The Revenue Structure of the CFA Countries

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LIKE OTHER less well-developed countries, the members of the Communauté Financière Africaine (CFA)[1] have been faced with serious problems in seeking to finance the needs of sustained development. The cost of meeting these needs has contributed to a level of expenditures higher than their tax revenues before independence. As a result, their sources of revenue have been subject to an increasing strain over the last few years, and there is evidence that the pressures will continue to mount. There is, therefore, an urgent need to strengthen their revenue structure and to utilize unused taxable capacity to meet the increased volume of public requirements.

The aim of this paper is to analyze the revenue system of the CFA countries with respect to (1) the capacity of these countries to produce the revenue adequate to finance their ordinary budgets and to contribute to the financing of economic development; (2) the fairness in the distribution of the burden of certain existing taxes, and their impact on economic development as well as financial stability; and (3) provisions for accelerating the inflow of private capital and its allocation among the industries in the region. A detailed review of the tax structures of each of the CFA countries is not attempted, but rather a review of the general structure and sources of revenue in these countries collectively, illustrated by specific examples.

This study is intended to complement the survey of their monetary system recently published in *Staff Papers*.[2] That survey covered the

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[1] The term Communauté Financière Africaine refers mainly to the countries of former French West Africa and of former French Equatorial Africa. These countries accept the CFA franc as a common currency. Cameroon is not included in the analysis because the federation of British and French Cameroon complicates such an analysis. Mali withdrew from the community on June 30, 1962 and established its own central bank and independent currency effective July 1, 1962. The Malagasy Republic replaced the CFA franc with its Malagasy franc effective July 1, 1963.

[2] "The CFA Franc System," *Staff Papers,* Vol. X (1963), pp. 345–96.

banking, balance of payments, and monetary problems confronting these countries, and reviewed their attempts to achieve a workable monetary policy that would accelerate their economic growth as well as sustain a high degree of financial stability. Appropriate fiscal measures are also necessary if the CFA countries' economic objectives are to be achieved.

Common features among CFA countries

In addition to being less developed countries with a policy committed to economic development with financial stability, the CFA countries share:

(1) A public finance system inherited from the French. French techniques were transplanted sometimes without adequate adaptation to either the different institutional framework or the different emphasis on economic policy objectives. Accordingly, the tax structure of the CFA countries needs to be remodeled to reflect better their needs and the administrative potentialities of the existing cultures.

(2) Reliance on the export of one or more primary products as the major source of national income and employment, foreign exchange, and governmental revenue. The CFA countries are also open economies, and their balances of payments are highly responsive to internal developments. This has two implications for the fiscal structure: (a) there is a need for compensatory fiscal devices to mitigate the impact of external cyclical fluctuations on governmental revenues; and (b) deficit financing cannot be relied on to a large extent to finance public needs. A policy of maintaining expenditures above revenue is limited by the foreign reserves at each country's command.

(3) Membership in the franc area, within which the majority of CFA countries are grouped into two monetary unions: (a) the West African Monetary Union, consisting of Dahomey, Ivory Coast, Mauritania, Niger, Senegal, Togo, and Upper Volta; and (b) the Equatorial African Monetary Union of Congo (Brazzaville), Chad, the Central African Republic, Gabon, and Cameroon. In both unions the CFA franc is worth 0.02 French franc (US$1 = CFAF 246.8). The countries in each monetary union also constitute a customs union which attempts to achieve a common external tariff and the free flow of capital and commodities within the union. Further fiscal measures are needed to coordinate the investment laws within these customs unions as a necessary step toward achieving tax harmonization within each union.

Limitations of data

It would be desirable to analyze the recent growth and economic structure of the CFA countries, but national income data are available only for 1960. There is a mutual relationship between the national income of a given country and the magnitude, as well as the pattern, of public expenditures and revenues. On the one hand, a sufficient infrastructure will be needed to support economic growth, and government programs are necessary for this infrastructure. On the other hand, economic growth, as reflected in a higher per capita income, increases the taxable capacity to finance economic development.

Another major limitation is the inadequacy of the budgetary data. The budgets of the Central Governments for 1960–63 are available as presented to and approved by legislative assemblies. However, actual receipts are not available for the majority of the countries, and when they do exist they do not include the classifications necessary to assess the capabilities of particular revenue sources. In addition, the budget messages rarely comment on the formulation of the revenue estimates or include any comparative data for preceding fiscal years. Finally, there are no data on local government finance.

It is clear that revenues have been greatly overestimated, particularly in the earlier years of the period covered by this study. The failure of actual collections to come up to estimates is likely to leave the governments caught between predetermined expenditures and limited borrowing facilities. Moreover, the overestimation of revenue may well lead to the undertaking of projects with low priority. There is great need for improvement in the quality and quantity of fiscal statistics. Such an improvement is indispensable for the implementation of fiscal reforms, the administration of the tax system, and an analysis of the effects of particular taxes.

Analysis of Revenue Structure

The following discussion outlines the development and the pattern of public revenues in CFA countries over the period 1960–63. No attempt is made to cover the fiscal situation prior to independence because the structural changes introduced by independence would make any comparison of limited usefulness.

For the purpose of this general picture, CFA countries have been classified in two groups: (1) those served by the BCEAO (Banque Centrale des Etats de l'Afrique de l'Ouest) and (2) those (except Cameroon) served by the BCEAEC (Banque Centrale des Etats de l'Afrique Equatorial et du Cameroun). These are referred to as the Western group and Equatorial group, respectively.

In addition to this general survey, a detailed analysis of the most important features of particular taxes is attempted, in order to see what opportunities they offer for further development. For this purpose, Ivory Coast is most often taken as an illustration, because better budgetary data are available there than elsewhere. It should be pointed out, however, that Ivory Coast is not the most representative of CFA countries, especially in the fiscal domain, because (1) it has the highest per capita income in the CFA, after Gabon, so that the revenue capabilities of particular taxes in other countries cannot be expected to be as high as in Ivory Coast; (2) the intention of the fiscal authorities of this country to achieve a general budget surplus to help to finance the development budget is not matched in any other CFA country; (3) unlike many other CFA countries, Ivory Coast no longer relies on the poll tax as a substantial source of revenue.

Development and trends of revenue

According to budget estimates, the period under review has witnessed considerable increases in revenue in both regions (Table 1). The greatest increases, both absolutely and proportionately, occurred during fiscal

Table 1. CFA Countries: Trends in Receipts—Ordinary and Capital or Development Budget Estimates, 1960–63

(*Receipts in billions of CFA francs*)

	Ordinary Budget		Capital Budget		Total	
	Total receipts	Percentage change from previous year	Total receipts	Percentage change from previous year	Total receipts	Percentage change from previous year
A. BCEAO Member Countries (Western Group)						
1960	71.56		11.32		82.88	
1961	87.84	+22.7	19.53	+72.5	107.37	+29.5
1962	95.04	+8.1	24.34	+24.6	119.38	+11.1
1963	91.20	−4.0	20.06	−17.6	111.26	−6.8
B. BCEAEC Member Countries Other Than Cameroon (Equatorial Group)						
1960	16.81		1.65		18.46	
1961	22.17	+31.9	2.46	+49.0	24.63	+33.4
1962	26.97	+21.6	1.80	−26.8	28.77	+16.8
1963	27.27	+1.1	2.37	+31.7	29.64	+3.0

Source: Secrétariat du Comité Monétaire de la Zone Franc, *La Zone Franc* (Paris).

1961, following independence. In this year the increase was nearly 30 per cent for the Equatorial group and 33 per cent for the Western group. At this time public expenditure reached a relatively high peak because of the expansion in the government services needed to plan for development. Also, tax jurisdiction was freer than before and member countries were able to raise the maximum revenue from the sources at their disposal. The estimates for 1963 show revenues in the Western group that are appreciably lower than in 1962, and a much smaller rate of increase in the Equatorial group than in previous fiscal years. This may reflect the availability of data on actual collections for previous fiscal years and a realization of the considerable gap that had existed between estimates and actual receipts.

Differences among countries in total fiscal receipts per capita and trends over 1960–63 are presented in Table 2. The increase from 1960 to 1963 in the per capita tax yield (as estimated in the budgets) would appear to reflect an intention by the CFA countries to mobilize their tax resources. However, when considering the increase, allowance should be made for the changes in the price level over the period and for the unreliability of the estimates.

Table 3 shows the yield expected from the major taxes (direct and indirect) as a percentage of gross national product in 1960, the only year for which the latter data are available. One of the most striking features of this table is the wide range in the percentage of total tax receipts to gross national product, 16.8 per cent in Ivory Coast to 5.8 per cent in Chad. Such a wide range is correlated with a similar range in the per capita income of these countries, reflecting the general principle that taxable capacity is primarily a function of income.[3] For example, the ratio of taxes to income in Ivory Coast is 2.9 times that in Chad, while its per capita income is also 2.9 times that of Chad.

Direct taxes in Upper Volta yield some 10 per cent more than indirect taxes. This is a departure from the general rule in less developed countries, where indirect taxes generally dominate the tax structure. This exception can be explained by the importance of the poll tax (a direct tax) in Upper Volta. The absence of a poll tax in Ivory Coast also accounts for the fact that its ratio of direct taxes to total receipts is only about half of that in Senegal, although they are both among the highest per capita income countries in the CFA group.

[3] Gabon has the highest per capita income in the CFA group. It is excluded from the comparison because it is a special case of an underpopulated country with a relatively developed export sector.

TABLE 2. CFA COUNTRIES: POPULATION AND PER CAPITA ESTIMATED FISCAL RECEIPTS, 1960–63 [1]

	1960			1961			1962			1963		
	Population (*thousand persons*)	Total Fiscal Receipts (*billion CFA francs*)	Per Capita Total Fiscal Receipts (*CFA francs*)	Population (*thousand persons*)	Total Fiscal Receipts (*billion CFA francs*)	Per Capita Total Fiscal Receipts (*CFA francs*)	Population (*thousand persons*)	Total Fiscal Receipts (*billion CFA francs*)	Per Capita Total Fiscal Receipts (*CFA francs*)	Population (*thousand persons*)	Total Fiscal Receipts (*billion CFA francs*)	Per Capita Total Fiscal Receipts (*CFA francs*)
A. BCEAO Member Countries (Western Group)												
Dahomey	1,934	3.53	1,825	2,050	3.88	1,893	2,200	4.16	1,891	2,300	4.39	1,909
Ivory Coast	3,230	24.47	7,576	3,300	28.41	8,609	3,375	30.42	9,013	3,670	30.03	8,183
Mauritania	. . .	1.36	—	727	1.98	2,723	770	2.39	3,104	850	3.29	3,870
Niger	2,823	3.66	1,296	2,906	4.86	1,672	2,995	5.35	1,786	3,140	5.25	1,672
Senegal	3,110	15.92	5,119	. . .	24.69	. . .	3,280	33.94	10,347	3,250	34.21	10,526
Togo	1,440	2.37	1,646	1,480	2.94	1,986	1,523	3.18	2,088	1,510	3.06	2,026
Upper Volta	4,160	3.37	810	4,300	5.63	1,309	4,500	5.43	1,207	4,580	5.97	1,303
B. BCEAEC Member Countries Other Than Cameroon (Equatorial Group)												
Central African Republic	1,210	2.20	1,818	1,227	2.67	2,176	1,250	3.35	2,680	. . .	. . .	. . .
Chad	2,660	2.45	921	2,680	3.82	1,425	2,720	3.99	1,467	. . .	. . .	. . .
Congo (Brazzaville)	800	4.09	5,112	810	5.45	6,728	820	6.41	7,817	. . .	. . .	. . .
Gabon	440	3.30	7,500	448	4.39	9,799	453	7.21	15,916	. . .	. . .	. . .

