Burkina Faso: Own revenues as antidote

*Richard Gerster**

The poorest fifth of all households in West African Burkina Faso proportionally pays more taxes than other households with a higher income. This surprising conclusion was identified in a study by CAPES, a think tank in the capital Ouagadougou. The scientist Abdoulaye Zonon was interested in who in Burkina Faso is burdened to what extent by tax payments. His scientific interested as focused on official politic which aim at economic growth based on justice. In the fight against poverty the mobilisation of own revenues is an antidote to the dependency on foreign aid.

The ministry of economics and finances is faced with the task of mobilising own income.

Mobilising own revenues

Worldwide Burkina Faso is considered to be one of the countries with the highest aid dependency. Its share is estimated to amount to half of the state's budget. In addition there are further contributions to self-help organisations and other private partners in the country. In 2008 the totalled state expenses of Burkina Faso amounted to some 2,3 billion US dollars. Local revenue at the level of cities and communities are insignificant as of now. With a population of 15 million, there are twice as many people living there as there are in Switzerland. Making the comparison with respect to its surface, Burkina Faso is even six times as large. But – in spite of foreign aid – Burkina Faso has available less than one hundredfiftieth of the resources that Switzerland's government spends per head per year, namely over 24'000 dollars (26'000 CHF in 2008).

Mobilising its own revenues is a vital goal for the government. With 13 percent (2007) of the national income (GDP) the tax burden is low compared to the region. The government wants to achieve 17 percent until 2012 which equals the regional guideline of the West African Economic and Monetary Union (UEMOA). A quarter out of the just over one billion dollars own revenues are taxes on direct income and profits of natural and legal persons. Half of it is generated by some 450 enterprises. But three quarters of the tax yields derive from indirect taxes such as value added tax, customs duties, charges on petrol and various other fees. That is how a seven head household in Burkina Faso pays almost 200 dollars (100'000 CFA) taxes per year respectively 28 dollars per person. There were various occasions when the government overestimated its income, executed is expenses as planned and was then confronted with a higher deficit.

Who bears the tax burden?

When mobilising own resources it is not only a question of quantity, but also of who in the end is carrying the tax burden. This question was taken up in the CAPES study by analysing household surveys. "It is a pilot study which poses more questions than it answers", says author Abdoulaye Zonon modestly. The fight against poverty enjoys high priority in Burkina Faso, which is why the question of how poor people are affected by taxation is of particular interest. The official poverty line is set at 170 dollars (82'672 CFA) per year, respectively at less than half a dollar (226 CFA) per person and per day. Currently 42 percent of the popu-

The International Monetary Fund plays a key role when it comes to reforming public finances.

lation fall below this line. But they provide 15 percent of all fiscal income. The rural areas with a high degree of self sufficiency are only weakly connected to the monetised economy. "Only little is produced for the market, there is no noteworthy monetary income and hardly anyone buys consumer goods. Which is why there is only little to tax", says Abdoulaye Zonon. The result that poorer regions and groups of the population carry a substantial tax burden was all the more a surprise.

The study exhibited that the poorest fifth of the households pay ten percent of their income to the state – directly or indirectly. The second poorest fifth pays a contribution of eight percent, the third fifth again one of ten and paying nine percent the fourth fifth again enjoys a lower burden than the poorest. Only the richest 20 percent have to live with a really higher burden, but still get away cheaply with 15 percent of their income.

Indeed the tax authorities foresee higher tax rates for higher incomes. Taxing petrol has little effects on the poor with bikes, but will hit the middle class with motor bikes and the upper class with cars harder. Also the rate of value added tax on goods used for daily life, such as rice, is lower. "But in reality the tax system is not progressive", concludes Abdoulaye Zonon. The reason for that being in the high weight of indirect taxes and the numerous fees collected from productive households.

