

# UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL



54638

Distr.  
LIMITED

E/CN.14/BUD/6  
15 September 1966

Original: ENGLISH



ECONOMIC COMMISSION FOR AFRICA  
Seminar on Budget Planning and Management  
Addis Ababa, 3-13 October 1966

## SURVEY OF DEVELOPMENTS IN PUBLIC FINANCES OF AFRICAN COUNTRIES

M66-1295

## TABLE OF CONTENTS

	<u>Paragraphs</u>
I. INTRODUCTION.....	1 - 11
II. ANALYSIS OF THE PUBLIC FINANCE TRENDS.....	12 - 138
A. General considerations.....	14 - 25
B. Growth and changes of expenditure.....	26 - 80
C. Growth and changes of government revenues.....	81 - 129
D. The level of government expenditure and revenue.....	130 - 138
III. RECENT TRENDS IN PUBLIC FINANCES OF SELECTED AFRICAN COUNTRIES.....	139 - 326
GHANA.....	142 - 197
KENYA.....	198 - 230
SUDAN.....	231 - 250
TANZANIA.....	251 - 282
UNITED ARAB REPUBLIC.....	283 - 326

## BIBLIOGRAPHY AND SOURCES OF DATA

## I. INTRODUCTION

1. In 1961 the Economic Commission for Africa prepared a paper on "Public Finance in African Countries."<sup>1/</sup> The purpose was to analyze trends and problems in public finance in Africa. Naturally the analysis suffers in that article from the limitation imposed by the weakness of the data available at the time. That effort may be considered as a first attempt to be followed by further studies in subsequent years. The period covered was 1950 to 1958. Despite the limitations of the data used in this analysis, the study succeeds in bringing out certain problems of serious concern to African governments and contributes to increased interest on the part of governments in improving public finance data.

2. The process of independence of many African countries after the 1960's and the problems faced by the new governments created, at the same time, more awareness in the continent of the usefulness of having actual up-to-date and well-classified fiscal information. Efforts to improve budgetary classifications have been made and the Economic Commission for Africa has given great importance to the collection, revision and adequate presentation of those data.

3. This document is an attempt to continue the fiscal research initiated in recent years and to present, in the light of the new statistical information available, a comprehensive study on recent developments in public finance of African countries. The period covered is principally 1959-1964 and some long term analysis is also included and some generalizations attempted for the period 1950-1964.

---

<sup>1/</sup> Published in the Economic Bulletin for Africa, Vol. I, No. 2, June 1961.

4. The scope of the analysis is confined mostly to central government transactions. In some countries it was possible to include regional or local governments and/or public enterprises transactions in an attempt to present a broader picture of the public sector finances. The need for such approach can be understood if it is considered that many governments have recently established several decentralized development agencies and have created or absorbed state enterprises. On the other hand, many budgetary policy problems of new African governments are not the consequences of wrong policies adopted by the central governments, but principally of the necessity to provide new decentralized agencies or enterprises with initial capital for their take-off in the task of promoting economic development. In many countries the central government's fiscal deficit is a consequence of heavy transfers made for financing peripheral institutions of the public sector.

5. The long-term analysis here presented tries to show differences in the public finances during the stage of colonial rule of many African countries and the political, social and economic changes produced after independence. All changes in those fields have a great repercussion on budgetary procedures and in the public expenditure structure.

6. Most of the African countries have attempted after independence to accelerate economic and social development and this means increased investments and expenditures in education, health, housing and social welfare. At the same time governments expand their efforts in the promotion of production, increasing the resources devoted to agriculture, industry, transportation, etc. Consequently the size and nature of government transactions have drastically changed in recent years as compared with the tendencies of the 1950's.

7. The basic statistical data used in this paper are included in another paper.<sup>1/</sup> Methodological comments are presented there and avoid the necessity of a repetition. It is necessary nevertheless to specify here the main problems encountered in the previous statistical work. Traditional budget classifications are inappropriate; these patterns of presentation of data are designed primarily to serve the purposes of accountancy. Also they do not reflect true magnitudes of expenditures and revenue. Many problems arise from the division between recurrent and development budget, or between ordinary and extraordinary budgets. This is complicated further if the numerous special funds and specific transfers to and from these funds are taken into consideration. The system of linking specific revenue to special funds is another extended practice in Africa. Finally the fiscal period is different from one country to another and also for some countries changes of the fiscal period are frequent.

8. This document analyzes the main characteristics of the expenditure structure and the revenue pattern in Africa. Some generalizations are intended as preliminary views on the trends in public finance. The study of the allocation and mobilization of fiscal resources is made through the economic classification of government transactions. As it was noted in a previous ECA document, "most of the countries follow a double budget system based on a distinction between current account expenditure and capital or development account expenditure. This distinction, as made by the countries, has been adopted for the purpose of the present article. It should be noted, however, that the use of a separate budget for development expenditure is often dictated by consideration of safeguarding such expenditure against periodic fluctuations in current revenues and by the practice of earmarking certain receipts like loan funds for such purposes. Expenditure of a capital nature can therefore be found on

---

African  
1/ Survey of Budgetary Statistics, E/CN.14/BUD/5.

current account and some current expenditures are included on the development account. Examples of other conceptual difficulties are the existence of double counting particularly in the case of ancillary agencies, inclusion of repayment of debt on current account and revenue contributions to capital budget shown on current account as expenditures."<sup>1/</sup>

9. Expenditures are also analyzed under functional and sectoral categories, in order to present efforts made in every sector of the government action.

10. For a more relevant analysis fiscal information has been related to national accounts data. Improvements in these statistical instruments in recent years permit a more confident use of such aggregate information; but many reservations have been considered in some countries.

11. The study of general trends in African public finance, on a regional basis, is complemented by special analysis of developments in the government's finance of some selected African countries. The countries included in this section are Ghana, Kenya, Sudan, Tanzania and the United Arab Republic.

## II. ANALYSIS OF THE PUBLIC FINANCE TRENDS

12. In this section a study of general trends in public finance is made in order to present the main problems faced by African countries. It has been accepted that the study of public finance trends to be significant must be related to the general development of the economy. In fact, the size and structure of government expenditure and revenue changes in the course of socio-economic development.

13. The ability to mobilize potential taxation capacity, for instance, depends largely on the stage of development at which a given country has arrived. On the other hand the pattern of the allocation of resources is

---

<sup>1/</sup> Economic Bulletin for Africa, Vol. I, No. 2, p. 3.

also influenced by the necessities that arise in specific stages of development; thus less developed economies have to spend more in the expansion of national infrastructure and forget for a while their other needs.

A. General considerations

14. African countries are now in a transition period from traditional to modern societies. New problems are involved in such a process. Attention must be given now to the urbanization, industrialization, secularization, democratization and so on. These changes are the result of the mobilization of the population from the traditional pattern of life to the modern one. This implies that important sectors of society are breaking old ties, habits and commitments and finding and adopting new ones. Sociologists are developing some indicators to measure quantitatively these changes. Indicators can measure exposure to modernity, the shift into a mass media audience, the change in locality of residence, the change from rural to urban residence, the occupational shift of agriculture, the increase in literacy, the changes in income per capita of the different social groups, the increase of voting participation, the rate of savings and investments, etc.
15. Naturally, the structure and size of government finances depends on which stage of this long period of transition the country is approaching. In poor countries, taxation capacity is very limited and is mostly concentrated in one or two primary products for exportation. Government expenditures are limited in such cases to few activities, mostly general services; action in economic and social services is very limited.
16. In subsequent stages of development governments can mobilize larger resources (from the new industry, commerce, professionals, etc.) and increase their capacities to invest in infrastructure and in developing production.
17. Total government revenue shares of gross national product increase with economic development. Countries least developed such as Afghanistan

have a percentage as low as 6 per cent, while the most developed ones have percentages from 25 to 35 per cent. The great productivity of high-income countries are raising their taxable capacities.<sup>1/</sup> Thus often government revenue shares increase with per capita income.<sup>2/</sup> It is interesting to make some comparisons between different countries of the world. For this purpose it is convenient to consider open economies, let us say with an important foreign trade; middle economies, with some internal economic activity; and closed economies, with a highly developed internal economy and with a relatively small share of GNP devoted to foreign trade.

18. In less developed and in middle developed countries when they have open economies the total general government current revenue as a per cent of gross national product is higher in comparison with middle open economies or closed economies.

19. On the other hand, countries with high incomes have a higher rate of taxation in relation to GNP if they are closed economies, than the more open economies. Table 1 shows these differences.

20. Taxes on foreign trade are very important in less developed economies; in higher income countries this is not relevant. In open economies (Burma, Ceylon, Malaya) with income less than \$250, taxes on foreign trade represent around 10 per cent of GNP and on the other extreme in highly developed economies it represents less than 1 per cent of GNP (cases of USA and France).

21. Internal indirect taxes are more important in middle developed economies representing around 5 to 7 per cent of GNP and in highly developed from 8 to 16 per cent.

<sup>1/</sup> Western countries show in the past hundred years big jumps in government revenue to meet crises (war and depressions) with some plateaus until the next step increase. These crises forced those countries to establish legal and administrative machineries to enforce the payments of taxes; on the other hand taxpayers were more willing to make contributions to meet national emergencies.

<sup>2/</sup> Some estimates show that there is an increase of 2.5 percentage points with every \$100 increase in per capita income.



TABLE 1

AFRICA: Tax Structure Profiles 26 Countries, 1958/59

Openness	Country	Percentage of general government revenue in GNP	Percentage of taxes on foreign trade in GNP	Percentage of internal indirect taxes in GNP	Percentage of internal direct taxes in GNP	Other revenues as percentage of GNP
Countries with low income (less \$250)						
Open	Burma	19	8	4	5	3
Open	Ceylon	23	12	3	5	3
Open	Malaya	17	9	2	3	3
Middle	Cambodia	12	4	6	1	2
Middle	Thailand	12	6	4	1	1
Middle	Indonesia	13	6	3	3	1
Closed	Pakistan	11	2	3	2	4
Closed	India	11	1	5	3	2
Closed	Philippines	11	3	4	2	2
Countries with middle income (\$250-500)						
Open	Greece	21	5	7	8	1
Open	Costa Rica	15	8	3	4	1
Open	Lebanon	14	5	5	2	2
Middle	Chile	19	4	7	8	1
Middle	Argentina	17	2	7	7	1
Middle	Colombia	12	2	5	4	1
Closed	Spain	17	1	8	7	1
Closed	Mexico	11	3	3	3	2
Closed	Turkey	12	1	7	3	2
Countries with High income (over \$500)						
Open	Belgium	24	1	8	14	1
Open	U.K.	30	1	13	15	1
Open	Sweden	32	1	9	20	2
Middle	Australia	25	1	10	11	2
Middle	W. Germany	35	1	14	19	1
Middle	Italy	30	●	14	15	1
Closed	France	34	1	16	16	1
Closed	U.S.A.	28	0	9	18	1

Source: Harley H. Hindrichs, "A General Theory of Tax Structure Change during Economic Development," p.36, Harvard Law School. International Tax Programme, Cambridge, 1966. (Figures taken from UN publications)

22. Internal direct taxation is also more important in middle developed economies (represents around 3 to 8 per cent of GNP) and mostly in developed countries (from 11 to 20 per cent of GNP).

23. It is natural, therefore, that a tax structure changes through the different stages of development, and in relation to the degree of openness of the economy.

24. In the case of expenditure pattern, the experience of some developing regions shows that the allocation of resources changes also in the different stages of development. In Latin America, for instance, more relatively developed economies like Argentina, Brazil, Mexico and Venezuela, have more taxation capacity to mobilize and therefore the participation in GNP is higher (fluctuates between 20 to 30 per cent). These countries expend in economic development promotion a share of 30 to 40 per cent of total government expenditures. In the other extreme, less developed economies, like Haiti, Dominican Republic, Bolivia and Paraguay, expend less than 25 per cent of their respective GNP on economic services.

25. Thus it can be seen that less developed economies are faced with a vicious cycle: a low income per capita reduces the mobilization of resources and the allocation of these resources must be concentrated in general services rather than in reproductive activities, reducing the impact of public finance in accelerating increases in income per capita.

#### B. Growth and changes of expenditure

26. The growth of government expenditures over the period 1950-1964 may be considered in absolute terms and could be related to other important economic aggregates, like gross domestic product and prices in order to present an order of magnitude of their growth.

The level of government expenditure

27. It can be seen in Table 2 that the growth of government expenditure was very rapid in absolute terms between 1950 and 1964. In all the countries included in the table can be seen an impressive growth of expenditure; in some cases this amounts to several fold.

28. The largest increase occurred in the UAR, Nigeria, Ghana, Ivory Coast, Uganda, Zambia, Rhodesia and Sierra Leone. On the other hand the countries which recorded comparatively small increases in government expenditure were Togo, Gambia, Niger, Gabon, Republic of South Africa and Bechuanaland (Botswana).

29. But increase in expenditure depends largely in many countries on the movements of the level of prices. Some countries are suffering inflation and therefore the real increase in government expenditure is much less if compared with the monetary increase. In Table 2 is included a comparison of indices of increase in government expenditure and prices. It can be seen that in all countries the index of growth of expenditure rose much more than the price index; that means that the purchasing power of African governments has increased from 1958 to 1964.

30. A more significant indicator of the growth of government expenditure is its comparison with the gross domestic product. In Table 3 is presented, in percentages, the share of gross domestic product absorbed by public expenditure of 25 African countries. For comparative purposes the information is separated into two periods: before 1960 and after 1960.

31. Expenditures of countries of North Africa seem to participate in a greatest share of GDP. The influence of countries like Algeria and the UAR with a large public sector, in which many enterprises had been nationalized, contributes to this reality. In countries of West Africa this

TABLE 2

AFRICA: Growth of Government Expenditure in Selected Countries

<u>Countries</u>	<u>In terms of National Currency</u>			<u>Indices of growth 1958-1964</u>	
	<u>1950</u>	<u>1958</u>	<u>1964</u>	<u>Government Expenditure 1958 = 100</u>	<u>Cost of Living 1958 = 100</u>
<u>North Africa</u>					
Algeria (billion new francs)...		4a/	6b/	...	...
UAR (£ millions)	164	292	889	304	103
Sudan (£ millions)	30c/	56	90d/	160	120
<u>West Africa</u>					
Nigeria (£ millions)	29	100	213	213	112
Togo (billion CFA fr.)	...	3	4d/	133	...
Ghana (£ millions)	14	64	160	250	141
Ivory Coast (billion CFA fr.)	...	11	40	363	116d/
Gambia (£ millions)	...	2	2b/	0	...
Niger (billion CFA fr.)	...	4	8b/	200	110d/
Sierra Leone (£ millions)	3	9	15d/	167	119
<u>East Africa</u>					
Ethiopia (million Eth.¢)	70	176	300d/	170	...
Kenya (£ millions)	16	44	57d/	129	109d/
Tanzania (£ millions)	11	24	42	175	98
Uganda (£ millions)	8	26	34d/	130	112d/
Madagascar (billions CFA fr.)	10	16	25d/	156	114d/
Zambia (£ millions)	...	25	46	184	108
Malawi (£ millions)	...	8	17	212	102d/
Rhodesia (£ millions)	...	28	75	267	107
<u>Central Africa</u>					
Congo (Kinshasa) billion francs)	4	15	...	...	...
Gabon (billion CFA fr.)	...	3a/	9d/	300	137

Source: ECA, Statistical Bulletin for Africa, No. 1, Part I, November 1965,  
and "Public Finance in African Countries," Economic Bulletin for

a/ 1959. Africa, op.cit.

b/ 1962.

c/ 1953.

d/ 1963.