Sources: Population figures: for 1960–62, United Nations, *Monthly Bulletin of Statistics,* April 1964, pp. 1–4; for 1963, Banque Centrale des Etats de l'Afrique de l'Ouest, *Essai d'Analyse Economique et Fonctionnelle des Budgets des Etats de l'Afrique de l'Ouest,* April 1964, p. 9.

[1] Total fiscal receipts equal total tax receipts from the ordinary budget plus special taxes and other local levies from the capital budget.

TABLE 3. CFA COUNTRIES: DIRECT TAXATION, CUSTOMS RECEIPTS, INDIRECT TAXATION, AND TOTAL TAX RECEIPTS AS PERCENTAGE OF GROSS NATIONAL PRODUCT, 1960

	Gross National Product (*million CFA francs*)	Per Capita GNP (*CFA francs*)	Direct Taxes		Customs Receipts		Indirect Taxes		Total Tax Receipts [1]	
			Amount (*million CFA francs*)	Percentage of GNP	Amount (*million CFA francs*)	Percentage of GNP	Amount (*million CFA francs*)	Percentage of GNP	Amount (*million CFA francs*)	Percentage of GNP
Cameroon	102,300	31,060	3,480	3.4	5,550	5.4	6,020	5.9	9,500	9.3
Central African Republic	24,800	20,600	710	2.9	930	3.7	1,410	5.7	2,200	8.9
Chad	41,900	16,100	940	2.2	1,180	2.8	1,430	3.4	2,450	5.8
Congo (Brazzaville)	25,200	31,500	890	3.5	2,080	8.3	2,970	11.8	4,060	16.1
Dahomey	34,200	17,100	680	2.0	2,250	6.6	2,800	8.2	3,530	10.3
Gabon	31,600	75,200	780	2.5	1,830	5.8	2,390	7.6	3,300	10.4
Ivory Coast	145,600	46,900	2,270	1.6	14,510	10.0	21,520	14.8	24,470	16.8
Malagasy Republic	111,400	21,000	2,450	2.2	9,220	8.3	9,760	8.8	12,210	11.0
Mauritania	14,900	20,400	280	1.9	660	4.4	750	5.0	1,040	6.9
Niger	47,800	17,000	1,590	3.3	1,620	3.4	2,030	4.2	3,660	7.7
Senegal	137,000	44,200	4,470	3.3	6,510	4.8	10,650	7.8	15,920	11.6
Togo	26,900	24,400	180	0.7	1,170	4.4	2,150	8.0	2,370	8.8
Upper Volta	43,900	10,900	1,460	3.3	680	1.6	1,340	3.1	2,840	6.5

Sources: Gross national product is taken as "produit intérieur brut" from Ministère de la Coopération, *Planification en Afrique: Tome I, Problèmes de Planification en Afrique d'Expression Française et à Madagascar* (Paris, October 1962), Chap. XIII, p. 19; for tax receipts, *La Zone Franc en 1960*.

[1] Total tax receipts include, in addition to direct and indirect taxes, registration fees and stamp duties. Because of their heterogeneity, it is not possible to classify them as direct or indirect taxes.

Major Characteristics of the Ordinary Revenue Structure

Despite the wide variation among the CFA countries in the ratio of taxes to income, it is possible to make some generalizations about the patterns both of ordinary revenue and of development finance.

As has just been mentioned, the high proportion of indirect taxes (Table 4) is typical of most developing countries.[4] Contemporary literature on direct versus indirect taxes seems to favor indirect taxes for purposes of economic development, on the grounds that they do not strike directly at savings; hence they do not militate against capital formation.

TABLE 4. CFA COUNTRIES: MAJOR SOURCES OF REVENUE AS PERCENTAGE OF TOTAL ORDINARY BUDGET TAX RECEIPTS, 1960–63 [1]

	1960	1961	1962	1963
A. BCEAO Member Countries (Western Group)				
Direct taxation	20.3	16.3	19.2	18.9
Indirect taxation	76.6	81.2	78.2	78.2
Customs receipts	*50.9*	*57.8*	*60.4*	*59.1*
Registration and stamp taxes	3.1	2.4	2.5	2.8
Total tax receipts	100.0	100.0	100.0	100.0
B. BCEAEC Member Countries Other Than Cameroon (Equatorial Group)				
Direct taxation	27.6	24.1	24.6	26.4
Indirect taxation	68.2	72.3	72.2	70.7
Customs receipts	*50.1*	*53.4*	*55.1*	*48.9*
Registration and stamp taxes	4.1	3.5	3.1	2.8
Total tax receipts	100.0	100.0	100.0	100.0

Source: *La Zone Franc.*
[1] Budget estimates.

The choice between direct and indirect taxes is not completely free. The revenue structure is the product of many economic, social, and administrative factors. Although direct taxation, especially progressive income taxes, may be the most effective source of revenue where per

[4] Little could be gained in this paper from further analysis of the controversial issue of the classification of taxes. It is sufficient to accept the administrative basis developed by Mrs. Hicks. According to this, direct taxes refer to personal and corporate income taxes and death taxes, and indirect taxes cover levies upon the production or sale of commodities. Ursula K. Hicks, "The Terminology of Tax Analysis," *Economic Journal,* LVI (March 1946), pp. 38–50.

capita income is relatively high and the tax administration efficient, neither condition is present in the CFA countries. Consequently, a high reliance on indirect taxation is unavoidable.

Indirect Taxes

During the period under review, the relative importance of indirect taxes as a source of ordinary revenue in CFA countries has held relatively stable. The percentage of indirect tax revenue to total ordinary tax receipts increased moderately in 1961, and then leveled off at a slightly lower rate. Generally, indirect taxes are not subject to wide changes and fluctuations. Their yield has an income elasticity which is usually around unity. Variations in the estimates of the yield of indirect taxes in CFA countries are the result partly of imperfect estimation and partly of changes in the taxes themselves, mainly in the form of higher tax rates and new taxes.

For the purpose of analysis, indirect taxes are here classified in three principal categories: (1) import and customs duties; (2) export taxes; and (3) internal indirect taxes (mainly sales taxes).

Being export economies, CFA countries rely heavily on activities connected with foreign trade as the main source of revenue. Table 5 shows

TABLE 5. CFA COUNTRIES: TAXES LEVIED ON FOREIGN TRADE AS PERCENTAGE OF TOTAL GOVERNMENT RECEIPTS, 1960–63 [1]

	1960	1961	1962	1963
A. BCEAO Member Countries (Western Group)				
Dahomey	39.1	45.9	46.7	47.5
Ivory Coast	53.4	56.3	52.3	57.3
Mauritania	19.2	28.7	25.8	34.5
Niger	25.7	35.9	41.4	35.0
Senegal	31.5	47.0	55.4	56.2
Togo	42.3	44.2	43.7	43.3
Upper Volta	12.2	36.1	27.5	37.1
B. BCEAEC Member Countries Other Than Cameroon (Equatorial Group)				
Central African Republic	30.6	26.0	31.5	25.3
Chad	26.3	35.7	31.3	41.9
Congo (Brazzaville)	45.2	46.7	50.2	48.7
Gabon	39.2	44.4	41.6	41.1

Source: *La Zone Franc.*
[1] Budget estimates.

how large a percentage of their total budgetary receipts are the taxes levied on this sector.

Import duty structure

The following factors cause the amount of customs duties in CFA countries to vary with the origin of imported goods. (1) They are members of the franc zone; consequently, imports from France (the most favored nation) are not subject to customs duty other than fiscal duties. (2) The customs unions under which they operate grant substantial tax concessions to goods flowing among the member countries of each union. For example, the treaty of June 9, 1959 among the members of the West African Customs Union provides that (a) natural products (agricultural and other primary products as well as manufactured goods using these products) are entitled to complete exemption from customs duties; and (b) other products having the customs unions as their origin can be subject to a fiscal duty 30 per cent less than that levied under the most favorable treatment accorded other countries. (3) As CFA countries are associate members of the European Economic Community (EEC), goods originating in the member countries of this Community other than France are subject to favorable treatment. Accordingly, imports from EEC member countries other than France are entitled to a reduction of 40 per cent of the minimum tariff. The minimum tariff is accorded those countries that have signed with the CFA countries a most-favored-nation clause treaty. Among the countries that have signed such a treaty are the United States, Denmark, Israel, and the United Arab Republic. The general tariff, which is three times that of the minimum one, is accorded other countries such as Japan and the Sudan.

Import and customs duties levied in CFA countries can be classified in the following main categories:

(1) *Fiscal duties* levied on all products and commodities imported without regard to the country of origin, including France. Duties are levied on an ad valorem basis; the dutiable value is the c.i.f. cost. These duties range as high as 30 per cent. In addition, special rates are assessed on certain imported items, such as cigarettes and specified alcoholic and petroleum products. For example, in Ivory Coast such special rates are seldom higher than 30 per cent and are most frequently between 5 per cent and 20 per cent.

(2) *Customs duties* (*droits de douane*) levied on commodities of origin other than France. These duties are also levied on an ad valorem basis; they consist of a minimum tariff on all goods and a general tariff that can be equal to, or a multiple of, the minimum tariff.

(3) *Import surtaxes.* In addition to the foregoing duties, which constitute the bulk of CFA external tariffs, there is a variety of surtaxes that differ from one country to another. For example, in Ivory Coast the major surtaxes are

(a) *Statistical tax* of 1 per cent ad valorem (Article 6, Law No. 59.88 of July 15, 1959).

(b) *Special import duty* (*droit spécial d'entrée*). The rate of this duty is 6 per cent with an additional 18 per cent to bring the applicable rate to 7.53 per cent ($\frac{6 \times 100}{100-6} \times 1.18$).[5] The dutiable base is c.i.f. value plus all taxes and duties paid. Capital goods are exempted from this duty.

(c) *Sales tax on imports.* This tax originated in sales taxation of commercial transactions in CFA countries. This differs among the countries; some, such as Ivory Coast, have adopted a value-added tax, which is levied on imports as an additional duty. In other countries, like Cameroon, Dahomey, Mauritania, Senegal, and Togo, a turnover tax is imposed. In Ivory Coast, the rate of this tax is generally 11 per cent, but for certain goods it is raised to 23 per cent and for others lowered to 5 per cent. It is not levied on petroleum products, alcoholic beverages, tobacco, or cartridges, since these products are subject to other taxes. The base of the tax is c.i.f. value plus all taxes and duties paid, including special import duty and statistical tax.

These supplementary taxes, superimposed on customs duties that vary according to the origin of imports, can have significant cumulative effects on the total amount payable. Table 6 illustrates this point.

