditures for health and education were administered locally.

USAID is in the process of elaborating a new strategy to provide a rationale for its development programs in West and Central Africa. It is expected that Democracy and Governance will form an important part of the strategy. Generally speaking the African public is considered to give a high level of support to health and education expenditures. The control of resources to support expenditures for the benefit of local populations also lies close to the heart of Democracy and Governance issues in the general area of decentralization. In this respect, decentralized governmental finance could be a means of making progress in both reducing fiscal imbalances, and advancing Democracy and Governance themes, in the WCA region. Consequently, the extent to which decentralized finance and administration of health and social expenditures are <u>feasible</u> needs to be considered as part of the strategy formulation process.

ARTICLE III - DESCRIPTION OF CONTRACTOR' SERVICES

I. Outputs

A. First Phase - Output No. 1: Review of Literature and Synopsis of Analysis

In an initial phase of the work, the contractor will produce, by November 30, 1996, Part I of a report entitled, "Revenue Expectations and Decentralized Finance in West Africa." This report will include a review of literature and a synopsis of the most important analytical work which has been done in the area. The contractor will draw on the extensive French and American literature on decentralized financial management, willingness by Africans to pay for social sector investments, and on domestic resource mobilization in West Africa. In addition, the contractor will survey other secondary survey data which may be available such as the World Bank series of household income/consumption surveys recently completed for Poverty Assessments.

B. Second Phase Output No. 2 - Construction of Revenue and Expenditure Models

Building on the initial report, the contractor will prepare revenue and expenditure models for three WCA countries. The models will provide disaggregated estimates for revenue collections at centralized and decentralized levels under conditions in which governments pursue a policy of maximum decentralization on both the revenue side, as well as in administration of expenditures for health and education. It is expected that the contractor may provide these estimates in a range. An important operating hypothesis in making the estimates will be that revenue generated at decentralized levels will be earmarked for health and education expenditures administered at the local level.

The contractor may send one or more experts on TDY travel to countries in the WCA region as part of the model building work.

It is anticipated that the contractor will use judgement and discretion in interpolating revenue expectations from reformed fiscal systems between these various studies, and in setting these within a range.

C. **Third Phase: Output No. 3 - Conduct of Seminars for Presentation of Revenue and Expenditure Models**

Working with USAID missions in the region and REDSO/WCA, the contractor will present the models at seminars organized in each of the three countries selected for model construction. The purpose of these seminars will be to solicit comment on the models from African experts in the area of decentralized finance. The models may be revised based on comment received during their presentation.

Alternatively, resources and logistics permitting, the contractor may conduct a single seminar for participants from the three countries (and possibly others), for presentation of the models.

D. **Fourth Phase: Output No. 4 - Final Report**

The contractor will issue a final report which will include the revenue and expenditure models, along with comment received during the seminars. The final report will be due no later than April 30, 1997.

II. Additional Detail

As noted above, the contractor will develop a revenue and expenditure expectations models for three African countries. On the basis of including WCA countries across a per capita income spectrum, REDSO/WCA suggests these models be developed for Senegal, Mali and Ghana, but is willing to consider alternative proposals from the contractor. The revenue models will disaggregate existing revenue between the central government and decentralized administrative units.

As part of the process of developing different estimates for "revenue expectations," the following propositions may be considered in this work:

(1) Alternative, realistic goals for reduction in corruption in the existing revenue collection system;

(2) Dynamic economic assumptions, i.e., revenue-enhancing reductions in existing nominal rates of taxation in such cases where the effect of currently high nominal rates is generally considered to operate as a disincentive for both tax compliance and/or for engaging in economic activity subjected to these rates.

(3) Innovative enhancement of local governmental revenues. The review the literature and analysis during Phase I of the study is expected to identify innovative methods of local finance which might be applied in WCA.

Prior to the conduct of the seminars, and as part of model construction, the contractor may conduct field visits to the WCA region for consulting with local authorities and experts in the areas of revenue collection, social expenditure administration, and decentralization. Such consultations should include governmental authorities at various levels, as well as academic experts and NGOs and other institutions operating in the area decentralized governance. The matter of whether available travel funds are best applied in conducting the seminars (i.e., a larger number of stateside experts for seminar presentation), or in constructing the models (travel by one or more experts in the WCA region prior to the seminars and for the purpose of model construction), is left to the contractor's discretion.

III. Performance Period

The contractor will complete the literature search and synopsis of analysis portion of the work by the end of November 30, 1996, and issue Part I of the report to REDSO/WCA. All other deliverables, model construction, conduct of seminars, and issuance of the final report, must be completed by April 30, 1997.

IV. Supervision

This work will be conducted under the direct supervision of the IRIS project Manager in USAID, Washington, working in collaboration, and in close communication with, the Regional Economist, REDSO/WCA.

V. Reports

The contractor will deliver 10 copies of the Interim Report (Output N. 1), scheduled for issuance on November 30, 1996, to the IRIS Project Manager in USAID/W, and for mailing two copies to REDSO/WCA. The Interim Report does not need to be translated. The contractor will be responsible for delivering 25 copies of the Final Report (Output No. 4), in English, and 25 copies in French to the IRIS Project Manager in USAID/Washington, no later than April 30, 1997. In addition, the contractor will be responsible for mailing 2 English copies and 2 French copies of the Final Report directly to REDSO/WCA.

ARTICLE IV - PERFORMANCE PERIOD

A. The effective date of this Order is September 30, 1996 and the estimated completion date is April 30, 1997.

B. Subject to the ceiling price established in this Delivery Order and with prior written approval of the Project Manager (see Block No.5 on the Cover Page), Contractor is authorized to extend the estimated completion date, provided that such extension does not cause the elapsed time for the completion of the work, to extend beyond 30 calendar days from the original estimated completion date. The Contractor shall attach a copy of the Project Manager's-approval for any extension of the term of this Delivery Order to the final voucher submitted for payment.

C. It is the Contractor's responsibility to ensure that the Project Manager-approved adjustments to the original estimated date do not result in costs incurred which exceed the ceiling price of this Delivery Order. Under no circumstances shall such adjustments authorize the Contractor to be paid any sum in excess of the Delivery Order.

D. Adjustments which will cause the elapsed time for completion of the work to exceed the original estimated completion date by more than 30 calendar days must be approved in advance by the Contracting Officer.

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