TABLE 3

AFRICA: Share of Gross Domestic Product Absorbed by  
Public Expenditure in Selected Countries

Country	Before 1960		After 1960	
	Year	Percent of GDP	Year	Percent of GDP
<u>North Africa</u>				
Algeria	1959	35	1960	40
Tunisia	1958	21	...	...
UAR	1959	21	1964	47
Sudan	1959	15	1962	16
<u>West Africa</u>				
Nigeria	1959	14	1962	16
Ghana	1959	17	1964	25
Ivory Coast	1959	15	1964	17
Senegal	...	...	1961	21
Mali	...	...	1961	19
Upper Volta	...	...	1961	15
Niger	1959	11	...	...
Togo	1958	10	...	...
<u>East Africa</u>				
Ethiopia	1957	8	1960	9
Somalia	...	...	1960	32
Kenya	1959	21	1963	21
Uganda	1959	17	1963	19
Tanzania	1959	13	1962	17
Malawi	1959	18	1963	22
Zambia	1959	12	1964	18
Rhodesia	...	...	1964	21
Madagascar	1956	15	1960	12
Rwanda-Burundi	...	...	1960	15
<u>Central Africa</u>				
Gabon	...	...	1960	15
Chad	1958	8	...	...
Republic of S. Africa	1959	16	1960	15

Source: ECA, Statistical Bulletin for Africa, No. 1, Part I, November 1965.

participation is not so high, except in the cases of Ghana, Senegal and Mali. Countries of East Africa show different levels of participation starting from Ethiopia (9 per cent) and ending with Somalia (32 per cent). In Central Africa, there is very little information; Gabon and Chad show small shares of control in GDP. In South Africa the rate of participation is also reduced, due to the fact that almost all activities are in the hands of the private sector.

32. The table also shows that the share of gross domestic product absorbed by public expenditure tends to increase after 1960. This is more relevant in the case of Algeria, UAR, Ghana, Malawi and Zambia. This increase is moderate in the cases of Nigeria, Sudan, Ivory Coast, Ethiopia, Kenya, Uganda and Tanzania. It decreases in the case of Madagascar and the Republic of South Africa.

33. There appears to be some positive correlation between the level of per capita income and the share of gross domestic product absorbed by the government. Countries with low per capita incomes mobilize a small share of the national product; there are no domestic industries in these countries but there exists a small amount of commerce, and a few other economic activities which in fact absorb the impact of taxation.

34. Of the 23 African countries considered it can be seen that in countries with per capita income under U.S. \$80--Chad, Ethiopia, Nigeria, Malawi, Tanzania, Uganda and Upper Volta--the share of GDP absorbed by the government averages around 14 per cent. In some countries like Chad and Ethiopia this rate is even less than 10 per cent.

35. The countries with per capita incomes of between U.S. \$81 and \$200 such as Kenya, Madagascar, Mali, Sudan, UAR, Gabon, Niger, Togo and Tunisia, the average rate of participation of public expenditures in GDP is around 16 per cent.

36. In countries with an income per capita of over U.S. \$200, however, (Algeria, Ghana, Ivory Coast, Zambia, Republic of South Africa, Senegal,

and Rhodesia for instance) the share of the GDP absorbed by the government is around 21 per cent.

37. In Table 4 is presented, country by country, the share of gross domestic product absorbed by public expenditure in the 23 African countries grouped according to their respective level of per capita income.

38. It seems that countries with an income per capita of over U.S. \$200 have developed domestic production (agriculture, industry, mining, commerce, etc.) and had mobilized more resources through the government, making possible the absorption of a greater share of gross domestic product. Countries in this group have shown more elasticity for absorbing increasing shares of GDP. In the case of Algeria where the government was controlling 35 per cent of GDP in 1959 and after 1960 absorbed 40 per cent, it can be presumed that in the following years this share increased rapidly if account is taken of the fact that GDP decreased after 1962 and the government increased their expenditures. In Ghana the government increased its share from 17 per cent in 1959 to 25 per cent in 1964. Ivory Coast absorbed 15 per cent in 1959 and this rose to 17 per cent in 1964. This rate growth in the Ivory Coast is entirely due to the fact that this country places high importance on private and foreign investments. In Zambia the share absorbed by the government was around 12 per cent in 1959 and rose to 18 per cent in 1964; and this increase was possible due to the expansion of the copper exports.

#### The structure of government expenditure

39. The study of government expenditure patterns of African countries presents many problems and limitations. Available information is incomplete and fractional and any interpretation must be made with caution. In the first place, figures published by the governments refer generally to central government; the exclusion of provincial and local governments as a consequence creates a narrow view of the public finance study. Therefore it is almost impossible to make an analysis of the general government activities, and the whole public sector.

TABLE 4

AFRICA: Share of Gross Domestic Product Absorbed by Public Expenditure in Selected Countries Grouped by Income per capita

	Central Government Expenditure in per cent of GDP
<u>Group I - Countries under U.S. \$80</u>	
Chad (1958)	8
Ethiopia (1960)	9
Nigeria (1962)	16
Malawi (1963)	22
Tanzania (1962)	17
Uganda (1963)	19
Upper Volta (1961)	15
<u>Group II - Countries between U.S. \$81-199</u>	
Kenya (1963)	21
Madagascar (1960)	12
Mali (1961)	19
Sudan (1962)	16
UAR (1959)	21
Gabon (1960)	15
Niger (1959)	11
Togo (1958)	10
Tunisia (1958)	21
<u>Group III - Countries over U.S. \$200</u>	
Algeria (1960)	40
Ghana (1964)	21
Ivory Coast (1964)	17
Zambia (1964)	18
Rep. of South Africa (1960)	15
Senegal (1961)	21
Rhodesia (1964)	21

Source: Table 3.



40. Another limitation is the institutional pattern of public finance. The administrative organization varies considerably from country to country in the region; this means that the share of resources flowing to the public sector is understated in different degrees for the various countries. Thus, for example, local government is practically non-existent in Somalia and Ethiopia, where in practice the entirety of public resources is represented by those collected by the central government. The opposite is true in countries such as Kenya, Uganda and Madagascar where 50 per cent of the resources absorbed by the public sector is represented by provincial and local governments.

41. The availability of statistical data is very irregular. Some countries produce periodical information, but some others close their final accounts very late. Therefore, it is difficult to have statistical series under the same bases. It can be said that data on budgetary expenditure are far less uniform and homogeneous than data on revenue. Only in a few countries of the whole region produce figures for expenditure classified according to a functional breakdown and even then the time series are not as complete as the comparable figures for revenue.

42. In Table 5 government expenditures are resumed in their broad functions. The table presents the percentage of total expenditures in economic services, social services, general services, financial services and unallocated expenditures.<sup>1/</sup>

43. In some countries it can be seen that general services are absorbing increasing rates of the total expenditure. This is the case in Tanzania, Rwanda and Burundi, Malawi, Zambia, etc. This is a consequence of heavy new expenditures in general administration, defense and police. These heavy expenditures are a consequence of independence.

---

<sup>1/</sup> Definitions can be found in document E/CN.14/BUD/3, Guidelines for the Co-ordination of National Budgets with National Development Plans.

TABLE 5

AFRICA: Breakdown of Government Expenditure by Broad Functions in Selected Countries

(In per cent of total expenditures)

<u>Countries</u>		<u>Economic Services</u>	<u>Social Services</u>	<u>General Services</u>	<u>Financial services</u>	<u>Unallocated Expenditures</u>
Kenya	1952	20.7	21.3	23.4	13.9	20.7
	1955	19.9	15.0	18.9	5.4	42.8
	1960	22.9	25.4	29.3	14.5	7.9
	1963	30.5	23.5	23.5	17.0	5.5
Uganda	1950	34.5	20.1	20.1	7.5	17.4
	1955	26.8	29.6	17.8	5.8	20.0
	1960	27.3	33.0	23.0	8.0	8.8
	1963	22.2	21.5	25.1	16.6	14.6
Tanzania	1950	14.0	11.1	15.6	2.9	56.4
	1955	21.9	18.5	19.6	5.8	34.2
	1960	27.5	25.9	28.7	...	17.9
	1963	31.7	30.4	26.1	...	11.8
Rwanda-Burundi	1957	25.6	22.8	10.9	1.0	39.7
	1960	22.2	33.5	14.4	2.1	27.8
Malawi	1956	32.1	15.2	15.2	3.6	33.9
	1960	32.9	16.0	24.9	8.0	18.3
	1963	21.8	22.6	25.1	6.2	24.3
Zambia	1956	32.1	15.2	15.2	3.6	33.9
	1960	32.9	16.0	24.9	8.0	18.3
	1963	21.8	22.6	25.1	6.2	24.3
Ghana	1959	38.1	29.0	24.6	1.1	7.2
	1961	39.7	30.8	23.8	2.2	3.5
	1963	32.6	32.5	19.0	4.8	11.1
Somalia	1962	20.6	21.1	54.0	4.0	4.0
Nigeria	1961	33.0	21.0	33.0	13.0	...

Source: Basic information provided by official sources.

44. Expenditure in social services tends to increase continuously in many countries, due to social pressures created by the new attitudes of the masses of Africa. The population of Africa today is demanding more education, health and social welfare services. The consequence is that countries like Kenya, Uganda, Tanzania, Rwanda and Burundi, Malawi, Zambia, Ghana and Nigeria are spending more now on social services than in previous years.

45. The faster rate of growth of expenditure for general and social services<sup>is</sup> in detriment of economic services in some countries like Uganda, Rwanda and Burundi, Malawi, Zambia and Ghana. In these cases this means in practice that demands for development expenditure had to be sacrificed to the requirement of expenditure for services which are less directly reproductive, or not reproductive at all. In the first category are mainly the social services like education and health where the returns in terms of development are slow to come; improvement in the educational standards are undoubtedly an essential prerequisite to economic development, but the length of the period necessary to give adequate basic training demands and investment of resources without any benefits for a period which may easily extend over several years. This is mostly true in the case of countries with an income per head under U.S. \$50 a year. Some countries have understood this question and are now making efforts to improve economic services; this is the case of Kenya, Tanzania, etc.

46. Another fact to be mentioned is the rapid growth of financial obligations which is a direct reflection of the fast rising level of public indebtedness, both on foreign and domestic accounts. This is particularly true in the case of Kenya, Uganda, Tanzania, Rwanda and Burundi, Malawi, Zambia, Ghana and many other countries. While there is no implicit limit on the amount of public indebtedness which can safely be incurred by governments, developing African countries tend inevitably to rely heavily on foreign loans where the limit is clearly marked by the capacity of the country to produce the foreign exchange resources necessary for the servicing of the debt.

47. A certain slow down in the rate of growth of overall expenditure in very recent years is a symptom of growing financial difficulties arising from slowly rising revenue and failure in closing the gap with borrowed funds. These are not easy to mobilize in African countries and, to the extent that they are mobilized, new indebtedness imposes heavy financial burdens to the point where most of the additional receipts automatically go into debt repayment.

48. It is interesting to study the distribution of government expenditures by functions. Expenditures in economic services are concentrated in many countries in transport and communication; this is the case of Ghana, Sudan, Liberia, Nigeria, etc. In other cases priorities have been given to agriculture, like Kenya, or industry, like the U.R. (see Table 6).

49. Expenditures in social services are concentrated mainly on education. In countries like Sudan, Ghana, Liberia, Nigeria, Tanzania, the U.R., and Kenya for which information is available, expenditures on education represent from 7 to 27 per cent of total expenditures. These expenditures are followed in order of importance by expenditures on health.

50. Expenditures in general administration represent different shares of total expenditures. In the Sudan 9 per cent, in Ghana 9 per cent, in Liberia 27 per cent, in Nigeria 16 per cent, in Tanzania 7 per cent, in the U.R. 10 per cent and in Kenya 8 per cent. These percentages correspond to the years mentioned in Table 6.

51. Expenditures on defense, police and justice absorb shares from 9 per cent to 32 per cent. Unallocated expenditures, in which repayment of the debt is included, have an important share in many countries.

52. As it was mentioned before, independence represents for many African countries the assumption of new responsibilities. This new task is represented mainly by the general administration and defense. But at the same time the process of liberation has created the conscience that conditions of the masses must be improved through education and health services.

TABLE 6

AFRICA: Distribution of Government Expenditures by Functions  
in Selected African Countries (percentages)

Functions	Sudan <sup>1/</sup> 1964-65	Ghana <sup>2/</sup> 1963- 1964	Libe- ria <sup>1/</sup> 1960	Nige- ria <sup>2/</sup> 1961- 1962a/	Tanza- nia <sup>2/</sup> 1964- 1965	UAR <sup>1/</sup> 1963- 1964 <sup>b/</sup>	Kenya <sup>1/</sup> 1963- 1964	Uganda <sup>2/</sup> 1964- 1965
1. <u>Economic Services</u>	<u>49</u>	<u>33</u>	<u>36</u>	<u>33</u>	<u>29</u>	<u>55</u>	<u>33</u>	<u>21</u>
-Agriculture	10	7	3	1	7	8	24	8
-Mining, Industry and constr.	4	8	14	1	4	26	...	3
-Fuel and power	...	7	1	4	4	9	...	...
-Transport and communications	30	10	17	27	5	9	6	7
-Other	5	1	1	...	9	3	3	3
2. <u>Social Services</u>	<u>30</u>	<u>32</u>	<u>21</u>	<u>21</u>	<u>24</u>	<u>17</u>	<u>19</u>	<u>33</u>
-Education	7	18	10	9	16	10	13	14
-Health	6	6	7	5	5	3	4	7
-Social welfare	...	2	2	4	2	4	...	9
-Other	17	6	2	3	1	...	2	3
3. <u>General Administration</u>	<u>9</u>	<u>9</u>	<u>27</u>	<u>16</u>	<u>7</u>	<u>10</u>	<u>8</u>	<u>19</u>
4. <u>Defence, police and justice</u>	<u>12</u>	<u>11</u>	<u>9</u>	<u>17</u>	<u>15</u>	<u>15</u>	<u>17</u>	<u>16</u>
-Defence	...	7	5	...	...	...	...	5
-Justice & police	...	4	4	...	...	...	...	11
5. <u>Unallocated Expenditures</u>	<u>...</u>	<u>15</u>	<u>7</u>	<u>13</u>	<u>25</u>	<u>3</u>	<u>23</u>	<u>11</u>
Total	100	100	100	100	100	100	100	100

Source: ECA, based upon official information.

<sup>1/</sup> Budget.

<sup>2/</sup> Actual.

a/ Includes federal and regional government.

b/ Includes general government and state enterprises consolidated.

53. In Table 7 the structure of current expenditures by main functions is presented (as a percentage of total current expenditures). The main functions included are general administration, defense, education, health. The term "other" includes economic services, public debt and unallocated expenditures.