Export taxation

Export taxes on the major primary products—such as peanuts, cocoa, coffee, and cotton—are one of the main sources of revenue in CFA countries. Export taxes levied in CFA countries are not influenced by the factors that brought about a similarity of import duties—that is, membership in the franc area and association with EEC—so there is a considerable variation in export taxes. For example, coffee is subject to an ad valorem rate of 22.38 per cent in Ivory Coast, while it is from 2 to 7 per cent in Cameroon. Fresh bananas are taxed in these two countries at 12 per cent and 17 per cent, respectively. The rate on raw cotton in both countries is about 7 per cent. Table 7 indicates the relative impor-

[5] This duty is levied at 6 per cent of the base including the special import duty.

TABLE 6. IVORY COAST: PRICE (INCLUDING CUSTOMS DUTIES) OF TRUCKS ACCORDING TO ORIGIN OF IMPORTS

(In per cent of c.i.f. price)

	From France	From European Economic Community Other Than France	From U.S. (minimum tariff)	From Japan (general tariff)
Fiscal import duty	15	15	15	15
Customs duty	0	15	25	75
Statistical tax	1	1	1	1
First subtotal	116.0	131.0	141.0	191.0
Special import duty (7.53 per cent of first subtotal)	8.7	9.9	10.6	14.4
Second subtotal	124.7	140.9	151.6	205.4
Value-added tax (11 per cent of second subtotal)	13.7	15.5	16.7	22.6
Grand total	138.4	156.4	168.3	228.0

Source: U.S. Department of Commerce, *Foreign Trade Regulations of the West African Customs Union,* Overseas Business Reports No. 64–60, June 1964, p. 3.

tance of export taxes in Ivory Coast as a percentage of total budgetary receipts.

The desirability of export taxes in less developed countries is an unsettled issue. An export tax can be considered as a substitute for an income tax on the agricultural sector, that cannot be taxed effectively under ordinary income tax procedure. Quite often, less developed countries specialize in the production of one or two commodities in which they enjoy a marked comparative advantage. Coffee and cacao are

TABLE 7. IVORY COAST: MAJOR TAXES AS PERCENTAGE OF TOTAL BUDGETARY RECEIPTS, 1960–63 [1]

	Import and Customs Duties	Export Taxes	Sales Taxes
1960	35.39	22.12	22.58
1961	36.19	22.16	24.43
1962	37.16	21.03	18.26
1963	37.18	21.20	18.47

Source: Ivory Coast General Budgets for 1960–1963.
[1] Budget estimates.

possibly such commodities. Their direct cost of production is generally low relative to the long-term normal international price. A tax on such commodities in effect rests on a monopoly rent element in the price. If the revenue from such taxation is used so as to promote the balanced growth of the economy, the over-all effects may well be beneficial.

On the other hand, export taxes discriminate against the products taxed, with resulting disincentive effects if their incidence falls directly on the producers. This is the most likely situation because the taxes cannot be shifted forward to the international consumers through higher prices unless the producing country exercises substantial market power. If, therefore, commodities which do not have a strong comparative advantage are taxed (cotton may be such a commodity), their exports will be penalized and resources may be shifted to less efficient production.

Regardless of the arguments pro and con, export taxes are such an important source of revenue to the CFA countries that they are not likely to be replaced by other sources of revenue for some time to come. As a practical matter they must be continued. However, it is desirable that the level and structure of the export tax rates should be periodically reviewed so as to avoid distortion in production and in the allocation of resources.

Internal indirect taxation (sales taxation)

One of the most noticeable features of the budgets in CFA countries is the extent to which general sales taxes are a major source of revenue. The relative importance of the yield of such taxes in Ivory Coast, which is believed to be typical of the CFA countries generally, can be seen in Table 7.

The value-added tax and the turnover tax are the most widely adopted forms of sales taxes in these countries. Following the example of France, Ivory Coast adopted the value-added form, whereas Cameroon, the Central African Republic, Congo (Brazzaville), Mauritania, and probably others have turnover taxes.

Unlike the value-added tax, the taxable base of a turnover tax is usually every sale or performance of a service, without any deduction for the portion that has already been taxed. Such a tax tends to have a so-called *cascade* effect, which will differ according to the number of transactions between the first stage of production and final consumption. This can be of particular concern when a turnover tax is levied on all activities including those connected directly with exports. For example, Article 186 of the Congo (Brazzaville) General Income Tax Law provides that the turnover tax is levied on all activities (commercial, industrial, noncommercial, and performance of services) carried on within the territory of the country. If exports are to be stimulated, activities connected directly with exports need favorable taxation, if not complete exemption.[6] The turnover tax also favors integration of the stages of production within a given enterprise so as to minimize taxable transactions, whereas the value-added tax is relatively neutral in its effects on the integration of enterprises and the cumulation of taxes.

The analysis of the comparative effects of these two types of tax on economic development, the price level, the concentration of enterprises, etc., cannot, however, be pursued here. Suffice it to say that the revenue yield from one form of sales taxation versus another has to be weighed against their relative economic effects.

Direct Taxation

Another noticeable feature of the CFA countries' budgets is the relatively low ratio of direct taxation to other revenues (Table 8). The smallness of this ratio can be explained by the absence of the conditions necessary for the successful use of direct taxes, especially a progressive income tax.

TABLE 8. CFA COUNTRIES: DIRECT TAXATION, 1960–63 [1]

	BCEAO Member Countries (Western Group)			BCEAEC Member Countries Other Than Cameroon (Equatorial Group)		
	Sum of direct taxes (*billion CFA francs*)	Percentage of total taxes	Percentage increase in sum from previous year	Sum of direct taxes (*billion CFA francs*)	Percentage of total taxes	Percentage increase in sum from previous year
1960	10.9	20.3	—	3.3	27.6	—
1961	11.8	16.3	8.2	4.9	24.1	48.4
1962	14.5	19.2	22.8	4.8	24.6	-2.0
1963	14.9	18.9	2.7	5.9	26.4	22.9

Source: *La Zone Franc.*

[1] Budget estimates. These data differ from those in Table 3 because they include only the ordinary budget.

The low per capita income in most CFA countries does not leave a large taxable base after the allowance for personal exemption. The sub-

[6] The European Economic Community points out that one of the principal general conditions to which the ideal turnover tax system should adhere is "complete and precise freedom from tax liability of goods exported. . . ." H. Thurston, *The EEC Reports on Tax Harmonization* (Amsterdam, International Bureau of Fiscal Documentation, 1963), p. 24.

sistence sector, for which effective tax administration has not been developed, is usually of a considerable size, and the population is largely illiterate. Under these conditions, the development of an income tax as a significant revenue source cannot be expected. Even so, CFA countries have not exhausted all the available possibilities for improving their limited direct tax system.

The rate of increase of direct taxation in the Equatorial group is higher than that in the Western group. Since the Western group of countries is relatively more developed than the Equatorial group of countries, this seems contrary to the generally accepted opinion that direct taxes increase with the level of economic and social development. This paradox may be explained by the difference in the relative importance of the poll tax in the two regions. Members of the Equatorial group rely more heavily on this tax, thus contributing to a higher ratio of direct taxation, even though their total taxable capacity is relatively low. Ivory Coast has the second highest per capita income of the group but no longer employs a poll tax.

The poll tax

As was indicated above, CFA countries, with the exception of Ivory Coast, rely heavily on a differentiated form of poll tax. It was dropped by Ivory Coast in its 1960 fiscal reform. This precedent may be followed by other CFA countries, but at present their ability to dispense with the tax seems to be less than that of Ivory Coast (Table 9).

Table 9. Selected Countries of French West Africa: Relative Importance of Poll Taxes, 1950

(*Cols. 1, 2, and 3 in millions of CFA francs*)

			Poll Taxes		
	Total Ordinary Budget Receipts (1)	Total Direct Taxes (2)	Amounts (3)	Percentage of total direct taxes (4)	Percentage of total budget receipts (5)
Dahomey	703	387	304	78.6	43.3
Guinea	1,170	616	434	70.5	37.1
Ivory Coast	2,079	611	360	58.9	17.3
Mali	1,345	821	507	61.8	37.7
Mauritania	420	113	12	10.6	2.9
Niger	676	352	170	48.3	25.1
Senegal	2,657	1,049	291	27.7	11.0
Upper Volta	726	481	383	79.6	52.7
Total	9,776	4,430	2,461	55.6	25.2

Source: P. H. Doublet, *Traité de Législation Fiscale dans les Territoires d'Outre Mer* (Paris), p. 105.

The case against the poll tax lies in the unfair distribution of its burden. It is levied with little regard for ability to pay or to consume. Rather, it is assessed at fixed rates on every national above a certain minimum age ranging from 14 to 18 years. Rate differentials, where provided, are based on the relative richness of the region and not on the individual's ability to pay. Also, the tax lacks any element of elasticity. For this reason, it is losing its relative importance because of the increase in revenues from other sources.

On the other hand, the poll tax is a dependable source of revenue. Before independence, it was the major direct tax in most of the CFA countries and a major source of budget receipts.

In addition to the importance of its yield, the poll tax offers some administrative advantages because it is usually assessed by local committees. It appears to be the most practicable method of reaching the subsistence sector, which is the major part of the economy in many of these countries. These advantages become more apparent because of the difficulty of bringing agricultural income within the scope of income or property taxes. So far, these countries have developed no effective machinery to tax agricultural income in the subsistence sector, and the nature of the property system precludes a property tax. The poll tax, however, offers a feasible approach to broadening the total taxable base so as to include income that arises mainly in the subsistence sector. Leaving this sector untaxed would throw a much greater burden on other sectors.

The above argument seems to be most valid in economies where the subsistence sector is relatively important. Per capita imports may be taken as an indication of the relative importance of the exchange sector of the economy (or of its degree of monetization), and it is found that the percentage of poll tax to total budget receipts is highest where imports are lowest. Chart 1 illustrates this point. Its relevance is that the ability to dispense with the poll tax demands a higher per capita monetary income to make alternative forms of taxation feasible. This situation made it possible for Ivory Coast to abandon the tax, since, as already remarked, its per capita income is the second highest in the CFA (after Gabon).

It can also be argued that the poll tax offers incentives to produce marketable goods and thus to expand the exchange economy. Being obliged to pay the tax in currency, taxpayers are left with no alternative than to produce for the exchange sector.

It is necessary, therefore, to weigh the regressive burden of a poll tax against the following advantages:

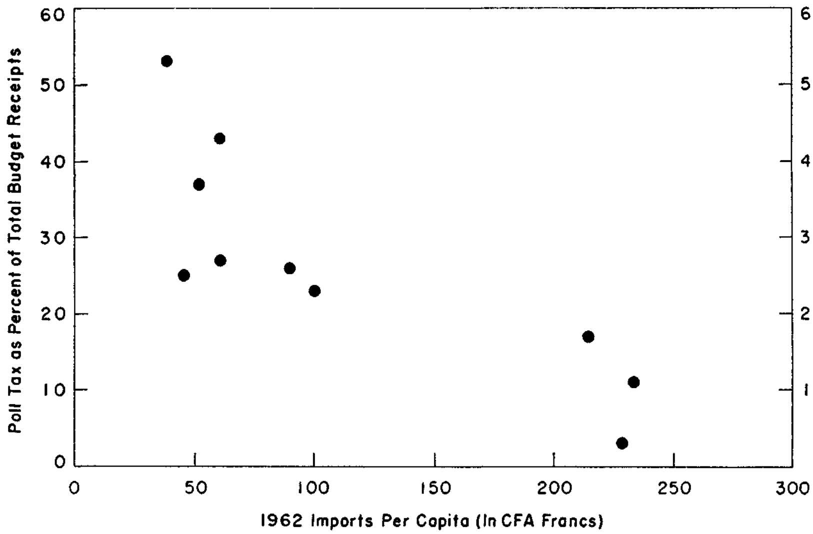
(1) Desirable effects in allocating greater resources to the exchange sector.