External support

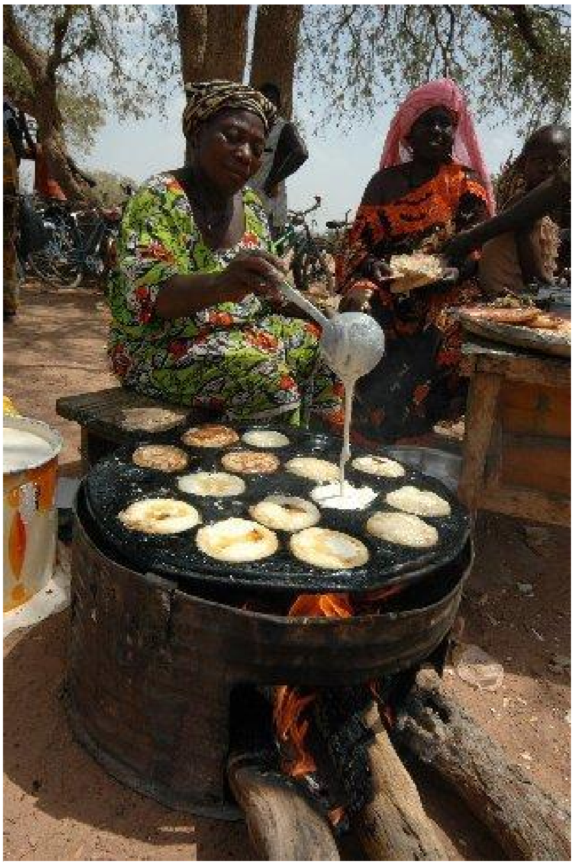
The share of development assistance which is at the free disposal of the state for the co-financing of its core tasks ("budget

Even poor people who dispose of less than 50 cents per day are paying 15 percent of all duties and taxes.

support") amounts to around 15 percent of the state's expenses. Switzerland contributes well over 6 million dollars (8 mio CHF). The agreement signed by the government and the donors also includes specific goals for the mobilisation of taxes and fees. Furthermore, the government committed to submit a programme for a reform of the tax system to parliament. Switzerland has tied the disbursement of half its share directly to the government fulfilling the goals in the area of fiscal reforms and in the fight against corruption. In 2008 this was the case and the entire contribution was disbursed.

Switzerland is not only among the first donor countries providing budget support, but it also provided additional contributions from the start in order to build Burkina Faso's capacities in the financial sector. Specifically it participated in the development of the fiscal authority ("Direction générale du trésor et de la comptabilité publique, DGTCP") in the regions and supported three small cities of Fada N'Gourma, Ouahigouya and Koudougou in the process of obtaining their local revenues. An independent evaluation conducted in 2004 came to an "overall very positive result" and particularly progress achieved in the mobilisation of income in the three small cities was judged to be "impressive".

In the years 2009-2011 Switzerland wants to support the directorate general for taxes ("Direction Générale des Impôts, DGI") in the process of mobilising own resources. The activities to be financed were identified by the government together with the International Monetary Fund and other budget support donors. The government will receive well qualified personnel, technical infrastructure (IT) and can implement organisational improvements – milestones on the way to increasing own revenues. The support will also improve the educational level of the employees in the tax directorate and the relationships with the taxpayers, namely by making the making the assessment procedure automatic and more simple. This is also a decisive factor for a better business climate for the private sector. "Our own revenue is the basis for budget support", summarises Soma Baro, president of the parliamentary finance commission.



Fees are often also collected from informal enterprises, for example market kitchens.

A poverty oriented tax reform?

"The manner in which taxes are collected is not neutral, it provides unequal burdens and that should be taken into account in the fight against poverty", is Abdoulaye Zonons' most important conclusion. The government does not want to increase tax rates in the next reform. Because high business taxes can also be a competitive disadvantage. There is also a conflict of goals in the area of customs, where a regionally envisaged opening of the markets goes hand in hand with a lowering of duties and therefore leads to less income. Broadening the tax basis and more efficient tax authorities, however, stand in the foreground. This is where the Switzerland's starting support is fitting.

"Sadly studies without any consequences are the rule. The gap between scientists and decision makers cannot be overseen", comments Hartmut Janus, working in the ministry of finance on behalf of the German cooperation (GTZ). The fact that the study was largely unknown also shows that academia is not active enough in promoting its results. "We will feed the results into our talks with the government and the International Monetary Fund", announces Moise Ouedraogo who is responsible for budget support in Switzerland's development cooperation.

The middle classes are riding motor bikes in Burkina Faso. Petrol taxes target their wallets.

Cattle markets such as the one in Fada N'Gourma shown here, are generating income for communities. Switzerland specifically supported the construction of this cattle market.

* The author, Dr. Richard Gerster, is an economist and works as independent consultant and publicist (www.gersterconsulting.ch). This article is part of a series commissioned by the State Secretariat for Economic Affairs (SECO) to take a closer look at budget support from various points of view. They reflect the author's personal opinion.