54. Expenditures in general administration have increased rapidly in relative terms in countries like Morocco, Nigeria, etc., but in many other countries the share absorbed by this type of expenditure has remained stagnant; this is the case of Algeria, Tunisia, the UAR, Ghana, Ethiopia, Tanzania, Uganda, Congo (Kinshasa) and the Republic of South Africa. In other countries it can be seen a reduction of the share in countries like the UAR, Sudan, Kenya, etc.; in these cases the new bureaucracy of independent governments has resulted in a less expensive administration than in colonial times.

55. Defence is absorbing an increasing rate of the total current expenditures, in countries like Tunisia, Sudan, Nigeria, Ghana, Togo, Ethiopia, Tanzania and the Republic of South Africa. On the other hand, there are some countries which are reducing the share occupied by defense services in recent years; this is the case of Kenya and Uganda.

56. Expenditures in education represent a big share of total expenditures, and the trend is to increase this share substantially. This can be seen in countries like Algeria, the UAR, Sudan, Nigeria, Ghana, Kenya, Tanzania, Uganda, Congo (Kinshasa), etc. In some other countries the tendency seems to be the opposite like in Tunisia, Togo, Ethiopia and the Republic of South Africa in recent years.

57. Expenditures in health are growing in countries like Tunisia, Nigeria, Ghana, etc.. The share absorbed by these expenditures in countries like Algeria, the UAR, Sudan, Togo, Kenya, Uganda and Republic of South Africa is decreasing in recent years.

TABLE 7

AFRICA: Structure of Current Expenditures, by Main Functions  
(Percentage of total current expenditure)

		General Administration	Defence	Education	Health	Other
<u>North Africa</u>						
Morocco	1950	31	...	27	8	34
	1953	32	...	19	9	40
	1956	37	10	19	10	24
Algeria	1950	49a/	...	13	7	31
	1953	38a/	...	18	10	34
	1956	36a/	...	16	9	38
	1958	43a/	...	15	9	33
Tunisia	1950	29	...	20	8	43
	1953	28	...	21	8	43
	1957	28	3	20	10	39
	1959	22	11	18	11	30
UAR	1950	15	23	12	6	44
	1953	17	17	11	3	52
	1956	12	31	12	3	42
	1959	47a/	...	13	2	38
	1962E	45a/	...	16	3	36
	1964E	14	24	12	4	46
Sudan	1953	21	7	7	9	56
	1956	15	9	9	9	58
	1958	15	12	11	9	53
	1962	13	13	9	8	57
	1964	11	16	10	7	56
<u>West Africa</u>						
Nigeria	1950	16	3	9	6	66
	1953	18	4	10	7	61
	1956	15	3	14	7	61
	1958	16	4	22	6	52
	1961	17	7	30	9	37
	1963	18	7	29	12	34
Ghana	1950	18	5	11	8	58
	1953	19	2	17	8	54
	1956	19	4	17	7	53
	1959	20	7	21	8	44
	1962	19	16	24	12	29
	1964E	20	11	29	9	31
Togo	1950	...	...	13	19	68
	1958	...	...	19	15	66
	1961	...	4	18	13	65
	1964E	...	13	14	12	61

TABLE 7 (continued)

		General				
		<u>Administration</u>	<u>Defence</u>	<u>Education</u>	<u>Health</u>	<u>Other</u>
<u>East Africa</u>						
Kenya	1950	21	5	9	8	57
	1953	34	4	12	7	43
	1956	52	3	10	5	30
	1958	35	4	14	6	41
	1962	28	...	19	7	46
	1964	29	2	17	6	46
Ethiopia	1950	41	30	13	4	12
	1953	37	27	12	4	20
	1956	36	25	12	4	23
	1958	35	27	12	3	23
	1962E	37	32	11	5	15
Tanzania	1950	25	...	9	9	57
	1953	21	...	14	8	57
	1956	21	...	15	9	55
	1958	23	...	17	9	51
	1961	24	15	19	9	33
	1964	25	18	20	9	28
Uganda	1950	24	4	11	12	49
	1953	20	4	15	10	51
	1956	18	5	21	9	47
	1958	22	4	22	10	42
	1962	20	...	21	12	47
	1964	19	4	16	8	53
<u>Central Africa</u>						
Congo (Kinshasa)	1950	29	...	...	18	53
	1953	28	...	...	23	49
	1956	24	...	...	26	50
	1958	22	...	...	28	50
<u>Rep. of South Africa</u>						
Rep. of South Africa	1950	21	8	7	4	60
	1953	20	11	6	4	59
	1956	25	9	6	4	56
	1958	21	10	7	5	57
	1962	22	11	7	4	56
	1964	21	14	6	4	55

Source: ECA "The Structure of Central Government Revenue in African Countries," 1959-64,

a/ Includes defence.



58. The rate of growth of expenditures in defense, education and health is presented in Table 8 in comparison with the rate of growth of total government expenditures. The table shows that expenditures in defense have increased more rapidly than total government expenditures in countries like Sudan, Nigeria, Togo, Ghana, Tanzania and the Republic of South Africa.
59. The rate of growth of expenditures in education have increased more than total government expenditures in countries like Ghana, the Republic of South Africa and Zambia.
60. The rate of growth of expenditure in health have increased more rapidly than the total government expenditures in the cases of the UAR, Nigeria, Ghana and the Republic of South Africa.
61. In order to complete the picture of the government expenditure structure of African countries, it is necessary to study expenditures by economic items. As it has been mentioned before, available information is not sufficient for a complete analysis of current and capital expenditures; but at least some data can be used to have a rough idea of the main items of expenditure. In Table 9 is presented the available information on government expenditures by economic items in selected African countries.
62. The share absorbed by capital expenditure is increasing in impressive terms in countries like the UAR, Sudan, Ghana, etc. In those countries the government has made big efforts to accelerate the rate of growth of the economy. On the other hand, in countries in which the capital formation is mostly in the hands of the private sector, the rate of capital expenditure made by the government is stagnant or even decreasing. This is the case of Nigeria, Malawi, Zambia and the Republic of South Africa. In other countries the rate of capital formation is insignificant like in the case of Togo.

TABLE 8

AFRICA: Growth of Expenditures in Defence, Education and Health in Selected African Countries  
(Index numbers)

		Total Government Expenditure	Defence	Education	Health
<u>North Africa</u>					
UAR	1959	100	100	100	100
	1962	121	...	144	160
	1964	175	122	160	275
Sudan	1959	100	100	100	100
	1962	133	143	99	111
	1964	175	196	108	119
<u>West Africa</u>					
Nigeria	1959	100	100	100	100
	1961	142	128	131	126
	1963	150	160	145	175
Togo	1958	100	100(1961)	100	100
	1962	144	216	124	109
	1964	193	974	146	149
Ghana	1959	100	100	100	100
	1962	208	375	244	297
	1964	205	302	311	234
<u>East Africa</u>					
Kenya	1959	100	100	100	100
	1962	112	...	136	121
	1964	137	77	134	110
Tanzania	1958	100	100	100	100
	1961	132	133	109	113
	1964	145	177	131	129
Uganda	1960	100	100	100	100
	1962	123	...	128	113
	1964	146	216	102	91
Zambia	1959	100	...	100	...
	1962	116	...	133	...
	1964	211	...	219	...
<u>Rep. of S. Africa</u>					
Rep. of S. Africa	1959	100	100	100	100
	1962	110	222	126	125
	1964	136	319	142	141

Source: UN Statistical Yearbook, 1965.

TABLE 9

AFRICA: Government Expenditure by Economic Items in Selected Countries (per cent of total expenditures)

		<u>Current expenditure</u>			<u>Capital expenditure</u>		
			<u>Expenditure on goods &amp; services</u>	<u>Transfers</u>		<u>Gross fixed capital formation</u>	<u>Other</u>
<u>North Africa</u>		<u>Total</u>			<u>Total</u>		
UAR	1954	83	78	5	17	...	...
	1959	83	79	4	17	...	...
	1962	51	47	4	49	...	...
	1964	54	48	6	46	...	...
Sudan	1954	72	...	...	28	...	...
	1959	70	...	...	30	...	...
	1962	64	...	...	36	...	...
	1964	57	...	...	43	...	...
<u>West Africa</u>							
Nigeria	1959	57	39	18	43	27	16
	1961	58	39	19	42	27	15
	1963	65	42	23	35	23	12
Togo	1958	93	72	21	7	6	1
	1961	94	76	18	6	6	...
	1964	93	78	15	7	7	...
Ghana	1959	58	43	15	42	15	27
	1962	54	36	18	46	29	17
	1964	56	34	22	46	20	26
<u>East Africa</u>							
Malawi	1957	73	53	20	27	27	...
	1961	63	45	18	37	30	7
	1963	77	51	26	23	23	...
Tanzania	1954	70	58	12	30	23	7
	1961	72	60	12	28	18	10
Zambia	1959	59	45	14	41	23	18
	1962	66	50	16	34	18	16
	1964	71	52	19	29	13	16
<u>Rep. of S. Africa</u>							
Africa	1959	64	47	17	36	...	...
	1962	75	45	30	25	...	...
	1964	73	47	26	27	...	...

Source: UN Statistical Yearbook, 1965.

63. Current expenditures occupy naturally the biggest share of government expenditure. The cost of the governmental machinery is high and presents some irrationalities. As it was stressed by the ECA report "Public Finance in African Countries": "One of the reasons for high cost of services in these countries is the presence of a large number of expatriates in public services and high wages paid to them. For example, in Congo (Leopoldville) it is estimated for 1957 that the average salary of a European in the economy was 30 times the average salary of an African. In the Federation of Rhodesia and Nyasaland in 1956, 39,000 Africans in government administration accounted for a total wage bill of £3.41 million while 9780 Europeans accounted for a wage bill of £9.24 million. The average salary of a European in the economy as a whole was £1084 as against £68 of an African. To give examples of former French territories, in former French Soudan in 1958/59, 15.9 per cent Europeans in civil services claimed 33.5 per cent of wage bill as against 66.5 per cent of wage bill shared by 84.1 per cent Africans. In Togo a senior expatriate civil servant receives 76 times the national per capita income. High levels of expenditure in these countries, therefore, do not necessarily mean provision of more services."<sup>1/</sup> It must be said that independence has changed very much the above-mentioned situation, through a process of Africanization, but it must be recognized that this process not always has been rational and that sometimes have involved waste of resources and the creation of new bureaucratic privileges.

64. It is impossible to measure efficiency in the public administration of African countries. The application of the standards taken from developed countries cannot be applied without appropriate adaptation to African conditions and the old fashioned budgetary structure makes difficult the measurement of costs and achievements of the various fronts of the govern-

<sup>1/</sup> See ECA, Economic Bulletin for Africa, Vol. I, No. 2.

ment's activities.

65. Since African countries are assuming new functions in economic and social development, a family of new decentralized institutions is growing in recent years. Most of these entities need financial support for performing their activities. In fact, many countries have created new universities, new research centres, new social security schemes, new hospitals, and many new state enterprises. It is easy to understand that current transfers from the central government to the centralized agencies and enterprises have to increase accordingly. In countries like Nigeria, Ghana, Malawi, Zambia and Republic of South Africa the percentage of total expenditures devoted to transfers has increased in latest years, absorbing increasing shares of total expenditures.

66. It is not possible to make a detailed analysis of government expenditures classified by economic items. Few countries produce periodical information under this breakdown. In Table 10 this information is presented for some few countries. As a general observation it can be pointed out that the proportion expended in personal emoluments in Nigeria and Ghana seems to be adequate to support public administration. The proportion allocated to other goods and services seems to be very high and austerity programmes may be recommended for the unnecessary expenditures which are a consequence of the "demonstration effect" or just "prestige expenditures" in the public service.

67. In the transfers items payments to decentralized institutions, as a consequence of the policy described above, are important. These payments are followed in importance by interest on public debt, as a consequence of the services arising for the loans policy.

#### The pattern of capital expenditures

68. Most of the African countries are making efforts to increase their capital outlays.

TABLE 10

AFRICA: Government Expenditures by Economic Items in Selected Countries (percentages of total expenditures)

	Nigeria 1961-62	Ghana 1963-64	UAR 1963-64	Uganda 1964-65
I. <u>Current Expenditures</u>	<u>59</u>	<u>57</u>	<u>68</u>	<u>83</u>
1. <u>Operating expenditure</u>	<u>39</u>	<u>32</u>	<u>46</u>	<u>45</u>
Personal emoluments	23	17	16	25
Other goods and services	16	15	30	20
2. <u>Transfers</u>	<u>20</u>	<u>25</u>	<u>22</u>	<u>38</u>
Interest on debt	3	4	...	1
Subsidies	1	2	...	6
Payments to local authorities	2	1	...	14
Payments to persons and institutions	14	18	...	17
Payments abroad	...	...	...	...
II. <u>Capital Expenditure</u>	<u>41</u>	<u>43</u>	<u>32</u>	<u>17</u>
Gross fixed capital formation	26	19	26	17
Transfers for capital formation	2	10	...	...
Loans	8	2	...	...
Investments	2	-	...	...
Loans repaid	2	11	...	...
Other	<u>1</u>	<u>1</u>	<u>6</u>	<u>...</u>
Grand total	100	100	100	100

Source: Official publications. Differences with dates in Table 9 due to different methodology.

69. Fixed capital formation represents a high proportion of total expenditures (averages taken from the years mentioned in Table 9) in countries like Nigeria (40 per cent), Ghana (44 per cent), Malawi (29 per cent), Tanzania (29 per cent) and Zambia (34 per cent).<sup>1/</sup> High also are the proportions devoted to public debt amortization, financial investments, etc. in countries in which public investments have been financed with foreign and local resources, such as Nigeria, Ghana and Zambia.

70. As it has been shown, African countries had made a great effort for increasing public investments. Now it is necessary to consider what is the pattern of these public investments.

71. Developing countries concentrate, in general, investment efforts in the creation of a national infrastructure. Construction of roads, dams, irrigation schemes, water supply works, etc. are basic preoccupations for governments in early stages of development. Without transportation, energy, communications, water and so on, agricultural production cannot increase, and it is impossible to start industrialization.

72. At the same time the training of manpower prepared to undertake the new tasks imposed by development is necessary. Increases in educational services are required for that purpose, as well as public health, housing and social welfare services. Investments in construction of schools, hospitals, houses, medical centres, etc. are essential for the expansion of those social services.

73. In developing countries, the government also promotes agriculture, industry, mining and other productions. Investments in silos, irrigation, agricultural extension and research, are made by progressive governments in order to help farmers' efforts towards increasing production. Many governments, on the other hand, promote the formation of new industries

<sup>1/</sup> These percentages are comparable with those of Latin American countries like Brazil (26 per cent), Argentina (21 per cent), Chile (31 per cent), Colombia (29 per cent), Venezuela (45 per cent), Nicaragua (38 per cent), Guatemala (42 per cent), etc.

and the construction of various kinds of industrial plants in order to substitute importation, supply internal markets and export some manufactured products.

74. African countries have planned investments in these fields in their national development programmes. Table 11 shows the shares of public investment in the promotion of human resources, in development of infrastructure and in increasing production. The information was obtained from the national development plans and, of course, represents only the intentions of African countries. Unfortunately, dates on actual basis are not available.

75. For the analysis of the data presented in Table 11 it is interesting to note the regrouping of the countries in relation to their income per capita. Table 12 shows this criteria.