(2) Revenue productivity, especially within an institutional framework characterized by relatively inelastic budget resources.

(3) Compliance fairly easily obtained or enforced.

The public and social services which can only be financed by poll tax revenues should also be considered in appraising its regressivity. These services usually improve most the welfare of the particular group that is subject to this tax.

CHART 1. SELECTED CFA COUNTRIES: RELATIONSHIP OF POLL TAXES TO PER CAPITA IMPORTS, 1962



Attempts could be made to reduce the regressivity of the poll tax by better adjusting its burden according to the relative prosperity of the region. Also, its administration and enforcement could be greatly improved. Through such measures, the tax can better serve as a simplified income tax to reach the masses.[7]

PROPORTIONAL AND PROGRESSIVE INCOME TAXATION

The income tax system of CFA countries is of the so-called schedular type, which follows the French precedent. In general, this system is two layered.

[7] For an analysis of the experience with poll taxes in some African countries of British background, see Ursula K. Hicks, *Development from Below* (London, 1961), and John F. Due, *Taxation and Economic Development in Tropical Africa* (Cambridge, Mass., 1963).

Schedular income taxes. The first layer of tax consists of differing standard rates on particular categories of the taxpayer's income, such as income from movable capital (dividends, interest), industrial and commercial profits, agricultural profits, noncommercial profits, and wages and salaries. The schedular system thus varies the tax with the nature of the taxpayer's income, rather than with its total amount. In general, the rules of taxation are the same whether the taxpayer be an individual, a partnership, or a corporation.

The distinctive feature of the schedular tax system is the independent determination of the taxable income and tax liability under each schedule. Although the taxes are generally based on net income, no deductions are generally allowed against income from wages and salaries, or against income from movable capital.

The general income tax. The second layer is a general income tax with progressive rates. Its taxable base is the total net income received by the taxpayer from all sources, determined according to the rules prescribed for schedular taxes.

Despite the absence of adequate statistics, it is safe to state that only a negligible percentage of the total population in CFA countries is subject to income taxes. This is due to the wide gap between per capita income and the exemption limit. So wide is the gap that the exemption limit (for a single taxpayer) in many member countries is more than five times the average per capita income, and in one country eighteen times the average per capita income. Dependency allowances limit still further the scope of the tax. The relationship between the general income tax exemption in 1958 and the average per capita income (in 1960) for some member countries of the Western group is shown in Table 10. Table 11 illustrates the schedular tax in Ivory Coast.

TABLE 10. SELECTED CFA COUNTRIES: GENERAL INCOME TAX EXEMPTION AND PER CAPITA INCOME

	Per Capita Income (1960)	Personal Exemption, Without Dependency Allowances (1958)	Exemption Limit as a Multiple of Per Capita Income
	← *CFA francs*	→	
Dahomey	17,100	100,000	5.85
Ivory Coast	46,900	200,000	4.26
Mauritania	20,400	100,000	4.90
Niger	17,000	100,000	5.88
Senegal	44,200	100,000	2.26
Upper Volta	10,900	200,000	18.35

Source: Per capita income from Table 3.

TABLE 11. IVORY COAST: SCHEDULAR AND GENERAL INCOME TAX YIELD, 1960–63 [1]

	Commercial and Industrial Profit Tax			Salary and Wage Taxes			General Income Tax		
	Amount (*billion CFA francs*)	Percentage of: Total direct taxes	Percentage of: Total budget receipts	Amount (*billion CFA francs*)	Percentage of: Total direct taxes	Percentage of: Total budget receipts	Amount (*billion CFA francs*)	Percentage of: Total direct taxes	Percentage of: Total budget receipts
1960	0.600	26.4	2.4	0.420	18.5	1.7	0.300	13.2	1.2
1961	0.630	26.2	2.2	0.420	17.4	1.5	0.320	13.3	1.1
1962	0.950	28.3	3.1	0.560	16.7	1.8	0.500	14.9	1.6
1963	1.080	28.3	3.6	0.960	25.2	3.2	0.440	11.5	1.5

Source: Ivory Coast General Budgets for 1960–1963.
[1] Budget estimates.

The recent trend of income taxes budgeted in Ivory Coast is a favorable development from the standpoint of equity as well as adequacy of revenue. All major income taxes show an upward trend as a percentage of total budget receipts. The trend is even more favorable than appears, since the increase in yield is not attributable to increases in tax rates during the period.

The schedular income tax system versus the unitary income tax. The question whether the schedular system or the unitary income tax is more desirable has not been raised in CFA countries. But in Latin America, where the schedular system is also employed, there has been interest in reviewing the schedular system and replacing it by a unitary income tax. Advocates of this movement point out that the unitary income tax offers the advantages of (1) simplicity, because multiple tax returns and related problems associated with definition and classification of income would be replaced by a single tax; and (2) more equity, since equal amounts of income would bear the same amount of tax regardless of its origin. Moreover, multiple schedular taxes and a complementary tax make it difficult to assess the structure of the income tax, its impact upon the taxpayers, and the burden involved,[8] and are difficult to adjust so as to reflect changes in the economic situation.

Special features of corporate income taxation

In CFA countries, corporations are typically subject to tax on their profits realized within the country, including distributed and retained earnings.

Tax on industrial and commercial profits is based on the principle of territoriality; foreign corporations are liable for this tax when they carry on business through a permanent establishment.[9] The definition of "permanent establishment" is usually based on that of international tax treaties, so as to avoid double taxation, and the concept provides desirable elements of certainty and equality to international business. This criterion excels other criteria, such as "business connection," which is found in some countries of English tradition. The latter is so ambiguous and broad as to include income from a single transaction.

According to the principle of territoriality, the only expenses deductible are those necessary to carry on business within the territory. The problem of allocating joint expenses between the head office and overseas branches is recognized by most of the tax laws in CFA countries. A proportion of these charges may be deducted corresponding to the

[8] Carl S. Shoup and others, *The Fiscal System of Venezuela* (Baltimore, 1959), pp. 101–106.
[9] Article 2 of the Ivory Coast Income Tax Law.

proportion realized within the taxing territory of the total profits of the corporation, including all its foreign branches.[10] All so-called necessary and reasonable expenses to produce profits are recognized as deductible.

The following principal provisions characterize the determination of taxable income in CFA countries: (1) Losses are carried forward for five years;[11] no provision is made for carrying losses backward. (2) Reserves built up as an insurance against the occurrence of certain risks or losses are deductible.[12] In some cases, there is a quantitative limitation set by the law. In Senegal, for example, such reserves are only allowed up to 5 per cent of the taxable profit.[13] Ivory Coast and Senegal also permit the establishment of a special reserve (in addition to ordinary depreciation) as an adjustment for price level changes and to facilitate the replacement of machinery and capital equipment.

The tax is usually proportional; it is 30 per cent in Congo (Brazzaville), 42 per cent in Dahomey, and 25 per cent in Ivory Coast and Senegal.

The tax on income from movable capital is a flat rate levied on corporate distributions. In principle, corporations having their "head office" in one of the CFA countries are subject to this tax regardless of the nationality or residence of stockholders. As a rule, the tax is collected at source, and once the taxable distribution is announced, corporations are under the legal obligation to withhold the tax at the prevailing rate.

Unlike the tax on commercial and industrial profits (where serious problems of equality of treatment of national and foreign corporations do not arise), taxation of foreign corporations on their distributions announced abroad, but originating in profits realized in CFA countries, is a source of conflict. The liability of foreign corporations for taxes on these distributions depends on many factors.

(1) The form through which the foreign corporation carries on business in CFA countries. For example, in Congo (Brazzaville) a foreign corporation is liable whether it carries on business through a local subsidiary or through a local branch. According to the provisions of Article 50 of the tax law, all corporate entities subject to corporate profits taxation are subject to tax on their distributions also. And, by statutory definition, corporate profits that are not incorporated in capital or reserves are deemed to be distributed and therefore taxable.

[10] Article 20, subsection 6, of the General Income Tax Law of Congo (Brazzaville) and Article 27, subsection 6, of the Central African Republic's General Law on Direct Taxes.

[11] For example, Article 110 of the Congo (Brazzaville) and Article 37 of the Central African Republic Tax Laws.

[12] Article 6 of the Ivory Coast, Article 20, subsection 4, of the Congo (Brazzaville), and Article 27, subsection 4, of the Central African Republic Tax Laws.

[13] Article 6 of the Senegal Tax Law.

In this connection, the problem arises of determining the taxability of transfers from the local subsidiary to the foreign parent. In Senegal, a corporation is liable to tax on its distributions only if it has its head office there; this, of course, excludes foreign corporations that carry on business other than through a local subsidiary.

(2) The existence of an international treaty to avoid double taxation, depending on the location of the administrative seat of the foreign corporation. For example, in Ivory Coast foreign corporations are subject to tax on their distributions but the determination of taxable dividends varies from one case to another. As a rule, taxable dividends originating in profits realized within the territory of Ivory Coast are determined on a forfeitry base, according to which 75 per cent of taxable corporate profits is considered to be distributed. The dividend tax has to be paid on this basis, to which Articles 84–86 of the Ivory Coast Income Tax Law provide the following exceptions:

(a) If there is a tax treaty, the share of taxable dividends will be determined according to the rules provided by the treaty.[14]

(b) For foreign corporations having their head office in a French-speaking country, taxable dividends are determined according to the formula $\frac{A}{B}$, where A stands for profits realized in Ivory Coast and B for all profits realized in all countries where the corporation carries on business. The location of the administrative seat of the foreign corporation thus influences the determination of dividends deemed to be distributed.

Problems of corporate taxation

The above discussion suggests that the two major issues of tax policy that bear directly on development in CFA countries are the double taxation of corporate profits and the taxation of profits of foreign corporations doing business in these countries.

Relief from double taxation. An examination of CFA tax laws indicates the absence of any provision to reduce the double taxation

[14] Before their independence, CFA countries negotiated the following treaties: (1) Ex-members of the French West African Federation had a treaty with France to avoid double taxation; this treaty was ratified in France by Decree No. 56–74 of July 25, 1956. (2) Ex-members of French Equatorial Africa negotiated a similar treaty with France for avoiding double taxation and exchanging administrative assistance. (3) Ivory Coast, Dahomey, Upper Volta, and Niger have a treaty for the purposes of avoiding double taxation of income from movable capital and establishing rules of mutual administrative assistance. There is no record of any treaties negotiated with France after independence.

of profits originating in the corporate sector. The need for relief from double taxation depends on the incidence of the tax on corporate profits. On this issue, there is no evidence that the tax is shifted completely backward in the form of lower prices paid for productive factors, or forward in the form of higher prices for the product. However, the view is generally held that this tax is partially shifted and partially borne by the stockholder. Accepting the need for relief from double taxation, the question then becomes whether it be given to the shareholder or to the corporation.

Since the majority of shareholders of corporations operating in the CFA countries are nonresident, and therefore not subject to the general income tax, the possibility of granting the majority of shareholders relief in the form of a partial exclusion of dividends received, a credit, or both, is excluded. Thus, if relief is to be granted, it must be at the corporation level. Such relief usually takes the form of permitting a deduction for dividends paid, thereby limiting the corporate tax to retained profits.

In CFA countries, like many other less developed countries, retained profits are the most important source of financing the growth of the firm and consequently of the economy. This practice also tends to improve the balance of payments by reducing the demand for the foreign exchange necessary to transfer corporate profits abroad. Therefore, the reinvestment of corporate profits should be a primary target of tax policy. Should a deduction be permitted for dividends, however, the corporation income tax would penalize retained profits, rather than encourage their retention, unless complemented by a tax on distributions that would neutralize this effect.

Distributions of foreign corporations. Taxation of dividends paid by foreign corporations raises special problems of their allocation between the head office and the corporation's international branches or subsidiaries. Current practice in many CFA countries urgently needs to be improved. In considering the necessary reforms, the following criteria appear to be significant:

(1) Maximum equality of treatment between foreign and national corporations. In some CFA countries, foreign corporations that carry on business through a local branch are not liable for the tax on corporate dividends. This practice discriminates against national corporations, and may induce the national corporations to become foreign.

(2) Minimal tax differentials between corporations carrying on business under different forms. Current tax treatment in some CFA countries seems to penalize foreign corporations which operate through a national subsidiary, since the latter is subject to this tax.

Special features of taxes on wages and salaries

Unlike many other countries, CFA countries do not provide for various elements that adapt the schedular tax on income from wages and salaries to personal circumstances. Elsewhere, these provisions generally take the form of (1) exclusion from gross salaries of contributions for social security; (2) progressive rates of taxation; and (3) personal exemptions depending on the number of dependents.

Wages and salaries in CFA countries are not subject to schedular taxes in the technical sense of the term. Rather, under the current tax laws, wages and salaries are the base for two major proportional taxes:

(1) *A "solidarity" tax,* at a proportional rate, on wages and salaries received by (a) domiciled beneficiaries, even though the remunerated services are performed abroad and the employer is not domiciled in the taxing country; and (b) nondomiciled beneficiaries if the services are performed within the taxing country and the employer is domiciled there.[15] The rate of this tax is 2 per cent in Dahomey and Senegal, 1.5 per cent in Ivory Coast, and 5 per cent in Mali.

(2) *A payroll tax known as "taxe d'apprentissage" or "contribution à la charge des employeurs."* The taxable base as well as the rate are identical to those of the solidarity tax. This tax is recognized as a deductible business charge for the payer, and is not deemed by the government to be shifted backward to the employees in the form of lower wages and salaries. However, the incidence of this tax does not necessarily comply with the legislator's intentions, but depends primarily on the shape of the supply and demand curves for labor. It is most likely that this tax is in fact shifted backward.

One major feature of both these taxes is the exclusion from taxable income of "family allowances" (*prestations familiales*) offered by employers to employees. Since the tax laws in many CFA countries lack specific provisions governing the conditions and the amounts to be deducted as family allowances, the tax can be avoided by allocating more of the total remuneration to this category. Such avoidance could be eliminated by abolishing the distinction between family allowances and other compensations.

It can be argued that a more comprehensive tax structure with some elements of progression should replace the two taxes. A progressive schedular tax on wages and salaries is already applicable in other African countries with a similar level of administrative capacity, such as Burundi, Democratic Republic of Congo, and Rwanda. Such a schedular tax offers

[15] Article 47 of the Ivory Coast, Article 2 of Senegal, and Article 37 of Congo (Brazzaville) Income Tax Laws.

the prospect both of improving the distribution of the total tax burden and of increasing revenues. Perhaps the best way of introducing progressivity is by the substitution of standard personal exemptions for the present exclusion of so-called family allowances. A simple graduated rate schedule would also be helpful.

These arguments are reinforced by the sizable share of wages and salaries (public and private) in the gross national product in CFA countries. Wages and salaries constitute more than 20 per cent of the gross national product in all but four of the countries (Table 12).

TABLE 12. CFA COUNTRIES: SHARE OF SALARIES AND WAGES (PRIVATE AND PUBLIC) IN GROSS NATIONAL PRODUCT

	Year	Wages and Salaries as Percentage of GNP
Niger	1960	13
Togo	1958	13
Chad	1958	14
Upper Volta	1959	14
Dahomey	1951	21
Ivory Coast	1960	21
Mauritania	1959	22
Cameroon	1959	25
Central African Republic	1956	21
Madagascar	1956	33
Senegal	1959	33
Gabon	1960	35
Congo (Brazzaville)	1958	46

Source: Ministère de la Coopération, *Planification en Afrique: Tome V, Projections et Modèles Reposant sur l'Exploitation Systématique des Comptes Economiques* (Paris, 1962), p. 75.

Some precedent for a progressive rate structure can be found in the National Tax for Development introduced by Ivory Coast, effective January 1, 1962 (Table 13). This levy, which is additional to the already existing taxes on wages and salaries, is graduated according to the amount of wages received. Such multiple levies with different rates and procedures increase the burden on taxpayers and can divert administrative effort from more productive to less worthwhile activities.

PROPERTY TAXATION

In all CFA countries, property taxation has been a poor source of revenue. Property taxes are confined to urban properties, mainly buildings and undeveloped urban land (*terrain non-batis*); agricultural land is not subject to any real property tax. Moreover, even in the towns the scope of the tax is usually limited to the most developed areas, usually the capital city and other major towns. Little progress has been realized in broadening its taxable base.

TABLE 13. IVORY COAST: GLOBAL RATES OF DIFFERENT TAXES LEVIED ON WAGES AND SALARIES, 1962

(*In per cent*)

	Rate of Principal Tax	Rate of National Contribution Tax	Global Tax
"Solidarity Tax" (except agricultural salaries covered by Law No. 61–120 of April 15, 1961)			
CFAF 0 to 30,000 monthly	1.5	0	1.5
From CFAF 30,000 to 100,000 monthly	1.5	1.5	3.0
From CFAF 100,000 to 150,000 monthly	1.5	5.0	6.5
Above CFAF 150,000 monthly	1.5	10.0	11.5
Payroll tax paid by employer			
Nonagricultural enterprises	1.5	2.0	3.5
Agricultural enterprises covered by Law No. 61–120 of April 15, 1961	2.0	1.5	3.5

Source: Chambre de Commerce de la République de Côte d'Ivoire, *Le Régime Fiscal,* special number, October 1962, p. 139.

In CFA countries, property taxes are levied on: (1) Residential buildings and commercial or industrial sites. The taxable base is a proportion of the rental value of the property as determined on January 1. For example, in Senegal it is 60 per cent of the rental value for residential buildings and 50 per cent for factories. (2) Urban land (undeveloped land). The taxable base is the sales value of the land, and the tax is usually at a low rate.

In addition to these major forms of property taxation, some countries (e.g., Ivory Coast, Senegal, Upper Volta) have a surtax on insufficiently developed land (*surtaxe sur les terrains non-batis ou insuffisement batis*). The purpose of this additional tax is to encourage the expansion of towns or of the business quarter by raising the value of surrounding properties. In many parts of Africa this tax is frequently used as an inducement to building development, as well as a restriction on land speculation.

Another factor contributing to the low revenue yield of property taxes is the extensive exemptions offered in some of the CFA countries. For example, in Dahomey ten-year exemption is provided for residential buildings which meet certain urbanization requirements.

Because of the exclusion of agricultural land, the capacity of property taxes to raise revenue will depend primarily on the degree of urbanization of the country. In countries like Ivory Coast and Senegal, property taxes can be expected to be of more significance than in the rest of the CFA countries. This can be seen in Table 14, even though the data are not up to date. Property taxation is one of the tax areas that should receive more attention.

TABLE 14. SELECTED BCEAO MEMBER COUNTRIES: PROPERTY TAXATION AS PERCENTAGE OF TOTAL DIRECT TAXATION, 1950

	Property Taxation	Total Direct Taxation	Property Taxation as Percentage of Direct Taxation
	← *Thousand CFA francs*	→	
Dahomey	3,310	387,695	0.85
Ivory Coast	20,150	611,609	3.29
Mauritania	120	113,635	0.10
Niger	150	352,650	0.04
Senegal	48,010	1,049,840	4.57
Upper Volta	2,125	481,020	0.44

Source: P. H. Doublet, *op. cit.*, p. 297.

BUSINESS FEES ("PATENTS ET LICENSES") [16]

Another characteristic feature of the CFA revenue structure is the extensive use of fees and licenses. So extensive has this been that the revenue from this source is far more important than that from property taxation in the majority of CFA countries. The relative importance of such fees is indicated by the record for 1950 (Table 15). Such fees and licenses brought in a minimum of 2.2 times property revenues in Senegal. In the other countries (Tables 14 and 15) the ratios were 8.2, 3.8, 60.4, 186.6, and 10.0. This relative importance has changed little in recent years. For example, in Ivory Coast revenue from fees and licenses remained about double that of property taxes in 1960 and 1961 (Table 16) but dropped to about 1.5 times that in 1962 and 1963.

[16] There is no general agreement on the classification of fees and licenses as direct taxes. The reasons for treating them herein as direct taxes are as follows: (a) CFA budgets classify them as direct taxes; and (b) fees are closely associated with business income taxes, with minor differences: instead of being based on actual net profits, they are levied according to external indications, such as the rental value of buildings, which are regarded as reflecting the taxable capacity of the business.

TABLE 15. SELECTED BCEAO MEMBER COUNTRIES: FEES AND LICENSES AS PERCENTAGE OF TOTAL DIRECT TAXATION, 1950

	Fees and Licenses	Total Direct Taxation	Fees and Licenses as Percentage of Direct Taxation
	← *Thousand CFA francs*	→	
Dahomey	27,200	387,695	7.0
Ivory Coast	77,084	611,609	12.6
Mauritania	7,250	113,635	6.4
Niger	28,000	352,650	7.9
Senegal	108,750	1,049,840	10.4
Upper Volta	21,300	481,020	4.4

Source: P. H. Doublet, *op. cit.*, p. 374.

The system of fees and licenses in any CFA country is complex and does not lend itself to much analysis. Revenue from this source is lumped to include numerous forms of fees with unspecified classifications. Therefore, there is no way to evaluate the system except in general. For example, in Senegal, as well as in other CFA countries, fees comprised two different types: (1) the fixed fee imposed on the exercise of any commercial, industrial, or liberal profession; and (2) the proportional levy, which is determined according to the rental value of the place where the activity is exercised, such as offices, stores, factories, etc.

In order to assess the fees payable, activities are classified in two main categories:

(1) The commercial and liberal professions, divided into seven classes. The fixed fee for this group ranges from CFAF 45,000 for Class 1, to CFAF 2,000 for Class 7, and the corresponding range of the

TABLE 16. IVORY COAST: VARIOUS FORMS OF DIRECT TAXES AS PERCENTAGE OF TOTAL DIRECT TAX RECEIPTS, 1960–63

	Income Taxes	Property Taxes	Business Fees, Licenses, and Other Direct Taxes
1960	68.5	9.3	22.0
1961	72.1	9.7	18.1
1962	69.1	12.3	18.5
1963	72.8	10.5	16.3

Source: Ivory Coast General Budgets for 1960–1963.

proportional levy is from 10 per cent to complete exemption for the least important class of firms.