76. It can be seen that less relatively developed economies (under U.S. \$80 per capita) like Nigeria, Tanzania, Uganda and Upper Volta concentrate investments mostly in infrastructure. An average of almost 50 per cent of government capital expenditures goes, in these countries, to energy, transportation, communications, water supply and so on. Investments are also directed to development of production, so that around 27 per cent of total investments were planned towards increasing agriculture and industry. It must be noted (see Table 12) that countries like Uganda concentrate more in industry than in agriculture. On the other hand, countries like Tanzania and Upper Volta gave more attention to agricultural investments. Investments in developing education, health and social welfare are only around 19 per cent average.

77. Countries between U.S. \$81 and \$199 per capita, like Guinea, Kenya, Malagasy, Sudan, Cameroon, Congo (Brazza), Morocco and United Arab Republic began to increase efforts in development of production, instead of infrastructure. In fact, available data shows that around 40 per cent of total investments goes, in average, to increasing production against 37 per cent



TABLE 11

AFRICA: Planned sectoral distribution of government capital expenditures in selected countries  
(in per cents)

Countries	Total capital expenditures (million U.S. \$)	Development of Human Resources					Development of Infrastructure				Development of Production		
		Education		Health	Housing	Others	Total	Electricity	Transport and Communications	Others	Total	Agriculture	Industry
		Total	Total										
1. North Africa													
Morocco (1960-64)	1,315	26.7	5.0	1.2	18.0	2.5	24.0	11.3	8.3	4.4	49.3	21.0	28.3
UAR (1960-65)	3,903	15.3	2.9	0.6	10.3	1.6	35.7	8.2	16.1	11.4	49.0	23.5	25.5
Sudan (1961-70)	818	23.7	13.0	3.0	...	7.7	35.1	1.4	20.0	13.7	41.2	32.3	8.9
2. West Africa													
Nigeria (1962-68)	1,892	20.1	10.3	2.5	6.2	1.1	52.5	15.1	25.6	11.8	27.4	13.5	13.9
Ghana (1959-64)	980	20.3	7.9	5.3	4.9	2.2	65.4	31.1	15.1	19.2	14.3	7.1	7.2
Upper Volta (1963-68)	165	22.0	8.0	2.2	7.5	4.3	30.4	7.3	11.2	11.9	47.6	36.0	11.6
Ivory Coast (1958-62)	110	31.6	11.7	4.3	0.9	6.7	32.9	1.8	30.3	0.8	35.5	32.9	2.6
Guinea (1960-63)	158	16.2	9.8	4.3	1.5	0.4	35.3	0.8	24.1	0.4	48.5	26.0	22.5
Senegal (1961-64)	203	34.8	12.3	5.3	17.2	...	39.2	...	33.5	5.7	26.0	19.0	7.0
3. East Africa													
Kenya (1960-63)	77	15.4	8.3	2.4	4.2	0.5	45.0	...	14.8	30.2	39.6	38.6	1.0
Tanzania (1961-64)	67	27.1	13.8	4.0	8.7	0.6	43.9	7.5	18.3	18.1	29.0	25.0	4.0
Uganda (1961-66)	130	15.4	7.1	4.1	3.2	1.0	61.2	10.4	23.3	27.5	23.4	8.3	15.1
Malagasy (1959-62)	121	22.2	6.8	8.2	3.7	3.5	38.2	0.7	35.8	1.7	39.6	38.5	1.1
4. Central Africa													
Cameroon (1961-65)	117	18.0	10.6	4.8	...	2.6	43.4	...	35.9	7.5	38.6	38.3	0.3
Congo (Brazza) (1961-63)	68	45.3	8.2	4.5	30.4	2.2	41.0	...	33.3	7.7	13.7	...	...

Sources: ECA, Report on the World Social Situation - Development in Africa, Document E/CN.14/244, page 47, January 1964.

TABLE 12

AFRICA. Planned Sectoral Distribution of Government Capital  
Expenditures in Selected Countries, grouped in relation  
to income per capita (per cent.)

	Development of Infra- structure	Development of human Resources	Development of Production		
			Total	Agriculture	Industry
<u>Group I - Countries</u> <u>under U.S. \$80</u>					
Nigeria (1962-63)	52.5	20.1	27.4	13.5	13.9
Tanzania(1961-64)	43.9	27.1	29.0	25.0	4.0
Uganda (1961-66)	61.2	15.4	23.4	8.3	15.1
Upper Volta (1963-68)	30.4	22.0	47.6	36.0	11.6
<u>Group II - Countries</u> <u>U.S. \$81-199</u>					
Guinea (1960-63)	35.3	16.2	48.5	26.0	22.5
Kenya (1960-63)	45.0	15.4	39.6	38.6	1.0
Malagasy(1959-62)	38.2	22.2	39.6	38.5	1.1
Sudan (1961-70)	35.1	23.7	41.2	32.3	8.9
UAR (1960-65)	35.6	15.3	49.0	23.5	25.5
Cameroon (1961-65)	43.0	18.0	38.6	38.3	0.3
Congo (Brazza) (1961-63)	41.0	45.3	13.7	...	...
Morocco (1960-64)	24.0	26.7	49.3	21.0	28.3
<u>Group III - Countries</u> <u>over U.S. \$200</u>					
Ivory Coast(1958-62)	32.9	31.6	35.5	32.9	2.6
Senegal (1961-64)	39.2	34.8	26.0	19.0	7.0

Source: Table 11.

in infrastructure. Investments for developing human resources increase to around 23 per cent average. Most of these countries concentrate investments for increasing production in development of agriculture. Only the UAR invested a little more in industry than in agriculture (see section on United Arab Republic, p. 114).

- 78. Countries with more than \$200 per capita, like Ivory Coast and Senegal, show increasing efforts in expansion of education, health and social welfare (33 per cent of total investments). Expenditures in developing infrastructure continue to be the highest individual share (36 per cent). Investments in increasing production is lower than in the other cases mentioned above, and are mostly concentrated in agriculture; industry is in the hands of the private sector, the sector which can undertake, at this stage of development, responsibilities in the industrialization process. The case of Ghana is not in the average of countries with more than \$200 per capita. Planned investments in this country for the period 1959-64 concentrated too much in infrastructure (65 per cent) and for the development of production only 14 per cent was allocated; this inadequate pattern of investment for a country in the stage of development of Ghana was conducive to many disequilibriums afterwards (see section on Ghana, p. 67).

79. In Table 13 a summary of the average percentages of distribution of planned public investments for different groups of countries is shown.

- 80. If some generalization can be made, it must be said that countries relatively less developed concentrate more in the creation of infrastructure than in improvement of human resources (education, health and social welfare). In the following stages investments in human resources increases slowly and a more balanced distribution of public capital expenditures is obtained.

TABUL 13

AFRICA: Planned Sectoral Distribution of Government Capital  
Expenditures of 14 African Countries  
(Average percentage)

<u>Countries</u>	<u>Development of Infrastructure</u>	<u>Development of Human Resources</u>	<u>Development of production</u>
<u>Group I - Countries under U.S. \$80</u>			
(Nigeria, Tanzania, Uganda, Upper Volta)	49.5	18.5	32.0
<u>Group II - Countries U.S. \$81-199</u>			
(Guinea, Kenya, Malagasy, Sudan, UAR, Cameroon, Congo (Brazza) and Morocco)	37.3	22.8	39.9
<u>Group III - Countries over U.S. \$200</u>			
(Ivory Coast, Senegal)	36.0	33.3	30.7

Source: Table 12.

C. Growth and changes of government revenues

81. In this section it is attempted to analyze the trends and structure of current revenues of African countries. A special subsection concerns the problems of the taxation system.

Trends of current revenues

82. In recent years African countries have experienced an increase in the collection of current revenues. The concept of current revenues includes:

(a) Direct taxation denotes "taxes on income and wealth." These comprise income tax, undistributed profits duty, trade profits special levy, fixed property profits tax, personal and savings fund levy, insurance and pension contributions, general tax, poll tax, African tax, native tax, graded tax, community tax, local government tax, municipal tax, annual tax, nominal capital tax, land tax, hut tax, real estate tax, cattle tax, estate duty, death duty, inheritance and succession duties, donations tax; "iron ore profits sharing" and "health tax" (Ethiopia); "tertib" and "tax urbaine" (Morocco); "jangali" (Nigeria); "industrial tax" (Portuguese territories); "education tax" (Ethiopia and Tanzania); and "taxes for the benefit of the communal budget" (Senegal). For most of the Francophone countries it has not been possible to ascertain the composition of "direct taxes." It is quite possible that some elements of indirect taxation are there included.

(b) Indirect taxation denotes "taxes on consumption and production." These comprise customs and excise duties, consumption duties, duty on transport, sales tax, turnover tax, entertainment tax, taxes on gambling, auction tax, licences, stamp duty, mining tax, royalties from natural resources, the profits of state monopolies, taxes on mortgage inscriptions and transcriptions,

taxes on purchase and sale of marketable securities, transfer duties; toll tax (Ethiopia); native pass and compound fees (Republic of South Africa); "road frontage premia" and "premia for provisions of sidings" (Tanzania). For Algeria, Morocco, Niger, and most of the Francophone countries the figures shown under "indirect taxes" also include "registration fees."

- (c) Income from public commercial enterprises and domain comprise the receipts of government commercial undertakings such as water and electricity supplies, currency boards profits, rents, profits from the sale of investments.
- (d) Fees and receipts from public services. These include registration fees, fines and forfeitures, judicial fees and other departmental fees for services rendered and not charged on a commercial basis, e.g. hospital fees. Also included are reimbursements.
- (e) Interest and loan repayment. This includes repayment of capital - fairly substantial for the former Federation of Rhodesia and Nyasaland, for Rhodesia, and for Zambia.
- (f) Grants and special receipts include contributions from domestic as well as external sources, and proceeds of sales of capital goods, e.g. land. For the Republic of South Africa, these comprise receipts on Bantu Education Account and standing appropriations from revenue in respect of the National Road Fund, South African Native Trust Fund, South African Broadcasting Corporation, and Native Trust Services Account.

83. Table 14 presents the figures of African current revenues for the period 1950-64. In absolute terms the increase in revenues of U.A.R., Nigeria, Togo, Ghana, Mali, Ivory Coast, Niger, Mauritania, Ethiopia, Uganda, Zambia, Malawi and Rhodesia, Chad, Gabon and Central African Republic would appear to be impressive.

TABLE 14

AFRICA: Growth of Current Revenues

	In terms of national currency			Indices of growth 1958-64	
	1950	1958	1964	Government Expenditure	Cost of Living
				1958 = 100	1958 = 100
<b>1. North Africa</b>					
Tunisia (million dinars)	...	44.7	70.7 <sub>a</sub> /	161	107
UAR (£ millions)	155.7	292.3	501.0	171	103
Sudan (£ millions)	30.3	47.0	67.2	142	120
<b>2. West Africa</b>					
Nigeria (£ millions)	28.5	70.3	123.4	173	112
Dahomey (million CFA francs)	...	3.0 <sub>b</sub> /	5.3	166	...
Togo (billion CFA francs)	1.1	2.0	4.4	220	...
Ghana (£ millions)	16.8	57.1	104.0	182	141
Mali (billion CFA francs)	...	5.4	9.9 <sub>a</sub> /	198	...
Ivory Coast (billion CFA francs)	...	10.2	40.4	404	116 <sub>c</sub> /
Senegal (billion CFA francs)	...	23.2 <sub>b</sub> /	24.6	108	124
Gambia (£ million)	...	1.8	1.8 <sub>a</sub> /	0	...
Niger (billion CFA francs)	...	2.4	5.4	270	...
Sierra Leone (£ million)	3.0	12.9 <sub>b</sub> /	13.1 <sub>a</sub> /	107	119
Mauritania	...	1.5	3.5 <sub>a</sub> /	233	...

TABL 14 (continued)

	In terms of national currency			Indices of growth 1958-64	
	1950	1958	1964	Government	Cost of
				Expenditure	Living
				1958 = 100	1958 = 100
3. <u>East Africa</u>					
Ethiopia (million Eth. \$)	66.0	140.4	269.4	192	...
Somalia (million somalos)	41.6	123.6 <u>d</u> /	145.4	116	125 <u>a</u> /
Kenya (£ million)	13.4	34.7	47.6	137	109 <u>a</u> /
Tanzania (£ million)	10.7	18.8	22.0 <u>c</u> /	115	98
Uganda (£ million)	9.3	18.6	32.5	180	112 <u>a</u> /
Madagascar (billion CFA francs)	8.0	14.3	22.7 <u>a</u> /	164	114 <u>a</u> /
Zambia (£ million)	...	19.1	33.1	173	108
Malawi (£ million)	...	5.5	8.6	172	102 <u>a</u> /
Rhodesia (£ million)	...	19.7	49.6	250	107
4. <u>Central Africa</u>					
Chad (million CFA francs)	...	2.9	5.8	193	148
Congo (Kinshasa) (billion francs)	5.4	11.0	11.7	106	372 <u>e</u> /
Gabon (million francs CFA)	...	3.3 <u>b</u> /	8.9	296	132
C.A.R. (billion CFA francs)	...	1.9 <u>b</u> /	5.2	260	...
<hr/>					
Republic of So. Africa (£ million)	155.2	649.0	787.0 <u>c</u> /	171	110
Botswana (mill. rands)	...	4.0 <u>b</u> /	7.2 <u>a</u> /	160	...

Source: ECA, Statistical Bulletin for Africa, No. 1, Part 1, Nov. 1965.

a/ 1963.                      c/ 1962.                      e/ 1961 = 100.  
b/ 1959.                      d/ 1961.



84. Increases in revenues depend in many countries on the movements of the level of prices. Some countries are suffering inflation and therefore sometimes increases in tax collection are highly influenced by these price increases. In Table 14 it is possible to make a comparison between indices of growth (1958 = 100) of revenue collection and cost of living. Only in the cases of Senegal, Sierra Leone, Somalia and Congo (Kinshasa), the index of cost of living rose more than revenues. In most African countries the purchasing power of the revenues collected seems to increase between 1958 and 1964.

85. But a significant indicator of the growth of government revenues is its comparison with the gross domestic product at factor cost. In Table 15 is presented in per cent the share of gross domestic product absorbed by public current revenues.

86. In Table 15 it can be seen that in six countries with low income per capita (under U.S. \$80 per capita) the share of GDP absorbed by the government through taxation, fees and other current resources is around 10 per cent. On the other hand, countries with more than \$200 per capita absorb around 15 per cent. In the middle, countries with income per capita between \$81 to \$200 absorb almost 14 per cent average.<sup>1/</sup>

87. Countries with less than \$80 per capita, like Chad, Ethiopia, Nigeria, Tanzania, Uganda and Upper Volta collected their taxes primarily from foreign trade (around a 4 per cent average of GDP). Internal indirect taxes represent around 2 per cent average; internal direct taxes absorb 2 per cent average and other revenues 1 per cent. In 10 countries with income per capita from \$81 to \$199 government revenues absorb 14 per cent average of GDP. These countries include Central African Republic, Kenya, Madagascar, Sudan, U.A.R., Dahomey, Gabon, Morocco, Niger and Tunisia. Around 5 per cent of GDP is derived from taxation on foreign trade; 2

<sup>1/</sup> For comparative purposes see Table 1.