(2) Industrial and import-export activities. Here, the proportional levy is 10 per cent without any differentiation according to the size of the firm or its productive capacity. For the purpose of the fixed fee, enterprises are classified in four classes, for each of which there is a separate rate as well as a different method of taxation.[17]

The foregoing discussion shows how complicated the fee system is. While the revenue derived from it cannot be sacrificed for the time being, its simplification should be considered as a means of reducing the administrative burden.

Registration Fees and Stamp Duties

CFA countries have inherited from the French administration a substantial use of "registration fees and stamp duties." The classification of this category as "duties" or "taxes," and as direct or indirect taxes, poses considerable problems because of their heterogeneity. For this reason, such fees and "duties" are here treated as a separate source of revenue.

Registration fees

In CFA countries, registration fees can be fixed, proportional, or progressive, depending on the nature of the dutiable transaction or transfer. Proportional and progressive fees are levied on certain contracts specified in the law. For example, in Ivory Coast, Senegal, and many other countries, these fees are levied on contracts for marriages, rent, transfers of real estate, formation and extension of corporations, gifts and inheritances, credit, etc. The determination of the dutiable base varies from one transaction to another. For example, corporate registration fees are based on the size of the net assets affected, while in real estate transfers they are levied on the sale price. For these fees there is a minimum charge of CFAF 250.

The fixed fees are levied on all other transactions, without any exception. Registration fees, by reaching inherited property and gifts, fill a gap in the tax structure of many African countries that do not levy taxes on these transfers. The schedule of inheritance duties is progressive according to the class of the heirs, the number of heirs in each class, and

[17] Chambre de Commerce d'Agriculture et d'Industrie de Dakar, *Condensé du Régime Fiscal du Sénégal,* September 1962, pp. 65–93.

the amount of inheritance. The lowest rate in Ivory Coast and Senegal, applicable to children, husband, or wife, ranges from 3 per cent on inherited shares up to CFAF 500,000 to 18 per cent on shares of more than CFAF 10,000,000. The rates applicable to collateral relatives (including brothers and sisters) are more progressive, and the lower brackets are narrower. Table 17 indicates that the lowest rate, for the least favored heirs, is 25 per cent and the highest rate is 50 per cent.

TABLE 17. SENEGAL AND IVORY COAST: INHERITANCE TAX RATES

A. Children, Wife, or Husband: Net Share in CFA Francs

	Up to 500,000	500,000 to 2,000,000	2,000,000 to 10,000,000	More than 10,000,000
	← Rates applicable, in per cent →			
Three children or more	3	8	12	18
Two children	4	10	15	22
One child or none	7	15	20	25

B. Brothers and Collateral Relatives: Net Share in CFA Francs

	Up to 50,000	50,000 to 100,000	100,000 to 500,000	500,000 to 2,000,000	2,000,000 to 10,000,000	More than 10,000,000
	← Rates applicable, in per cent →					
Brothers and sisters	15	18	22	27	33	40
Uncles, aunts, cousins, nieces, nephews	20	24	28	32	38	45
Collateral relatives beyond the third degree	25	30	35	40	45	50

Source: République du Sénégal, *Recueil Fiscal,* Tome 2, pp. 107–108.

Heirs having three children or more on the day of receiving the right of inheritance are allowed a tax deduction not to exceed CFAF 50,000 for each child after the second one. This deduction is raised to CFAF 200,000 for the decedent's children, wife, or husband.

Duties levied on gifts and donations are governed by the same rules of relationship, with minor exceptions such as a deduction of 25 per cent for a donation by a marriage contract.

STAMP DUTIES

Stamp duties are applicable to all legal documents (public and private, civil and commercial, and judicial). Like the registration fees, there are many forms of stamp duties, such as (1) "officially stamped paper," required to be used for all written correspondence with public authorities, with minor exceptions such as petitions; (2) "the discharge stamp" which has to be affixed to receipts, with a rate ranging from 5 to 30 francs, depending on the amounts received; (3) stamps on checks and money orders, which are proportional at a rate of CFAF 3 per 1,000; (4) stamps on certain contracts, such as contracts for transportation and insurance.

The main advantage of both registration fees and stamp duties is their administrative convenience. They can also be argued for on the principle that services rendered by public authorities may involve social costs. In addition, the dutiable transactions reflect a higher ability to pay, and the duties provide the means of reaching this ability.

Contributions from Other Public Budgets

CFA countries rely heavily on contributions from other governments, of which the French Government is the most important. The member countries themselves also contribute to their mutual support. Such budgetary support is not a new phenomenon arising out of post-independence needs, but rather a traditional source of financing. Table 18 indicates the continuity of such reliance on foreign contributions for the last 30 years, before independence.

TABLE 18. CFA COUNTRIES: CONTRIBUTIONS FROM OTHER PUBLIC BUDGETS AS PERCENTAGE OF TOTAL BUDGETARY RESOURCES

Year	West African Federation	Equatorial African Federation	Cameroon	Madagascar	Togo
1929	8	20	5	24	21
1938	11	38	16	20	23
1946	12	42	33	33	38
1956	12	25	10	8	26

Source: Institut International de Finances Publiques, *L'Importance et le Structure des Recettes et des Dépenses Publiques en Fonction du Développement Economique* (Brussels, 1960), p. 127.

Before independence these contributions resulted in a measure of financial solidarity between the rich and poor members of each federation.[18] This solidarity was achieved through a redistribution of the

[18] Ministère de la Coopération, *Cinq Ans de Fonds d'Aide et de Coopération: Rapport sur la Coopération Franco-Africaine* (Paris, 1964), p. 19.

resources of the member countries. In addition to the French budgetary contribution, members of the community contributed according to their ability, as reflected in their relative economic development. Countries of greater ability helped their poorer neighbors, whose withdrawals from the funds through which this financial assistance was channeled exceeded their contributions to them.

When the CFA countries became independent, the major funds were reorganized. For example, in 1959 FIDES (Fonds d'Investissement pour le Développement Economique et Social) was replaced by FAC (Fonds d'Assistance et du Coopération), which has become the chief instrument of French aid to African development. FAC's resources, unlike those of FIDES, are entirely of French origin, without any contributions from the aid-receiving countries. The CCCE (Caisse Centrale de Coopération Economique), which is affiliated with the FAC, is in charge of the financial administration of the latter fund. It has its own resources, which are used mainly for long-range loans to the CFA countries. Also, the Caisse d'Egalisation of the former West African Federation has been replaced by the Fonds de Solidarité.

The historical development of the funds through which financial assistance has been administered will not be discussed in detail. It suffices to point out their major trends and impact on the immediate as well as the future revenue structure of CFA countries. Table 19 presents the major contributions made to them in 1960–63.

French budgetary contribution

This source is declining in relative and absolute terms, although it has fluctuated during the period under review. Congo (Brazzaville), Gabon, Ivory Coast, Senegal, and Togo obtain very little or none of this financial assistance. These countries, with the exception of Togo, enjoy the highest per capita income in the community and are without balance of payments problems.

The decline in the relative importance of French financial assistance can be attributed to one or both of the following: (1) the growing tendency to limit this assistance to projects that bear directly on the economic development of the assisted countries; and (2) the attempt of CFA countries to develop their own potential revenue sources. The years 1960 to 1963 witnessed a substantial increase in their domestic revenues, reducing their dependence on outside sources.

Table 20 illustrates the considerable variations that there have been in the relative importance of French budgetary aid to CFA countries. In Mauritania, for example, about 53 per cent of the ordinary budgetary

TABLE 19. CFA COUNTRIES: MAJOR SOURCES OF CONTRIBUTIONS FROM OTHER PUBLIC BUDGETS, 1960–63

(Amounts in millions of CFA francs)

	1960		1961		1962		1963	
	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total	Amount	Per cent of total
A. BCEAO Member Countries (Western Group)								
French budget	6,090	50.5	4,490	45.8	5,060	42.9	3,430	47.7
Solidarity fund	980	8.1	2,810	28.7	1,770	15.0	1,660	23.0
Reserve fund of ex-West African Federation	1,380	11.4	730	7.4	1,370	11.6	1,200	16.7
Local and other public authorities	—	—	300	3.1	380	3.2	410	5.7
Other African states	3,250	26.9	1,280	13.1	1,450	12.3	250	3.5
Other sources	370	3.0	190	1.9	1,760	14.9	240	3.3
Total	12,070	100.0	9,800	100.0	11,790	100.0	7,190	100.0
B. BCEAEC Member Countries Other Than Cameroon (Equatorial Group)								
French budget	1,320	62.2	1,540	59.0	1,620	52.4	460	20.5
Solidarity fund	700	33.0	910	34.9	1,010	32.7	1,120	50.0
Reserve fund of ex-Equatorial African Federation	10	0.5	10	0.4	290	9.4	—	—
Local and other public authorities	—	—	20	0.8	120	3.9	220	9.8
Other African states	90	4.2	—	—	—	—	—	—
Other sources	—	—	130	5.0	50	1.6	440	19.6
Total	2,120	100.0	2,610	100.0	3,090	100.0	2,240	100.0

Source: *La Zone Franc.*

receipts in 1960 came from this source, while only 11 per cent was so derived in 1963.

The variations in the relative importance of French budgetary assistance reflect two main factors: (1) the relative need of the receiving country and its ability to raise its own revenue; and (2) nonbudgetary forms of assistance. For example, Ivory Coast and Senegal are assisted through price subsidies on their exports to France. The choice between budgetary and nonbudgetary methods can have important fiscal implications. Price subsidies need to be counteracted by higher export taxes or other fiscal measures; otherwise, assistance which should be regarded as the equivalent of budgetary aid will go to the exporting firms and/or producers in the form of higher profits.

TABLE 20. CFA COUNTRIES: FRENCH FINANCIAL ASSISTANCE AS PERCENTAGE OF BUDGETARY RECEIPTS, 1960–63

	1960	1961	1962	1963
Central African Republic	22.7	4.6	6.5	9.5
Chad	18.8	12.6	11.8	0.7
Congo (Brazzaville)	1.6	—	3.6	—
Dahomey	29.5	18.6	15.3	14.2
Gabon	3.8	2.9	0.3	0.3
Ivory Coast	0.3	0.4	0.3	—
Malagasy Republic	7.0	12.8	10.1	8.9
Mauritania	52.9	43.1	39.3	10.9
Niger	14.8	11.8	11.7	11.9
Senegal	4.3	0.5	1.1	0.3
Togo	1.0	0.9	—	—
Upper Volta	11.3	5.2	9.3	11.8

Source: *La Zone Franc.*

CONTRIBUTIONS FROM FUNDS OF THE PREDECESSOR FEDERATIONS

With the dissolution of the French West and Equatorial African Federations on March 31, 1959 and July 1, 1959, respectively, a liquidation budget was established to which reserve funds of the Federations were transferred. The withdrawals of CFA countries from these funds are necessarily of declining importance.

CONTRIBUTIONS FROM LOCAL AND OTHER PUBLIC AUTHORITIES

Some CFA countries, such as the Central African Republic, Congo (Brazzaville), Malagasy, and Togo, receive minor funds from local authorities. This induces the local authorities to advocate that the central governments should strengthen their financial capacity (through the allocation of more tax sources or grants) in order that they may carry on their local responsibilities.

The temporary nature as well as the diminishing magnitude of these contributions add to the financial problems facing many of the CFA countries. In addition to the need to finance their own rising requirements for services, they have to compensate for the decline of this source, which in some countries has been of substantial importance.

Fiscal Incentives in CFA Countries and Their Harmonization

Like many other less developed countries, the CFA countries have adopted various fiscal incentives to speed up investment. The countries' low per capita income does not permit the substantial savings necessary to finance economic development being made locally. The implied line of policy, therefore, is to increase the supply of capital from foreign (as well as domestic) sources through the offer of tax exemptions. Virtually all the countries have enacted investment laws which provide for substantial tax benefits.

The most distinctive feature of these laws is a tax holiday—exemption from direct as well as indirect taxes—to be granted certain ventures that promote the national economy. There are differences in the nature and duration of these exemptions as well as in the conditions under which an enterprise can qualify.

The Ivory Coast Investment Law No. 59–134, of September 3, 1959, illustrates the principal features of the tax incentives generally in effect. This law classifies enterprises eligible for tax exemption in two major groups, depending on the duration of the exemption: (1) Enterprises that cooperate in the execution of economic and social development plans are entitled to exemption from certain taxes for not more than 10 years. These exemptions are determined in so-called conditions of agreement. (2) Enterprises of particular importance to development may qualify for longer exemption periods that run for not more than 25 years. In this case, a special law is passed to enact the agreement (*convention d'établissement*). This agreement protects the business from future increases in tax rates and other charges.

The eligibility of enterprises for tax exemption reflects the emphasis on industrialization as the means for economic development. Article 2 of the Ivory Coast Investment Law mentioned above indicates that the preferred enterprises are mainly those engaged in preparing, extracting, transforming, and manufacturing goods for mass consumption. However, the law also entitles enterprises in other businesses, such as construction and power production, to fiscal benefits.

The scope of fiscal benefits offered is very wide. The exemption is not limited to any one category of taxes: it covers import duties, export taxes, and all direct taxes. The law also provides as a special measure the exclusion from the taxable base of some categories of profits which are normally included, such as income from real estate and movable capital (stocks).

The Ivory Coast Law extends its favorable treatment not only to newly established enterprises (established after April 11, 1958) but also to already existing ones, provided they undertake "important expansion"; in the latter case, tax benefits are limited to the new extensions.

Much can be said both for and against fiscal incentives as a method of promoting economic growth. On the one hand, advocates of these devices argue that, firstly, the resulting substantial increase in the volume of investments and economic activity will compensate for the additional administrative burden, loss of revenue, and impairment of equity resulting from their adoption. Secondly, the resulting increases in disposable corporate profits, and in the proportion of these profits retained, will induce the growth of enterprises as well as strengthen their ability to undertake risky investments. Finally, the balance of payments—one of the most important targets of economic policy in these countries—can be improved by an induced inflow of capital. Even the additional future burden of transferring capital and earnings may well be outweighed by the contributions of foreign capital to the productivity of the economy as a whole.

On the other hand, opponents of fiscal benefits doubt their ability to stimulate investments. They argue that tax incentives in themselves, unless complemented by favorable treatment for the same income when received in the exporting countries, cannot greatly improve the profitability of the investment. In a less developed country, these incentives impair the fairness of the tax system, increase the administrative burden, and involve loss of revenue. Exemptions granted by many CFA countries for as long as 25 years increase the rigidity of the whole tax structure.

A rough indication of the operation of tax incentives in some CFA countries is given in Table 21, which shows the number of enterprises that have been granted tax exemptions in the countries in the Western group. These enterprises have been most numerous in Ivory Coast, the most developed country in the group.

TABLE 21. BCEAO MEMBER COUNTRIES: NUMBER OF ENTERPRISES GRANTED TAX EXEMPTION, 1959–63

	1959	1960	1961	1962	1963	Total
Dahomey	—	—	2	1	6	9
Ivory Coast	2	7	4	17	2	32
Mauritania	1	—	2	1	1	5
Niger	—	—	—	1	6	7
Senegal	—	—	—	1	7	8
Togo	—	—	2	2	1	5
Upper Volta	—	—	1	1	3	5
Total	3	7	11	24	26	71

Source: Banque Centrale des Etats de l'Afrique de l'Ouest, *Notes d'Information et Statistiques* (Paris), No. 107, June 1964, pp. 1–12.

Fiscal Aspects of CFA Movement Toward Economic Integration

Economic integration has come to be one of the priority targets among economic policymakers in advanced as well as less developed countries. The success of the European Common Market has drawn the attention of Latin America and many African countries to the idea of creating free trade associations, customs unions, and other economic groups.

CFA countries have already moved toward economic unity in the monetary and customs fields. The Central Bank of the West African Monetary Union (Banque Centrale des Etats de l'Afrique de l'Ouest) ensures a common currency for its members; in addition, these countries have a customs union with a common external tariff policy. Equatorial French African countries and Cameroon (Banque Centrale des Etats de l'Afrique Equatorial et du Cameroun) also joined in a customs union. With such an institutional background, it seems reasonable to seek fiscal policy measures that would help to sustain and accelerate the success of the monetary and customs unions already operating. Within a customs union—which is characterized, among other things, by freedom from export and import duties between its members—tax harmonization is a desirable objective. Advocates of the need for tax harmonization within customs unions in the less developed countries may find support in the recent proposals of the Fiscal and Financial Committee of the European Economic Community to harmonize tax differentials within the Community.

The existing tax structures of CFA countries already represent a considerable step toward tax harmonization because of their common origins in France. In addition, CFA countries have accepted the principle of tax incentives to accelerate the flow of private capital and its allocation among the so-called most productive industries for economic development. The use of tax incentives within a region tends to equalize the exemption of the most important industries, and especially of foreign capital.

There is a danger, however, that tax harmonization may be misunderstood by some CFA members as a limitation on their fiscal jurisdiction. As a result, some countries may be induced to withdraw from the union in order to have a freer hand in their fiscal policy. Such objections are less likely to occur in Equatorial Africa, where countries seem to be more eager to establish a common market, than in West Africa. On the occasion of admitting Cameroon to their central bank and customs union, the member countries agreed to look into the harmonizing of their fiscal structure as one of the most important steps toward its establishment.[19]

Even before being joined by Cameroon the countries of Equatorial Africa were on the path toward fiscal coordination. According to the treaty of 1960 among these countries, it was agreed that: (1) Rules that modify the assessment of taxes on commercial and industrial profits, income from movable capital, and internal turnover taxes have to be presented to the Administrative Committee of the Customs Union.[20] (2) Any change in the rates of the above-mentioned taxes, as well as of taxes on wages and salaries and general income, needs to be discussed first with the Secretariat of the Administrative Committee. In case three members (out of four) disagree on the requested change, the country seeking the change has to submit the issue to the conference of Prime Ministers.

It is evident that this treaty represents a substantial movement toward tax harmonization. It is not clear that the West African countries have moved in the same direction.

Regional coordination of fiscal incentives in CFA

The existence of two customs unions, coupled with the widespread use of fiscal incentives by the member countries, underlines the case for coordinating these measures. In the absence of such coordination, fiscal incentives may lead to competitive inequalities which might impair the vitality of the two customs unions. Through the offering of fiscal incentives to new enterprises, there is a tendency to bid them away from the

[19] Banque de l'Afrique Occidentale, *Bulletin Economique et Financier: France, Afrique Noire* (Paris), July-August 1961, pp. 4–8.

[20] *Journal Officiel de la République du Congo* (Brazzaville), Special No. 27, December 31, 1962, p. 1090.

neighboring states. This beggar-my-neighbor policy is not the sort to inspire the cooperative spirit that is required if a customs and monetary union is to operate and survive.

The member countries of the Equatorial Customs Union—Chad, Central African Republic, Congo (Brazzaville), and Gabon—recognized the need to unify their fiscal incentives, and in 1960 agreed by treaty on the jurisdiction to grant tax benefits to qualified enterprises. The purposes of the treaty were to offer inducements for the establishment of productive foreign enterprises in the customs union, and to guarantee stability to the investors.

A principal feature of this treaty is the classification of the enterprises deemed to be of vital importance to industrial development in three categories: *Category A* includes all enterprises with activities wholly within the territory of one country. This country has complete jurisdiction to grant certain fiscal benefits. *Category B* covers enterprises whose markets extend to two or more countries. The decision to grant fiscal benefits to such enterprises is reserved to the Administrative Committee of the Customs Union. *Category C* comprises enterprises of special importance and large investments. These are within the jurisdiction of a single country or the above-mentioned Committee, depending on the scope of the enterprises' activities. Benefits offered may not extend beyond 25 years.

On the admission of Cameroon to this Customs Union, the member countries agreed to unify their regimes applicable to investments and to harmonize their investment laws.[21]

Of special interest in this connection is the Central American Agreement on Fiscal Incentives to Industrial Development.[22] This agreement represents a substantial move toward regional standardization and the establishment of a uniform Central American regime of fiscal incentives for industrial development. The member countries agreed not to grant to *manufacturing* industries any fiscal benefits differing in nature, amount, or duration from those provided in this agreement.[23] The CFA countries can benefit from the experience of Central America because of the similarity both of their institutional framework and of the purposes of economic grouping in the two regions.

[21] Banque de l'Afrique Occidentale, *Bulletin Economique et Financier: France, Afrique Noire* (Paris), July-August 1961, pp. 4–8.

[22] United Nations, Economic Commission for Latin America, *Report of the Central American Economic Co-operation Committee, December 13, 1960-January 29, 1963* (Mexico, D.F.), pp. 56–62.

[23] *Ibid.*, Article 3, p. 57.

INTERNATIONAL TAX COORDINATION

One of the important conditions for the effective operation of tax incentive measures is the adoption of complementary tax measures in capital-exporting countries. Perhaps the principal way in which capital-exporting countries can protect the incentive effects of these measures from being nullified is by a tax-sparing treaty.[24] Because of France's close links with the industrial development of CFA countries, as well as because it is a principal supplier of capital, a tax-sparing treaty with France would be of greatest value.

The French tax treatment of income originating abroad seems to support the feasibility of such a treaty. For example, the distribution of earnings by French corporations carrying on business in the Overseas Departments is taxed at a reduced rate.[25] In addition, a substantial reduction in the tax rate is granted to distributions by metropolitan and corporate bodies having their administrative seat in the Overseas Departments if these distributions originate in activities considered essential for economic development.[26] The principle of differentiating in the tax treatment of income according to its source (activities considered vital to economic development in the less developed countries versus ordinary activities) has thus already been adopted by France.

The problem of double taxation between CFA countries and France is not acute or pressing for commercial or industrial profits. This is because CFA countries adopt the principle of "territoriality," which is in itself a substantial move toward minimizing the burden of double taxation.

However equitable the principle of territoriality may be, it cannot operate without workable allocation methods. To achieve these methods, there is no alternative to a tax treaty. In the absence of a tax treaty, the allocation of profits or of joint expenses may give rise to the following objections: (1) discrimination between national and foreign enterprises even though tax neutrality may be the country's tax policy; (2) extraterritorial taxation through overestimation of profits deemed to be realized within the territory of the taxing country or through non-

[24] Tax sparing provides that if a foreign country waives or reduces its income tax for a period, by reason of its tax incentive legislation, the amount of the tax waived would be credited by the capital-exporting country just as if the tax had been paid.