TABLE 15

AFRICA: Revenue Structure of Selected Countries

<u>Countries</u>		<u>Central government revenue as % of GDP</u>	<u>Taxes on foreign trade as % of GDP</u>	<u>Internal indirect taxes as % of GDP</u>	<u>Internal direct taxes as % of GDP</u>	<u>Other revenues as % of GDP</u>
<u>Group I - Countries</u>						
<u>under U.S. \$80</u>						
Chad	1958	4	1	...	2	1
Ethiopia	1962	9	2	3	2	2
Nigeria	1962	10	6	1	1	1
Tanzania	1962	10	4	2	3	1
Uganda	1963	17	6	2	2	7
Upper Volta	1961	9	5	1	3	-
<u>Group II - Countries</u>						
<u>U.S. \$81-199</u>						
C.A.R.	1961	9	5	1	2	1
Kenya	1964	17	5	4	5	3
Malagasy Rep.	1960	5	2	1	1	1
Sudan	1962	15	8	-	1	6
UAR	1960	21	2	5	4	10
Dahomey	1959	10	7	1	2	-
Gabon	1960	17	8	2	4	3
Morocco	1961	16	4	6	3	3
Niger	1961	8	2	3	3	-
Tunisia	1958	18	11	2	3	2
<u>Group III - Countries</u>						
<u>over U.S. \$200</u>						
Algeria	1963	32	12	10	7	3
Ghana	1963	15	7	4	2	3
Ivory Coast	1964	20	9	7	3	1
Zambia	1963	11	2	1	5	3
Rep. of S.Africa	1962	12	2	2	5	3
Senegal	1962	16	5	7	3	1
Rhodesia	1963	22	4	2	9	7

Source: Basic data from official publications. Figures of GDP taken from Statistical Bulletin for Africa, No. 1, Part 1, November 1965.

per cent from internal indirect taxes, 3 per cent from internal direct taxes, and 3 per cent from other revenues. It seems that these countries have a more developed foreign trade and some incipient internal activities like commerce, industry, professionals, etc. sectors on which some profit or income taxes are levied.

88. Countries with income per capita over \$200, like Algeria, Ghana, Ivory Coast, Zambia, Republic of South Africa, Senegal and Rhodesia absorb around 18 per cent of GDP. Taxation on foreign trade represents 6 per cent average of GDP; internal indirect taxes around 4 per cent average; internal direct taxes almost 4 per cent; and other revenues 3 per cent. It seems that these countries have increased their foreign trade, which represents a high quota of GNP, and base therefore their tax system on these activities. Taxation on the domestic activities increases also; these sources represent around 12 per cent of GDP against 6 per cent average of countries with less than \$80 per capita.

89. As a summary the following figures give an idea of the structural changes which take place in the transition through the different stages mentioned:

TABLE 16

AFRICA: Share absorbed by government revenues in 23 African countries grouped by income per capita  
(Average percentages of GDP at factor cost)

	Central government revenues	Taxes on foreign trade	Internal indirect taxes	Internal direct taxes	Other revenues
Countries under \$80	9	4	2	2	1
Countries \$81 to \$199	14	5	2	4	3
Countries over \$200	18	6	4	5	3

Source: Table 15.

90. When countries just begin their developing process the capacity to absorb resources through taxation and other current sources is very limited; there is not enough internal taxation potential capacity and in this case most of the government resources come from foreign trade.<sup>1/</sup> When countries have developed some internal activities, domestic taxation increases and dependency on foreign trade is relatively reduced. Naturally the process of mobilization of internal resources can be accelerated if the government has enough strength to oblige the rich people to pay taxes in relation with their profits and wealth.

---

<sup>1/</sup> Mr. O.A. Spencer in his paper "Taxation and Development" said: "It is undoubtedly true that the more advanced economies with high per capita incomes have generally succeeded in appropriating larger shares of those incomes by way of taxation than poorer countries; and it is certainly easier to tax the rich (if you can catch them) than the poor, without inflicting serious personal hardship. Yet I suggest that this approach conceals a dangerous over-simplification. What is amiss in the less developed economy is that average income per head is low and productive investment is low. But behind these statements variety of situations may lie concealed.

"Thus phrases about low average income may conceal wide discrepancies in its distribution. They may conceal for example that 2 per cent of the nation's families control a quarter of its incomes - figures which were taken from Mexico in the last decade; or to cite another case often quoted by Kaldor, that in Chile the personal consumption of the property-owning sector accounted for over a fifth of the national product. There are some similar cases in Africa.

"Clearly in such cases there is scope for creaming off a sizeable share of the national product by way of taxation from the relatively very wealthy minority, without inflicting any really serious hardship or injustice upon them.

"But one may go further. Over the large agricultural sectors of the economy, which may account for 80 per cent of national output, conventional national accounts usually substantially under-estimate the real income of the population. Thus the recorded average income expressed in monetary terms may be no real guide at all to the taxable capacity of that part of the population. Nor by its nature does it say anything about their potential taxable capacity. Sometimes this may be appreciable." (ECA document E/CN.14/FISC/1, Annex IV, pp. 7-8)

Tax structure of African countries

91. African tax systems have, in general, followed the lines of European countries. Taxes on persons, incomes and wealth range from simple poll and hut taxes, through various types of income tax, to taxes on property, capital gains and inheritance. As Spencer says "taxes on the person or the hut have a bad reputation in political and social circles, but they are still to be found in many African countries; from the economic point of view they can perform a useful role in encouraging people to move out of the subsistence sector and into the monetary sector. They may also be particularly useful if the fiscal obligation can be discharged by useful work, e.g. on development projects for the benefit of the local community. Taxes on animals, when applied in conjunction with other measures, may facilitate the culling of herds and the improvement of stock and of the meat supply. But progressive income tax claims the advantage that it is a form of taxation uniquely related to capacity to pay, and conducive to the better distribution of wealth."<sup>1/</sup>

92. Two types of taxation on personal income are always found in the African French-speaking countries: a refined procedure for persons liable to submit returns which is indeed based upon a return verified by the government; and a special presumptive or indiciary procedure, applicable to citizens with low incomes.

93. The yield of taxes to which the first procedure is applied is always allotted to the general budget, in one case additional percentages are added to them for the benefit of local communities. Taxes in the second group are allocated sometimes to local budgets and sometimes to the general budget, but in the latter case, additional percentages are often levied for the benefit of local communities.

94. In relation to the first mentioned system, it must be said that the majority of French-speaking African countries employ a schedular system  
<sup>1/</sup> Op. cit., Annex IV, p. 10.

of taxation on personal income, i.e. this income is subject first to a proportional tax depending upon its nature and then, after totalization of net income of different categories, to a global tax at a graduated rate intended to personalize the deduction.

95. This system, which has been abandoned in France and many industrialized countries such as Great Britain, the United States, etc., makes it possible for the African countries, if they wish, to adjust income tax (e.g. to tax business profits more heavily than wages), taking into account, in particular, the origin of income (earned, unearned, part-earned), its degree of precariousness, the financial productivity of various activities, etc.

96. The schedules, or categories adopted include and differentiate between: business profits, profits from non-commercial occupations (liberal professions), agricultural profits (when they are not taxed under the same schedule as business profits), - salaries, wages, life annuities, - income from land - and income from transferable securities and bonds. In fact, with the exception of Algeria, Tunisia and Morocco, agricultural profits are treated as business profits, which is explained by the modern type of plantation farming (it will be seen elsewhere that small farmers are taxed on a presumptive basis). In some countries, however, categories of income are encountered that are not subject to schedular taxes but solely to the global tax (salaries, wages and income from land in one, and income from income from land and income from transferable securities in another).

97. In connection with the second system, all French-speaking African countries have a system of taxation based on presumptive assessment for individuals whose income is not sufficient to be subject to general income tax based on returns.

98. The presumptive tax, which has various names (poll tax, presumptive income tax, personal tax, "civic" tax, etc.) is levied sometimes on behalf of the State, sometimes on behalf of local communities and sometimes for both, the local communities voting additional percentages to the State tax.

99. The tax is sometimes levied upon both men and women and sometimes upon men only. The age at which an individual becomes liable to taxation likewise varies. In general, however, the minimum age is 18 and in some cases there is a maximum age limit (50 or 65).

100. Where exemptions are provided for, they are few in number and chiefly apply to paupers, members of the armed forces and students. In theory, both the floating population and the sedentary population are affected.

101. The law determines the scale of contributions or maximum contributions wherever taxation is left to local communities. In one case, at least, a minimum of taxation is specified for the latter.

102. In most instances, various methods are used to determine the tax on the basis of the taxpayer's income: appreciation by local authorities and divisions of taxpayers into occupational classes or categories. In Cameroon, a local committee draws up the list of taxpayers and determines the rate of taxation, using a basic tariff that can be multiplied by 2, 3 or 4 or divided by 2. Chad has made provision for payment in kind by taxpayers unable to discharge their obligations in cash.<sup>1/</sup>

103. Taxation of corporations has two types of systems: that inherited from former French territories and that inherited from former British colonies. In French speaking African countries no specific company tax has been instituted apart from some exceptions and the minimum presumptive tax; on the other hand, almost all of these countries apply different rates to company profits and the profits of individual enterprises, which in practice leads to the same result.

---

<sup>1/</sup> ECA, "Taxation on Personal Income" (French-speaking African countries, African Taxation Notes No. 1, April 1966, pp. 1-5.

104. Whatever the name given it, the tax on business profits is levied on the profits of individual and artificial persons who are carrying on a commercial or industrial occupation or a handicraft, who are engaged in mining or forestry, or who are planters, farmers or herders.

105. In general, there is permanent exemption for co-operative consumer societies, agricultural co-operatives, agricultural loan funds, mutual aid societies, low-cost housing boards, and companies and bodies for financing and development. Profits of a new operation are exempt for five years (in at least one case, reduction is allowed for the following three years if the net profit does not exceed a certain percentage of the capital expenditure); in some cases a minimum level of capital investment is required for exemption to be granted (e.g. capital expenditure equal to at least ten times the profit realized during the five-year period); the exemption period may also be fixed by decree in countries where such a procedure has been set up.

106. The tax base consists of the net profit, which is equal to the gross product less charges, and this definition requires no especial comment. The gross product itself corresponds to the operating profit plus capital gains and miscellaneous profits. Stocks are evaluated at cost price or at the market price in force at the end of the business year, whichever is lower.<sup>1/</sup>

107. Taxation on internal production and expenditure has an increasing importance in developing countries through the different stages of development. When national production begins to supply urban markets, taxation on it can be a useful instrument to orient the production and consumption. The main types of this kind of taxes that may be considered are: sales taxes imposed at retail outlets; excise or production taxes imposed at the factory gate, and the tax on the value added.

---

<sup>1/</sup> ECA, "Taxation of Business Profits" (French-speaking African countries, African Taxation Notes No. 1, April 1966, pp. 6-10.



108. The general sales tax has the advantage of its income elasticity aspect which is of great importance to developing countries. Countries like Ghana and Ethiopia have introduced this type of taxation. Taxes on factory output, called excise taxes in English tradition, are easier to administer than sales taxes. The usual practice is of course to levy them in addition to import duties when the same item happens to be imported. Where the demand for the product is inelastic in relation to price (as is usually the case with conventional necessities such as liquors, alcohol, tobacco, perfumes, etc.) and with necessities on which, however, the individual spends only a small portion of his income (such as sugar, kerosene or salt) such taxes may be used to raise large revenues. Admittedly they are regressive and for this reason the yield may not rise as fast as national income. They should therefore be balanced with other duties - either by way of excise or import duties as the case requires - on items the demand for which is income elastic. Petrol, films, domestic electricity and liquid gas consumption, domestic services and foreign travel may be good examples although the last three named may not be popular, and the last two may present administrative difficulties.

109. In French-speaking African countries, indirect taxes on production and expenditure are of various types.

- (a) Taxes on mining comprising fixed taxes collected on the issue, renewal and transfer of mining permits, dues levied according to the area of the concession, a proportional charge, which is a genuine tax on production, levied on the product extracted, on the basis of its market value at the place of extraction.
- (b) Specific consumption duties on various products, e.g. alcoholic beverages, tobacco, motor fuel.
- (c) Taxes on transactions of a cumulative nature, applied to all stages of the activities taxed, and levied on the turnover of the taxpayers, whether individuals or artificial persons, who habitually buy for resale or are engaged in any branch of

commercial, industrial or mining activity. There are exemptions for agricultural credit banks, agricultural co-operative, low-cost housing bodies, the sale of staple foods (rice, bread, milk, flour) trade in exports for which a price stabilization fund exists. In general, the rate is low as the tax is cumulative (2 per cent generally). The assessment is made according to the actual turnover or on a presumptive basis when the turnover is below certain limits. In several cases, the tax is also levied on services rendered.

- (d) Taxes on production, levied on business by individuals or artificial persons engaged in an industrial, commercial or handicraft activity. The tax base is equal to the gross sales income less the tax paid on the products or materials incorporated in the final product, or destroyed during the manufacturing process. Either the tax is based on the actual profits, or else a presumptive assessment is made, when the turnover is below certain levels.
- (e) Value added tax, which is of varying scope in different countries. It is levied on the business carried on by individuals or artificial persons engaged in industrial, handicraft or commercial activity: the sale of local products, construction, and, generally, operations carried out by persons liable to the tax (compulsory liability: producers, entrepreneurs; and optional liability: persons engaged in the finishing trades, etc., merchants and middlemen who make deliveries to other persons liable to the tax or for export). The taxpayers are authorized to deduct from the tax applicable to their operations in any particular month the amount of tax levied in the previous month on the materials and products bought or imported by them and the services rendered to them. Certain exemptions are provided for (e.g. transport, natural food products of local origin intended

for domestic consumption, fishery products, bread). There are general, reduced and increased rates of this tax, to shade its application.

- (f) Single tax according to a system granted in specific individual cases by the government and levied on manufactured products as they leave the factory. Payment of this tax exempts the taxpayer from other duties and taxes normally levied, namely, customs duties and all import duties levied on raw materials and products used in manufacturing, domestic consumption taxes and turnover tax.

110. While it is often complex, and in particular taxes overlap and rules of assessment vary, the indirect taxation system of the French-speaking African countries nevertheless seems to be in full development. This development appears to be inspired by a desire for productivity, simplicity of assessment and collection and minimum interference with economic factors of production. It is therefore useful to devote some consideration to a relatively new taxation formula, the value added tax.<sup>1/</sup>

111. The Tax on Value Added originated in France and is already spreading to other countries. It is of course even more complicated to administer than a single stage sales tax. However, it has already appeared in at least one French-speaking African country.

112. Finally the tax system of African countries includes a complex group of customs duties levied on imported and exported merchandise. Since most of the African countries are just starting their development process, these taxes are very important in the fiscal structure. In Table 17 the relative importance of direct and indirect taxes is presented for

---

<sup>1/</sup> ECA, "Taxation on Expenditure" (French-speaking countries), African Taxation Notes No. 1, April 1966, pp. 11-22.