[25] Ministère des Finances et des Affaires Economiques, Direction Générale des Impôts, *Le Système Fiscal Français* (Paris, 1963), pp. 28–29.

[26] The corporation profits tax (tax on industrial and commercial profits) does not raise any difficulty, because under the French system benefits realized overseas through a "permanent establishment" are excluded from this tax. The term is interpreted in such a way as to make any form of carrying on business overseas (other than isolated transactions) qualify as a permanent establishment.

recognition of some of the necessary and reasonable expenses that occur overseas; and (3) unnecessary revenue loss, as is the case in CFA countries that do not tax dividends of foreign corporations, simply because it is too complicated to allocate dividends according to their origin.

Before their independence, there were two tax treaties between France and the former West African and Equatorial African Federations. These treaties were modeled after the classical pattern developed by and among the advanced countries. CFA countries should utilize these treaties as a fiscal policy device to accelerate their economic development.

Administrative Considerations

In the foregoing discussion, an attempt has been made to analyze the major features of the revenue structure of CFA countries, in the hope of reaching useful conclusions that may serve as a basis for structural reforms. Such reforms should increase the revenue, accelerate economic development, and reduce administrative burdens.

Any such reforms will, of course, need to be tailored to the requirements, institutional framework, and aspirations of each country concerned. Therefore, the following general observations, together with those expressed in the foregoing analysis, should be taken with the appropriate caution in connection with any individual country.

Underestimation of the role of fiscal administration

Tax reforms undertaken during the period under review in Cameroon, Congo (Brazzaville), Gabon, Ivory Coast, Senegal, Togo, and Upper Volta mainly took the form of higher rates or the introduction of new taxes. Tax administration did not appear to receive its appropriate emphasis as a direct means of improving revenue yield. Rather, new taxes and/or higher rates seem to have been used to compensate for the revenue lost through inefficient administration.

Continuation of this trend without strengthening the tax administration could easily weaken the whole tax structure. Tax rates as fixed by law do not determine the revenue yield; it is rather tax administration that determines the revenue productivity of a given tax structure. The tax structure of CFA countries is characterized by numerous taxes, each of which yields only a very small revenue. The ability of these countries to administer complicated tax laws is limited, and the attainment of efficient administration is bound to be costly. Simplification is the quickest way to efficient administration in many CFA countries. The number of taxes levied, the number of authorities responsible for assessing and collecting taxes, and the structure of particular taxes should be as simple as possible. The starting point of fiscal reforms, therefore, should be improvement in the coverage, structure, and administration of existing taxes.

A considerable gap exists between the assessment and the actual collection of particular taxes—especially income taxes—because of inefficient administration and overly complicated tax structures in many of these countries. For example, in Ivory Coast in 1962 the direct taxation collected was about 50 per cent of the assessments (Table 22).[27]

TABLE 22. IVORY COAST: COLLECTION OF DIRECT TAXES AS PERCENTAGE OF THEIR ASSESSMENT

(*Value figures in thousands of CFA francs*)

	1963 Estimate	1962 Estimate	Assessments to Sept. 30, 1962	Actual Collections to Sept. 30, 1962	
				Amount	As percentage of assessment
Proportional and progressive income taxes	2,775,000	2,315,000	2,701,000	1,291,000	48
Property taxes	412,000	412,000	304,000	110,000	36
Business fees and other direct taxes	570,000	625,000	466,000	343,000	73

Source: Ivory Coast General Budget for 1963, p. 5.

Table 22 suggests that the collection machinery is inadequate to the task, especially in the field of direct taxes. Among these taxes, the property tax is the most difficult to administer because of problems associated with classification and valuation. In Ivory Coast in 1962 actual collections were 36 per cent of assessments and 26 per cent of the estimated yield.

MULTIPLE TAX REFORMS WITH NUMEROUS CHANGES AND MODIFICATIONS

The above summary of recent legislation leaves little doubt that CFA countries are sacrificing the benefits of an integrated tax reform in an

[27] The term "assessments" is taken as a translation of *emissions,* which refer to the taxes already assessed and for which a roll has been issued.

attempt to raise sufficient revenue by ad hoc legislation. Sufficient revenue is only one of the goals of any tax structure. In addition to this principal goal, the African countries cannot afford to overlook other objectives, such as built-in incentives, feasible administrative procedures, and a better distribution of the tax burden. Continual emphasis on raising tax rates tends to delay the removal of structural imperfections, such as the exclusion of certain categories of income from the tax base and deficiencies in the structure of rates and exemptions.

For certain categories of income in some countries, tax rates have already been raised beyond the economic and administratively practicable level.[28] Higher revenue yields, as well as an improvement in incentives to work and to invest, could be achieved with lower rates. Moreover, continuous increases in tax rates would eventually bring these rates to the absolute limit, leaving no upward flexibility in the rate structure. Because of the limited experience of many of these countries, tax rates should be kept moderate, leaving adequate capacity in reserve for the future.

To lower personal exemptions from direct taxes without a substantial improvement in administration may bring into the tax jurisdiction many taxpayers whose contribution will not pay the additional costs of administration. Tax rates as well as personal exemptions should be included in a comprehensive over-all tax reform that would recognize the longer-term problems of development as well as the immediate need for more revenue.

In practice, any modification of a tax system will involve moderate —perhaps even piecemeal—adjustments of the over-all tax structure. Limited legislative possibilities, however, should not prevent countries from having an over-all integrated model for revamping the tax structure. This integrated model or program should be the basis for long-range action; only the stages of its implementation should rest on political possibilities.

In this connection, it should be added that the continued harmonization of the tax structures of the CFA countries needs to be recognized as a goal of future tax reforms by individual countries. Such a development will avoid unnecessary barriers against common markets being established.

[28] In Mali, for example, steeply progressive income taxes were introduced with a marginal rate of 94 per cent for certain brackets of income. The following fiscal year showed a decline in the government estimates of the yield from proportional and progressive income taxes.

IMPROVEMENT OF FISCAL STATISTICS

Equally important to the future development of an efficient fiscal administration, as well as to the attainment of fiscal policy ends, is a substantial improvement, quantitatively as well as qualitatively, in the available fiscal statistics. The lack of closed-account data makes the foregoing analysis open to many doubts. Accurate and timely data on a closed-account basis are a prerequisite to an adequate fiscal policy.

Structure des recettes publiques des pays de la C.F.A.

Résumé

L'objet de la présente étude est l'analyse du régime des recettes publiques dans les pays membres de la Communauté Financière Africaine (C.F.A.) au triple point de vue de : 1) leur capacité de prélever des recettes suffisantes pour financer le budget ordinaire et contribuer au financement du développement économique; 2) la répartition équitable de la charge des impôts existants, et leur incidence sur le développement économique; 3) la politique fiscale visant à accélerer l'afflux des capitaux privés et leur attribution entre les diverses industries. Le but de l'auteur est non pas de procéder à un examen détaillé de la structure fiscale de chaque pays, mais plutôt de présenter, avec exemples concrets à l'appui, une étude générale de la structure des recettes publiques, pour l'ensemble de ces pays.

Ces derniers ont en commun plusieurs traits : 1) leur régime de finances publiques est hérité de l'administration française; 2) les exportations de produits primaires constituent la part principale du revenu national, et la source des devises et des recettes publiques; 3) ils font tous partie de la zone franc, à l'intérieur de laquelle la plupart d'entre eux sont groupés en deux unions monétaires.

Les taxes indirectes constituent la principale source de recettes, et représentent en moyenne environ 75 pour cent de l'ensemble des recettes de l'Etat. Les plus importantes sont les droits d'entrée et les droits de douane, puis les taxes à l'exportation et les taxes sur les ventes (notamment les taxes sur valeur ajoutée et sur chiffre d'affaires). Les droits d'entrée favorisent, par rapport aux autres pays et dans l'ordre : les membres de la zone franc, ceux de la Communauté Economique Européenne, et les nations ayant signé avec les pays de la C.F.A. des traités comportant la clause de la nation la plus favorisée.

En matière d'impôts directs, les pays de la C.F.A., exception faite de la Côte-d'Ivoire, ont recours, dans une large mesure, à un impôt de capitation différencié. Le régime d'impôt sur le revenu est du type cédulaire, complété par l'impôt général sur le revenu. Les patentes et licences jouent également un rôle important.

En outre, ces pays obtiennent, pour faire face à leurs dépenses, une aide considérable de divers autres budgets publics, notamment, dans certains pays, des subventions du gouvernement français.

Cette étude se propose d'examiner également les encouragements fiscaux accordés aux nouveaux investissements, ainsi que l'harmonisation de ces mesures. Elle souligne la nécessité d'une administration fiscale plus efficace, afin d'augmenter le rendement du système fiscal.

La estructura de los ingresos fiscales de los países de la Comunidad Financiera Africana (CFA)

Resumen

El objeto de este trabajo es analizar la estructura del sistema de ingresos fiscales en los países que integran la Comunidad Financiera Africana (CFA) partiendo de tres puntos de vista: (1) su capacidad para apartar los ingresos suficientes para financiar su presupuesto ordinario y contribuir al financiamiento de su desarrollo económico; (2) la distribución equitativa de los impuestos actuales y el efecto que éstos ejercen sobre el desarrollo económico; y (3) la política fiscal encaminada a acelerar la afluencia de capital privado y su distribución entre las diferentes industrias. No es la intención del autor hacer un examen detallado de la estructura tributaria de cada país, sino más bien presentar un estudio de carácter general de la estructura de los ingresos fiscales de estos países, ilustrándola con ejemplos concretos:

Dichos países presentan varias características comunes: (1) su sistema de finanzas públicas fue heredado de la administración francesa; (2) las exportaciones de productos primarios constituyen la parte más importante de su ingreso nacional y la fuente de donde obtienen divisas extranjeras e ingresos fiscales; y (3) todos ellos son miembros del área del franco, dentro de la cual la mayoría de ellos se encuentran agrupados en dos uniones monetarias.

Los impuestos indirectos constituyen la mayor fuente de ingresos y

representan aproximadamente un promedio del 75 por ciento del total. Entre esos impuestos los más importantes son los derechos de importación y los aduaneros y luego los de exportación y los que gravan a las ventas (principalmente los impuestos sobre valor agregado y sobre ingresos brutos). Comparativamente hablando, más que a otros países, los derechos de importación favorecen, respectivamente, a los países miembros del área del franco, a los de la Comunidad Económica Europea, y a los que han concertado convenios con los países de la CFA conteniendo la cláusula de nación más favorecida.

En cuanto a los impuestos directos, los países de la CFA, salvo la Costa de Marfil, se valen en alto grado de un impuesto de capitación diferencial. El sistema de impuestos sobre la renta es de tipo cedular y se completa mediante el impuesto general sobre la renta. Los derechos sobre patentes y licencias desempeñan asimismo un papel importante.

Además, para hacer frente a sus gastos, los países de la CFA obtienen aportaciones considerables de los presupuestos de otros gobiernos; ciertos países, en particular, reciben subvenciones del gobierno francés.

Este trabajo trata asimismo de analizar los incentivos fiscales que se conceden a las nuevas inversiones, así como también su armonización, y destaca la necesidad de que exista una mejor administración tributaria a fin de poder aumentar el rendimiento del sistema fiscal.