TABLE 17  
NORTH AFRICA: Tax Structure 1959-64 (percentages)

		Direct taxes			Indirect taxes			
		Income and						
		Total	Profits	Other	Total	Import	Export	Other
Morocco	1959	25.0	19.3	5.7	75.0	27.3	2.3	45.5
	1960	23.2	18.2	5.1	76.8	28.3	3.0	45.5
	1961	22.3	19.4	2.9	77.7	28.6	2.9	46.1
Algeria	1959	19.5	14.6	4.9	80.5	...	...	...
	1960	23.4	15.4	8.0	76.6	...	...	...
	1961	26.7	20.7	6.0	73.3	...	...	...
	1962	27.1	18.8	8.3	72.9	...	...	...
	1963	24.8	...	...	75.2	...	...	...
	1964	22.6	...	...	77.4	...	...	...
Tunisia	1959	23.7	...	...	76.3	...	...	...
	1960	19.1	...	...	80.9	...	...	...
	1961	21.7	...	...	78.3	...	...	...
	1962	17.5	...	...	82.5	...	...	...
	1963	18.6	...	...	81.4	...	...	...
UAR	1959	32.6	20.4	12.3	67.4	14.0	4.9	48.5
	1960	33.9	21.2	12.6	66.1	14.3	1.4	50.3
	1961	31.1	17.5	13.6	68.9	11.9	0.4	56.6
	1962	30.0	16.2	13.9	70.0	13.0	-	57.0
	1963	27.8	15.9	11.9	72.2	...	...	...
	1964	24.9	15.8	9.1	75.1	...	...	...
Sudan	1959	6.9	...	...	93.1	...	...	...
	1960	4.6	...	...	95.4	...	...	...
	1961	4.0	...	...	96.0	...	...	...
	1962	6.0	5.7	0.3	94.0	73.5	16.0	4.6
	1963	5.7	5.4	0.2	94.3	73.8	17.1	3.5
	1964	5.7	5.4	0.3	94.3	76.7	17.6	-

Source: ECA, The Structure of Central Government Revenue in African Countries, 1959-64 (internal document).

countries of North Africa. In these countries the indirect tax system contributes to the 65 to 95 per cent of total tax revenues. Taxes on importations and exportations are very important in the Sudan.

113. In West African countries (see Table 18) the contribution of indirect taxes fluctuates from 50 to 95 per cent. In Nigeria the relative importance of indirect taxes is around 90 per cent of total tax revenues; in Ghana it is around 85 per cent; in Ivory Coast it is almost 90 per cent; in Senegal it has decreased from 77 to 72 per cent from 1959 to 1964; and in Togo it is around 90 per cent. Except in the case of Liberia (around 50 per cent) the tax system is based upon indirect taxation in the mentioned West African countries. Taxes on importations and exportations are of great importance in Nigeria and Ghana; and some relative importance of other indirect taxes (excise, expenditure, production, and sales taxes) can be found in the case of Ivory Coast, Liberia and Togo.

114. In East African countries (see Table 19) indirect taxation ranges from 20 to 80 per cent of total tax revenues. Countries like Ethiopia, Somalia, Uganda and Tanzania are the countries with high indirect taxes, mainly based upon customs duties. On the other hand, countries like Kenya and Zambia have developed domestic income and profit taxes. In the case of Kenya the industrial enterprises and trade are the principal activities charged with income and profit taxes. In the case of Zambia the main contribution comes from the copper companies.

115. In Central African countries, tax structure is also based on indirect taxation. This taxation provides from 60 to 80 per cent of total tax collections. Chad has less than 70 per cent of their tax revenues collected by indirect taxes; Gabon and Central African Republic between 70 and 80 per cent. (See Table 20.)

116. Finally, countries like the Republic of South Africa show a different picture. In the Republic of South Africa direct taxes represent around 56 per cent of total tax collection; this share is contributed by taxes on income and profits (see Table 21).

TABLE 18

WEST AFRICA: Tax Structure of selected Countries (percentages)

		<u>Direct taxes</u>			<u>Indirect taxes</u>			
		<u>Income and</u>						
		<u>Total</u>	<u>Profits</u>	<u>Other</u>	<u>Total</u>	<u>Import</u>	<u>Export</u>	<u>Other</u>
Nigeria	1959	10.5	10.5	...	89.5	55.1	25.4	9.0
	1962	9.2	9.2	...	90.8	60.4	13.9	16.4
	1963	7.7	7.7	...	92.3	61.9	12.0	18.4
	1964	7.2	7.7	...	92.8	61.9	13.9	17.0
Ghana	1959	14.6	11.2	3.4	85.4	30.1	48.2	7.1
	1960	13.7	10.7	2.9	86.3	36.1	41.6	8.6
	1961	15.7	12.1	3.7	84.3	46.6	29.6	8.2
	1962	19.3	16.1	2.8	80.7	46.2	21.8	12.8
	1963	17.4	14.9	2.4	82.6	48.4	18.7	15.7
	1964	26.3	...	...	73.7	...	...	...
Ivory Coast	1960	8.7	7.0	1.7	91.3	36.0	25.2	30.2
	1961	10.4	8.8	1.7	89.6	34.1	26.0	29.3
	1962	13.8	12.3	1.5	86.2	30.1	21.3	34.7
	1963	12.9	11.1	1.8	87.1	29.0	22.6	35.5
	1964	12.0	10.5	1.5	88.0	28.5	20.7	38.8
Liberia	1959	49.0	46.0	3.0	51.0	27.7	5.5	17.7
	1960	53.1	50.6	2.5	46.9	27.6	1.7	17.6
	1961	52.6	49.8	2.8	47.4	27.7	1.4	18.2
	1962	46.0	43.7	2.3	54.0	31.7	2.0	20.3
	1963	44.4	40.3	4.2	55.6	32.6	1.9	21.1
	1964	45.8	42.2	3.6	54.2	32.5	1.5	20.2
Senegal	1959	22.7	15.7	6.9	77.3	...	...	...
	1960	25.0	17.5	7.4	75.0	...	...	...
	1961	25.4	18.3	7.1	74.6	...	...	...
	1962	20.6	17.2	3.3	79.4	...	...	...
	1963	28.1	16.7	11.4	71.9	...	...	...
	1964	27.8	25.1	2.7	72.2	...	...	...
Togo	1959	4.5	4.5	...	95.5	40.9	13.6	40.9
	1960	8.3	8.3	...	91.7	41.7	8.3	41.7
	1961	8.0	...	...	92.0	...	...	...
	1962	7.4	...	...	92.6	...	...	...
	1963	9.4	...	...	90.6	...	...	...
	1964	8.3	...	...	91.7	...	...	...

Source: ECA, The Structure of Central Government Revenue in African Countries, 1959-64 (internal document).

TABLE 19

EAST AFRICA: Tax Structure in Selected Countries (percentages)

		Direct taxes			Indirect taxes			
		Income and						
		Total	Profits	Other	Total	Import	Export	Other
Ethiopia	1959	22.7	7.8	14.9	77.3	28.2	9.6	39.5
	1960	24.9	8.0	16.9	75.1	23.5	8.8	42.8
	1961	25.8	9.8	16.0	74.2	25.5	8.2	40.5
	1962	26.0	10.2	14.7	74.0	26.6	7.9	39.5
	1963	24.1	12.0	12.1	75.9	26.6	8.0	41.2
	1964	25.1	...	...	74.9	...	...	...
Somalia	1961	8.7	8.1	0.7	91.3	47.3	9.8	34.2
	1962	6.5	6.1	0.3	93.5	51.4	8.4	33.7
	1963	7.5	6.8	0.7	92.5	52.7	10.4	29.4
	1964	8.7	8.1	0.6	91.3	49.2	9.6	32.5
Kenya	1959	46.9	46.2	0.7	53.1	32.5	-	20.5
	1960	42.3	42.0	0.3	57.7	36.5	-	21.2
	1961	41.3	41.3	-	58.7	35.0	-	23.8
	1962	39.0	38.9	0.3	61.0	37.7	-	23.2
	1963	35.5	35.5	-	64.5	39.5	-	24.9
	1964	36.5	35.9	0.5	63.5	36.0	0.5	26.4
Uganda	1959	23.2	19.3	3.9	76.8	28.2	32.6	16.0
	1960	24.9	21.3	3.6	75.1	33.1	24.3	17.8
	1961	26.1	21.7	4.3	73.9	38.5	15.5	19.3
	1962	26.3	22.5	3.8	73.7	40.0	11.2	22.5
	1963	19.4	18.4	1.0	80.6	44.8	16.4	19.4
	1964	16.9	16.4	0.5	83.1	41.1	23.9	18.3
Tanzania	1959	35.4	31.6	3.8	64.6	42.1	-	22.5
	1960	32.4	29.6	2.8	67.6	43.6	-	24.0
	1961	35.0	32.8	2.2	65.0	42.1	0.3	22.7
	1962	33.5	32.7	0.8	66.5	42.9	0.4	23.2
Zambia	1960	69.5	66.1	3.4	30.5	-	-	30.5
	1961	75.5	72.8	2.7	24.5	-	-	24.5
	1962	76.3	73.8	2.5	23.7	-	-	23.7
	1963	77.0	75.0	2.0	23.0	-	-	23.0

Source: ECA, The Structure of Central Government Revenue in African Countries, 1959-64 (internal document).

TABLE 20

CENTRAL AFRICA: Tax Structure in Selected Countries  
(percentages)

<u>Countries</u>		<u>Direct taxes</u>	<u>Indirect taxes</u>
Chad	1959	56.5	43.5
	1960	38.4	61.5
	1961	28.8	71.2
	1962	34.1	65.9
	1963	31.5	68.5
	1964	34.8	65.2
Congo (Kinshasa)	1959	27.8	72.2
Gabon	1959	36.0	64.0
	1960	27.0	73.0
	1961	23.4	76.6
	1962	31.0	69.0
	1963	27.8	72.2
	1964	24.1	75.9
Central African Republic	1959	33.9	66.1
	1960	32.3	67.7
	1961	28.8	71.2
	1962	22.4	77.6
	1963	27.1	72.9
	1964	23.6	76.4

Source: ECA, The Structure of Central Government revenue in African Countries, 1959-64 (internal document).



TABLE 21

REPUBLIC OF SOUTH AFRICA: Tax Structure (percentages)

		<u>Direct Taxes</u>			<u>Indirect Taxes</u>
		<u>Total</u>	<u>Income and Profits</u>	<u>Other</u>	
Republic of South Africa	1959	56.7	52.8	3.9	43.3
	1960	55.0	51.5	3.5	45.0
	1961	54.5	51.3	3.2	45.5
	1962	57.2	54.2	3.0	42.8

Source: ECA, The Structure of Central Government Revenue in African Countries, 1959-64 (internal document).

117. Except in a few cases, it can be said that African tax structure is regressive: indirect taxes is the main instrument in mobilizing resources from the private sector to the public sector. As it was established in other studies "taxation of personal and company incomes in Africa is relatively underdeveloped for various reasons. One reason is the absence of any large scale company business. Another reason is extremely low levels of per capita incomes and the relatively equal distribution of this income except where European population is found comparatively in large numbers. Under such circumstances an extremely low level of exemption limit for income tax purposes would make collection of taxes too costly and a higher limit may not make it worthwhile. Absence of any systematic methods of accounting and bookkeeping render assessment of income more difficult and evasion easier."<sup>1/</sup>

118. In relation to the dependency of African tax structure on customs duties, Table 22 presents, in average figures considering three years, the information grouping the countries by their income per capita.

119. Countries with an income per capita under \$80, like Chad, Ethiopia, Nigeria, Tanzania, Uganda and Somalia, have a predominantly regressive tax structure: indirect taxes represent around 80 per cent of total taxes, and direct taxation only 20 per cent average. Taxation on income and profits represents only 12 per cent average. Indirect taxation comes mostly from import and export duties, around 56 per cent average; and domestic indirect taxation represents around 23 per cent. In these countries, foreign commerce is the main source of government tax resources.

1/ ECA, Economic Bulletin for Africa, op. cit., p. 15.

TABLE 22

AFRICA: Tax Structure and per capita income in  
selected countries (average percentages)

<u>Countries</u>	<u>Direct taxes</u>			<u>Indirect taxes</u>		
	<u>Total</u>	<u>Income and profits</u>	<u>Other</u>	<u>Total</u>	<u>Import and export duties</u>	<u>Other</u>
<u>Group I - Countries under U.S. \$80</u>						
Chad (1962-64)	33.4	...	...	66.6	...	...
Ethiopia (1961-63)	25.3	10.6	14.7	74.7	34.3	40.4
Nigeria (1962-64)	8.0	8.0	...	92.0	74.6	17.4
Tanzania (1960-62)	33.6	31.7	1.9	66.4	51.1	23.3
Uganda (1962-64)	20.8	19.1	1.7	79.2	59.2	20.0
Somalia (1962-64)	7.5	7.0	0.5	92.5	60.7	31.8
<u>Group II - Countries U.S. \$81-199</u>						
Kenya (1962-64)	37.0	36.6	0.4	63.0	38.2	24.8
UAR (1962-64)	27.5	15.9	11.6	72.5	15.5	57.0
Gabon (1962-64)	27.6	...	...	72.4	...	...
Morocco (1959-61)	23.5	18.6	4.9	76.5	30.8	45.7
Tunisia (1961-63)	19.2	...	...	80.8	...	...
<u>Group III - Countries over U.S. \$200</u>						
Algeria (1962-64)	24.8	...	...	75.2	...	...
Ghana (1961-63)	17.4	14.3	3.1	82.6	70.4	12.2
Ivory Coast (1962-64)	12.9	11.3	1.6	87.1	50.8	36.3
Zambia (1961-63)	76.2	73.8	2.4	23.8	...	...
Republic of South Africa (1960-62)	55.5	52.3	3.2	44.5	...	...
Senegal (1962-64)	25.5	19.6	5.9	74.5	...	...
Rhodesia (1962-64)	58.2	45.1	13.1	41.8	...	...

Source: Tables 17 to 21.

120. In countries with an income per capita of from \$81 to \$199 such as Kenya, UAR, Gabon, Morocco and Tunisia, direct taxes represent 27 per cent of total tax collections and indirect taxes 73 per cent. In this stage of development tax structure is a little less regressive in comparison with the previous stage. Taxes on income and profits represent 24 per cent average, against 12 per cent of the countries with under U.S. \$80 per capita. Taxation on foreign trade represents around 28 per cent, against 56 of the other countries, and domestic indirect taxation around 45 per cent, showing some internal economic activity.

121. Countries with an income per capita of over \$200 have some development of internal economic activities and direct taxes on income and profits produce and increase in direct tax collections. Around 40 per cent of total tax receipts is direct taxation, against 60 per cent average of indirect taxation. Taxes on income and profits produce 26 per cent against 12 per cent in countries with under \$80 per capita.

122. Development means a change in taxation capacity, and the possibility of reducing the regressivity and dependency of the tax system. The summary Table 23 here included shows this very clearly for 18 African countries.

TABLE 23

AFRICA: Tax Structure of 18 African Countries Grouped by Income per capita.

(Percentages)

Countries and income per capita	Direct taxes			Indirect taxes		
	Total	Income and profits	Other	Total	Import and export duties	Other
Countries under U.S. \$80	20	12	8	80	56	24
Countries U.S. \$81-199	27	24	3	73	28	45
Countries over U.S. \$200	40	36	4	60	...	...

Source: Table 22.

123. This table is illustrative of the changes in the tax structure during the different stages of development, and shows that tax reform in African countries must be carefully planned in relation with the stage of development in which every specific country is passing.

124. In relation to the flexibility of the tax structure, it is not possible to make a definite calculation of elasticity coefficient, but at least some idea of the historical elasticity can be obtained by comparing the total tax revenue with the GDP at factor cost. In Table 24 is presented the mentioned information.

TABLE 24

AFRICA: Share of GDP Absorbed by Direct and Indirect Taxes in Selected Countries (percent of GDP)

<u>Countries</u>	<u>1959</u>	<u>1963</u>
<u>Countries under U.S. \$80</u>		
Nigeria	7	9a/
Tanzania	9	9a/
Uganda	12	11
<u>Countries U.S. \$81-199</u>		
Kenya	13	13
Sudan	8	9a/
Morocco	12	12a/
Tunisia	19	18
<u>Countries over U.S. \$200</u>		
Algeria	18	29
Ghana	12	12
Ivory Coast	17b/	16
Repl of S. Africa	11	11a/
Senegal	18	15a/
Rhodesia	12	15a/

Source: ECA, Statistical Bulletin for Africa, op. cit.

a/ 1962      b/ 1960

125. Table 24 shows that in countries under U.S. \$80, i.e. Nigeria, Tanzania and Uganda, the share of the GDP absorbed by taxation has an average of under 10 per cent. Only in the case of Nigeria did this share increase a little between 1959 and 1962.

126. In countries with U.S. \$81-199 per capita, i.e. Kenya, Sudan, Morocco and Tunisia the share absorbed around 13 per cent average. This share is almost the same in 1959 and 1963.

127. But in countries with more than \$200 per capita, i.e. Algeria, Ghana, Ivory Coast, Republic of South Africa, Senegal and Rhodesia, the share absorbed in 1959 was around 14 per cent of GDP (average), against 16 per cent in 1963. It seems therefore that countries in this stage have more chance to increase the share of GDP controlled through taxation, due to the internal and external development of their economies.

128. In general, the medium rate of GDP controlled by the taxation system grew very little. If increases in tax rates, and creation of new taxes are discounted, it seems that possibly the tax system of most of the African countries will show an income-elasticity, due to the structural construction of taxes, to the inadequate organization of tax collection in many countries and the complicated procedures for tax administration.<sup>1/</sup>

129. Summarizing the main aspects here discussed, it is possible to find that tax structure in African countries is in general regressive, highly dependent on foreign trade, and has automatic inelasticity in relation to the growth of monetary income of the countries.

D. The level of government expenditure and revenue. The budget deficits.

130. In previous sections the trends of government expenditures and revenues have been considered. Interesting facts on the trends of both sides

---

<sup>1/</sup> See ECA, Report of the Advanced Seminar in Current Problems and Training Needs in Tax Administration, Document E/CN.14/FISC/1.

of the African countries' budgets have been pointed out. In this section some general comments on the level of government revenues and expenditures will be made in order to reflect the budgetary situation in recent years.

131. In Table 25 the growth of the government revenues and expenditures is presented both in absolute terms and in index numbers. Revenues and expenditures are converted into U.S. dollars for the period 1960 to 1963.

The rate of growth of expenditures is higher than the revenue rate in countries like Algeria, Dahomey, Ghana, Upper Volta, Madagascar, etc.

Revenue have increased more rapidly than expenditures in countries like Nigeria (due to improvement in foreign trade), Togo, Ivory Coast, Niger, Gambia, Ethiopia, Kenya, Malawi, Rhodesia, Somalia, Tanzania, Uganda, and the Republic of South Africa.

132. In this table loans and grants and other extraordinary resources are included as revenue. Developing countries are borrowing from internal and external sources to finance their development. But it is necessary to consider at the same time which is the position of the fiscal situation considering current revenues against government expenditure. If total expenditures are analyzed in relation to current ordinary revenues the rate of growth mentioned above are different.

133. In Table 26 the index numbers showing the growth of total expenditure and current revenue in the period 1960 to 1963 is included. In the table it can be seen that Algeria, Dahomey, Gambia, Ghana, Ivory Coast, Senegal, Upper Volta, Ethiopia, Kenya, Madagascar, Malawi, Tanzania, Chad, Gabon, etc. have a rate of growth of current revenues lower than the rate of total expenditure.

134. On the other hand, the rate of growth of current revenues is higher than the rate of government expenditure in Mali, Mauritania, Niger, Sierra Leone, Togo, Rhodesia, Somalia, Uganda, Zambia, Congo (Brazza), Republic of South Africa, etc.

TABLE 25

AFRICA: Growth of Government Revenues and Expenditures

	Revenue (million US\$)		Expenditures (million US\$)		Index of Growth (1960 = 100)	
	1960	1963	1960	1963	Revenue	Expenditure
<u>North Africa</u>						
Algeria	1,145	1,013	1,103	1,013	88	92
Morocco	...	385	...	544	...	...
<u>West Africa</u>						
Nigeria	270	396	321	416	147	130
Dahomey	22	26	22	27	122	124
Togo	11	16	14	19	141	132
Ghana	197	237	246	375	120	152
Ivory Coast	105	120	119	132	114	110
Mali	30	40	30	40	132	132
Mauritania	15	24	15	24	156	156
Niger	23	29	24	28	124	115
Senegal	99	174	99	174	175	175
Gambia	4	10	5	9	224	192
Sierra Leone	34	45	34	45	134	134
Upper Volta	24	34	24	41	143	175
<u>East Africa</u>						
Ethiopia	60	114	63	121	189	170
Kenya	129	162	130	158	125	122
Madagascar	74	102	72	102	138	141
Malawi	19	29	23	31	152	138
Rhodesia	83	95	90	88	114	98
Somalia	28	28	30	28	100	93
Tanzania	74	95	78	94	128	120
Uganda	61	87	70	90	142	129
Zambia	73	73	69	76	100	111
<u>Republic of S. Africa</u>						
	1,107	1,312	1,186	1,276	119	108

Source: ECA, based upon governments' official publications.



TABLE 26

AFRICA: Rate of Growth of Total Expenditure and Current  
Revenues, 1960-1963

(1960 = 100)

	<u>Government Expenditure</u>	<u>Current Revenue</u>
<u>North Africa</u>		
Algeria	92	89
<u>West Africa</u>		
Dahomey	124	117
Gambia	192	111
Ghana	152	130
Ivory Coast	110	94
Mali	132	216
Mauritania	156	296
Niger	115	132
Nigeria	130	130
Senegal	175	169
Sierra Leone	134	135
Togo	132	140
Upper Volta	175	139
<u>East Africa</u>		
Ethiopia	170	161
Kenya	122	120
Madagascar	141	135
Malawi	138	116
Rhodesia	98	128
Somalia	93	142
Tanzania	117	113
Uganda	129	137
Zambia	111	121
<u>Central Africa</u>		
Chad	142	141
Congo (Brazza)	193	205
Gabon	193	159
<u>Republic of S. Africa</u>	108	117

Source: ECA, based upon governments' official publications.

135. This different tempo of the development of expenditures and current revenues is reflected in the share of the GDP absorbed by the expenditures and current revenues. If the figures in Table 2 are compared with the figures in Table 15 it can be seen that there is a gap between the share absorbed by revenues and expenditures. The participation of government expenditure in GDP is in general much higher than the participation of current revenue. This situation leads to a budget deficit position in many countries.

136. The importance of the annual budget deficit is presented in Table 27. The table shows the budget deficit as a percentage of total government expenditure in selected countries. In countries like Sudan, Kenya, Rhodesia and Zambia an effort can be seen to reduce the magnitude of the budget deficit. But in other countries like Ghana, Togo, Tanzania and Uganda the magnitude of the budget deficit seems to increase in latest years. An impressive reduction of the magnitude of the budget deficit can be seen in the case of Malawi.

137. It is not easy to make an interpretation of the budget deficits of African countries in recent years. All these countries are making great efforts to accelerate the rate of growth of their economies. It is natural that the expansion of government investments and the extension of services like education, health and social welfare represents an increase in the government expenditures. At the same time the new independent countries have to create national armies, police and security systems which are very costly. Finally, for those governments who are receiving foreign aid, the repayment of loans represents an increasing share of government expenditure.

138. If the growing expenditures have to be financed through a tax system which is old-fashioned and extremely dependent on foreign trade, it is easy to understand that the fluctuation of the prices and quantity of exportations are influencing the level of tax collections. It is

TABLE 27

AFRICA: Budget Deficit as a Percentage of Total Government  
Expenditure in Selected Countries

	<u>1959</u>	<u>1961</u>	<u>1963</u>	<u>1965</u> <u>E</u>
<u>North Africa</u>				
Sudan	25	15	17	13
<u>West Africa</u>				
Nigeria	18	23	17	...
Ghana	42	26	37	33
Togo	...	2	10	20
<u>East Africa</u>				
Kenya	19	26	20	16
Malawi	34	17	2	...
Rhodesia	...	18	38	7
Tanzania	...	26	15	39
Uganda	...	17	3	21
Zambia	20	19	20	...

Source: UN Statistical Yearbook, 1965.

**Note:** Differences in tables of country studies due to methodological treatment of public debt and fiscal year (calendar years against middle fiscal years)

natural that countries who are improving their exportations like Mauritania, Niger, Zambia, Uganda, etc. have the opportunity to collect more taxes. On the other hand, in countries affected by a reduction of the prices of exportations, like Ghana, Senegal, Upper Volta, Ethiopia, Madagascar, etc. the rate of growth of current revenue is lower than the rate of growth of government expenditure, unless economic development is sacrificed in order to maintain economic stability and to avoid inflationary pressures.

### III. RECENT TRENDS IN PUBLIC FINANCES OF SELECTED AFRICAN COUNTRIES

139. In this Section it is attempted to make an analysis of the trends of public finance of some selected African countries, e.g. Ghana, Kenya, Sudan, Tanzania and the United Arab Republic. The selection of these countries has been made in attendance to the fact that they periodically produce and publish fiscal information.

140. The analysis is based upon information of the fiscal year; thus some differences can be noted in comparison with the data given in previous sections in which data are presented under calendar year basis.

141. A uniform pattern has been used for the discussion of the selected countries. This is followed by brief comments on recent trends in the development of the economy, followed by a broad description of the public sector. The analysis continues to examine the expenditure and revenue policy. Finally, a discussion is included on the balance of the budget accounts and the sources for financing deficits.

GHANA

A. The importance of public policy in the Ghanaian development

142. Public policy has played a paramount role in recent developments of the Ghanaian economy. Starting from independence, in the last eight years, Ghana has made continuous efforts to improve national development, through state action. Three main lines of action were followed: (1) a significant increase in exportation; (2) an intensive process of electrification, industrialization and construction; and (3) the expansion of all levels of education.

143. In the exportation drive, an impressive result was obtained after the Government promoted the expansion of the private agriculture sector: Ghana increased exportations of cocoa, its principal export product <sup>1/</sup>, from 207,000 long tons in 1957/58 to 571,000 long tons in 1964/65. But at the same time prices went down from an average of 352 Ghanaian pounds per long ton in the first year mentioned, to around 110 Ghanaian pounds in the second. That means that production increased almost tripled but prices decreased more than three times in the period. This illustrates that the master policy to finance internal development through increases in exportations has failed. Foreign economies absorb the increases in the Ghanaian productivity. It must be mentioned, that in this period little attention was given to the promotion of domestic foodstuff production.

144. The electrification process means a drive to develop domestic economy towards industrialization. The Volta River Dam and the energy plants will provide enough electricity to future Ghanaian industries. The Dam was finished in 1965 and will produce 510 megawatts in 1970. But industrialization implies provision of raw materials, which must be imported in some cases, a wide market (increases in the income level of cocoa farmers permit a sustained demand in normal conditions), the development of infrastructure (which means salary payments to masses of workers), training of managers and skilled workers (which means expansion of education). Available information <sup>2/</sup> shows that Ghana has achieved an annual rate of increase in industrial production of around 10 per cent in recent years, and an increase

<sup>1/</sup> Represent around 60 to 65 per cent of total export.  
<sup>2/</sup> Central Bureau of Statistics, Economic Survey 1964.

in construction and housing of about the same annual rate, despite the critical exportation position, using reserves of foreign exchange which amounted to 180 million pounds in 1957, and suppliers credit.

145. The expansion of infrastructure had been another achievement of the country. Few other developing countries, with comparable level of development, have an infrastructure so extensive as that of Ghana. Developments in electricity, water supply, roads, communications and transports are impressive in relative terms.

146. The efforts made in education are also considerable; the rate of expansion of this activity and the amount of public expenditures devoted to it (20 per cent) has few comparable cases. Primary, medium and technical schools had expanded rapidly in recent years. Education of people implies at the same time the creation of new needs to the population and strong pressures for new opportunities of work in public administration, enterprises and farms.

147. But all these efforts helped to promote the expansion of infrastructure, industrialization, constructions, education and new projects, on the one hand, and, on the other, the stagnation of food production and the deterioration of the terms of trade, resulted in structural inflationary pressures. These pressures expressed themselves through two main channels: the fiscal budget deficit and the balance of payments disequilibrium. Both channels generated an expansion of overall demand exceeding the increases in the supply side.

148. So inflation had come to Ghana, a new phenomenon for which the country was not prepared. In recent years retail prices increased yearly more than 10 per cent; in 1965 preliminary estimates show an increase of around 25 per cent. At the beginning, the use of reserves, loans, advances, grants, supplier credits and some inflationary resources permitted to maintain a controlled inflation. When reserves were almost exhausted, however, the budget deficit and balance of payments disequilibria had no compensatory instruments, and prices began to rise more rapidly. Inflation was the answer given, in depressive trends of foreign trade, to maintain the level of the economy and employment.

149. In spite of the adverse financial situation described, the Gross Domestic product at constant prices rose at an annual average rate of 3.5 per cent in the period 1961 to 1965.

150. To some extent, the failure of the exportation drive was compensated by the use of reserves and increases in domestic production in manufacture. At the same time, foodstuff production was unsatisfactory and this was one of the basic bottle-necks of the economy and the basis of other disequilibria.

B. The expansion of the public sector activities

151. For the execution of an aggressive development policy, the scope of the public sector of Ghana increased rapidly after independence. On the whole, the public sector, on a consolidated basis, participates in national product to the extent of more than 35 per cent. The share of the Central Government represents almost 25 per cent of Gross Domestic Product.

152. The central administration grew rapidly after independence. In the 1966 draft budget the country shows 30 different Ministries. Reforms introduced in March 1966 reduced this number to 17.

153. The Ministries actually existing are: Agriculture, Forestry, Land and Mineral Resources, Industry, Communications, Works and Housing, Trade, Education, Health, Labour and Social Welfare, Economic Affairs, Information, Interior, Local Government, External Affairs, Finance and Defence.

154. There are many decentralized agencies in charge of some specific social sector. In education there are around 17 different organizations as follows: University of Ghana, University of Science and Technology, University College of Science Education, Institute of Public Education, Institute of Public Administration, College of Arts, Ghana Science Museum, University College of Agriculture, Institute of Demography and Fisheries, General Legal Council, Ghana Academy of Science, Atomic Energy Commission, National Cultural Centre at Kumasi, etc.

155. The Insurance Corporation is in charge of the social security scheme of the country.

156. There are two general agencies in charge of the promotion of economic development, the Volta River Authority and Tema Development Corporation.

157. In the level of Local Government there are the following governments: Regions of Ashanti, Brong-Ahafo, Eastern, Northern, Western, Volta, Central, Upper and Accra District.

158. The public sector is completed with about 54 public enterprises. These enterprises can be classified into agricultural, mining, fuel and power, industrial, construction, transportation and commercial enterprises.

159. As it can be seen the public sector of Ghana has a complete variety of institutions, starting from the central government, the decentralized agencies, the local government and finishing with the state corporations of various types.

C. Long-term expenditure policy.

160. During colonial times, expenditure levels were established strictly in relation to the expected yield of revenues. A conservative policy followed and in many years the fiscal budget showed surplus. But from the independence era, the government assumed new responsibilities. It had to develop a national army, a national police, expand education, increase food production, develop infrastructure and industry.

161. These tasks were assumed by the Ghanaian government starting from 1958-59. Table 28 shows the money allocated to the different sectors and activities. Total expenditures of the central government rose from 45 million Ghanaian pounds in 1953/54 to 64 million in 1957/58, and to 185 million in 1965. In 1957/58 the rate of participation in Gross National Product was 14 per cent and in 1965 it was around 25 per cent. But, at the same time a big family of decentralized institutions and public enterprises grew simultaneously; possibly the whole public sector represents in 1965 not less than 35 per cent of the GDP.

162. Table 29 includes the percentages of the expenditures of the central government in the different sectors. Expenditure in productive sectors did not increase in relative terms; the share to non-productive sectors was around



TABLE 28

GHANA: Sectoral distribution of central government expenditures  
(£G million)

	1953-1954	1954-1955	1955-1956	1956-1957	1957-1958	1958-1959	1959-1960	1960-1961	1961-1962	1962-1963	1963-1964	1964-1965
I. Productive Sectors	5.2	6.3	8.6	8.4	7.4	9.7	12.2	15.7	12.8	14.8	17.1	26.7
1. Agriculture	4.7	5.2	7.6	6.8	6.7	6.9	7.0	11.3	8.7	10.3	11.1	15.2
2. Industry, mining and trade	0.5	1.1	1.0	1.6	0.7	2.8	5.2	4.4	4.1	4.5	6.0	11.5
II. Non-productive Sectors	40.0	11.4	61.5	51.9	54.4	71.2	75.9	100.8	105.0	119.3	143.3	157.8
1. Social services	21.0	25.2	30.4	31.3	32.1	41.3	47.9	54.7	74.0	85.3	89.6	113.1
1.1 Education	6.4	7.0	7.5	7.5	9.0	9.0	11.4	15.0	17.2	22.9	28.3	35.5
1.2 Health	2.9	3.0	3.0	3.3	3.3	3.9	4.8	5.0	9.2	9.6	8.9	9.7
1.3 Social welfare	0.4	0.4	0.7	0.5	0.5	0.5	0.8	1.2	1.6	2.6	2.9	2.6
1.4 Defence	0.2	1.7	2.3	3.3	3.5	3.5	4.8	10.0	12.0	11.1	10.6	15.8
1.5 Police and justice	1.6	2.0	2.9	2.3	2.6	2.7	4.0	4.7	4.6	6.1	6.3	6.7
1.6 General services	8.2	9.8	11.6	11.3	10.9	19.4	21.0	23.7	20.9	31.4	25.7	30.7
1.7 Others	1.3	1.3	2.4	3.1	2.3	2.9	1.1	4.1	8.5	1.6	6.9	12.1
2. Infrastructure	14.0	8.3	18.8	11.2	14.4	17.9	17.4	26.0	20.9	27.1	28.1	24.9
2.1 Electricity	1.3	1.3	2.1	1.6	1.5	2.1	2.1	5.1	2.7	10.9	11.5	3.8
2.2 Water supply	1.5	1.5	1.1	1.3	1.2	1.7	1.6	1.6	2.5			5.8
2.3 Roads	4.2	2.2	7.5	3.4	5.5	7.1	5.4	5.6	5.0	6.4	7.1	5.9
2.4 Transport and communications	7.0	3.3	8.1	4.9	6.2	7.0	8.3	13.7	10.7	9.8	9.5	9.4
3. Public debt	1.3	2.3	1.8	1.9	5.2	1.8	1.8	3.3	4.1	3.4	23.7	3.6
4. Others	3.7	6.6	10.5	7.5	2.7	9.6	8.8	6.8	6.0	3.2	1.9	16.1
Total	45.2	47.7	70.1	60.3	63.8	80.9	88.0	116.5	117.8	134.1	160.4	184.5

Source: Ministry of Finance.

TABLE 29  
GHANA: Sectoral distribution of central government expenditure  
(percentages)

Years	Productive Sectors	Total	Total	Non-Productive Sectors					Infra structure	Other Sectors
				Edu- cation	Defence	General Services	Other Sectors			
1953-54	12	88	45	14	0	18	14	31	11	
1954-55	13	87	52	15	4	20	13	17	18	
1955-56	12	88	43	11	3	17	12	27	18	
1956-57	14	85	52	13	5	19	15	19	15	
1957-58	15	85	50	14	5	17	14	23	12	
1958-59	12	88	52	11	4	24	13	22	14	
1959-60	14	86	54	13	5	24	12	19	13	
1960-61	13	87	55	13	9	21	12	22	10	
1961-62	11	89	63	14	10	18	21	18	8	
1962-63	11	89	64	17	8	23	16	20	5	
1963-64	11	89	55	17	7	16	15	18	15	
1965	14	85	61	20	9	16	16	14	11	

Source: Table 28.

85 per cent in all the period. But it must be considered that the expansion of the productive sectors was promoted through the public enterprises, which are not included in the table (only the subventions given by the central government).

163. For comparative purposes, table 30 shows the structural changes in the expenditure policy, taking average percentages of two years, starting from 1953/54 to 1965.

TABLE 30

GHANA: Structural changes in the expenditure pattern  
(percentages)

Sectors	1953/54-1954/55	1957/58-1959/60	1963/64-1965
1. <u>Productive Sectors</u>	<u>12.5</u>	<u>13.5</u>	<u>12.5</u>
2. <u>Non Productive Sectors</u>	<u>87.5</u>	<u>86.5</u>	<u>87.5</u>
2.1 <u>Services</u>	<u>49.0</u>	<u>51.0</u>	<u>58.5</u>
- Education	14.5	12.5	18.5
- Defence	2.0	4.5	8.0
- General Services	19.0	20.5	16.0
- Other Services	13.5	13.5	16.0
2.2 <u>Infrastructure</u>	<u>24.0</u>	<u>22.5</u>	<u>16.0</u>
2.3 <u>Others</u>	<u>14.5</u>	<u>13.0</u>	<u>13.0</u>
Total	100.0	100.0	100.0

164. It can be seen that the services sector increased continuously, whereas the expenditures in infrastructure decreased in the period. Inside the services sectors the increment of the expenditures in defence was considerable (ranging from 2 per cent to 8 percent average during the period). Education also increased in relative terms to an average of 18.5 per cent in <sup>the</sup> last years. General Services and Other Services maintained in global their percentage of participation.

165. In relation to the trends in the expansion of public expenditures different periods can be distinguished. In the first one (1953-54 to 1955-56) expenditures increased 100 per cent, because of the very favourable conditions of the cocoa price in international markets. In a second period, expenditures were maintained at around 60 million pounds, after the boom (1956/57 and 1957/58). Starting from 1958/59 till 1963/64 the expenditures rose continuously, increasing 100 per cent. In 1965 an expansive expenditure policy culminated in the amount of £G185 millions. In 12 years the expenditures of the Central Government increased four times.

D. Long-term financing policy

166. In the period 1953/54 to 1965 the current revenues increased from £G 47 million to £G141 million, exactly three times. The gap in relation with the expenditure side was filled with loans, reserves and so on. Table 31 shows the composition of current revenues in the period.

167. From 1953/54 to 1960/61 taxes on income and property stagnated; a small charge was imposed on persons and companies income. But starting from 1961/62, the tax reforms and the expansion of the economy, increased the revenue collected threefold: from £G8.6 million 1960/61 to £G 28.9 million in 1965. Taxes on domestic production expanded fast during the period. The creation of the sales tax in 1965 was the climax of continuous effort to increase revenues. Other internal revenues also expanded.

168. Table 32 illustrates the changes in percentages of revenue items in total revenue collected. It can be seen that taxes on foreign commerce represent a high percentage of total revenues.

169. For comparative purposes, table 33 shows the medium percentages of the different stages of development of the fiscal structure.

TABLE 31

GHANA: Current revenues of the central government  
(millions of G¢)

	1953-54	1954-55	1955-56	1956-57	1957-58	1958-59	1959-60	1960-61	1961-62	1962-63	1963-64	1965
<u>1. Taxes on income and property</u>	<u>8.0</u>	<u>7.3</u>	<u>7.6</u>	<u>7.3</u>	<u>7.9</u>	<u>8.0</u>	<u>7.3</u>	<u>8.6</u>	<u>10.6</u>	<u>12.2</u>	<u>23.6</u>	<u>28.9</u>
1.1 Personal income tax ) -	5.8	6.1	6.3	5.3	5.6	6.2	5.8	{ 1.1	1.4	10.5	22.2	13.2
1.2 Companies income tax ) -								{ 5.5	11.8	-	13.5	13.5
1.3 Minerals duty	2.2	1.2	1.4	2.0	2.3	1.8	1.5	2.0	2.1	1.5	1.2	1.0
1.4 Property tax	-	-	-	-	-	-	-	-	0.1	0.2	0.2	0.4
1.5 Others	-	-	-	-	-	-	-	-	-	-	-	0.8
<u>2. Taxes on foreign trade</u>	<u>30.5</u>	<u>62.3</u>	<u>43.0</u>	<u>29.0</u>	<u>25.6</u>	<u>27.7</u>	<u>35.1</u>	<u>42.0</u>	<u>44.2</u>	<u>46.7</u>	<u>51.8</u>	<u>64.1</u>
2.1 Import duties	12.0	13.0	18.3	16.4	15.0	16.1	18.9	25.9	28.9	33.7	34.0	53.8
2.2 Export duties on cocoa	18.1	48.9	24.1	11.5	10.0	10.9	15.4	15.3	14.7	12.5	17.1	9.9
2.3 Other export duties	0.4	0.4	0.6	0.7	0.6	0.7	0.8	0.8	0.6	0.5	0.7	0.4
<u>3. Taxes on domestic production and expenditures</u>	<u>1.5</u>	<u>0.9</u>	<u>1.3</u>	<u>1.7</u>	<u>2.9</u>	<u>4.0</u>	<u>4.1</u>	<u>4.1</u>	<u>7.9</u>	<u>10.9</u>	<u>13.8</u>	<u>32.1</u>
3.1 Sales taxes	-	-	-	-	-	-	-	-	-	-	-	16.4
3.2 Excise taxes	0.8	0.2	0.4	0.8	2.0	3.0	3.0	2.8	4.0	6.1	8.0	10.7
3.3 Licences	0.7	0.7	0.9	0.9	0.9	1.0	1.1	1.0	1.3	2.1	3.0	3.4
3.4 Others	-	-	-	-	-	-	-	0.3	2.6	2.7	2.8	1.6
<u>4. Other current revenues</u>	<u>7.4</u>	<u>6.8</u>	<u>8.4</u>	<u>7.7</u>	<u>8.6</u>	<u>10.8</u>	<u>10.7</u>	<u>16.2</u>	<u>12.0</u>	<u>14.5</u>	<u>14.4</u>	<u>15.9</u>
4.1 Sales and fees	1.8	1.9	2.8	2.8	3.4	3.8	4.4	8.0	7.7	9.2	10.6	10.5
4.2 Interest, profits and rents	2.2	2.5	3.3	2.4	2.2	2.4	2.1	7.0	2.5	2.1	2.4	2.3
4.3 Others	3.4	2.4	2.3	2.5	3.0	4.6	4.2	1.2	1.8	3.2	1.4	3.1
Total current revenues	47.4	77.3	60.3	45.7	45.0	50.5	57.2	70.9	74.7	84.3	103.6	141.0

TABLE 32

GHANA: Current revenue items as percentage of total

1. Taxes on income and property	16.9	9.4	12.6	16.0	17.6	15.8	12.8	12.2	14.2	14.5	22.8	20.5
2. Taxes on foreign trade	64.3	80.6	71.3	63.5	56.9	54.9	61.4	59.2	59.2	55.4	50.0	45.5
2.1 Import duties	(25.3)	(16.8)	(30.3)	(35.9)	(33.3)	(31.9)	(33.0)	(36.5)	(38.7)	(40.0)	(32.9)	(38.2)
2.2 Export duties on cocoa	(38.2)	(63.3)	(40.0)	(26.0)	(22.0)	(21.6)	(26.9)	(21.6)	(19.7)	(14.8)	(16.5)	(7.0)
2.3 Other	(0.8)	(0.5)	(1.0)	(1.6)	(1.6)	(1.4)	(1.5)	(1.1)	(0.8)	(0.6)	(0.6)	(0.3)
3. Taxes on domestic production	3.1	1.2	2.1	3.7	6.4	7.9	7.1	5.8	10.6	12.9	13.3	22.8
4. Other current revenues	15.7	8.8	14.0	16.8	19.1	21.4	18.7	22.8	16.0	17.2	13.9	11.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

TABLE 33  
GHANA: Structural changes in the taxation system  
 (medium percentages)

	<u>1953/54- 1954/55</u>	<u>1957/58- 1958/59</u>	<u>1963/64- 1965</u>
1. Taxes on income and property	13.2	16.7	21.7
2. Taxes on foreign trade	72.5	55.9	47.8
2.1 Import duties	(21.1)	(32.6)	(35.6)
2.2 Export duties on cocoa	(50.8)	(21.8)	(11.8)
2.3 Other	(0.6)	(1.5)	(0.4)
3. Taxes on domestic production and expenditures	2.1	7.2	18.0
4. Other current revenues	<u>12.2</u>	<u>20.2</u>	<u>12.5</u>
Total	100.0	100.0	100.0

170. Great changes can be seen in these different periods. Internal taxation increased in relative terms from the 27.5 per cent in 1953/54-1954/55 to the 52.2 per cent in 1963/64-1965. On the other side, taxes on foreign trade decreased from 72.5 per cent to 47.8 per cent in the same year. This is the result of the reduction of the revenues yielded by the cocoa export duty (in 1954/55 produced £G 649 million and 1965 only £G 610 million).

The increase in taxable importations in recent years and in the tax rates, compensated the decrease in the cocoa duty. In 1953/54-1954/55 export duties in cocoa produced 51 per cent of total revenues and in 1963/64-1965 only 12 per cent. On the other hand, import duties increased from 21 per cent in the first mentioned year to 36 per cent in the last one.

171. As can be seen, the structure of the revenue system changed drastically in the period. The problems in the exportation activity, created the urgent need of developing new internal resources. But the new taxes created represented new tax burden for the consumers and less for the producers. In 1953/54-1954/55 consumers paid the 36 per cent of total revenues and producers the 64 per cent. But in 1963/64-1965 consumers paid 67 per cent and producers only 33 per cent. So the tax system was now more regressive than before.

172. Since current revenues were also insufficient to pay for all expenditures, an increasing deficit arose, creating inflationary pressures. This means that inflation was another type of regressive taxation to the Ghanaian consumers.

E. The fiscal deficit

173. The disequilibrium in the economy, the failure of the export drive and the pressures for increasing the rate of growth, were some of the factors which had their repercussions on the fiscal budget. In some way, government finances were used as a key instrument for meeting the depressive effects in foreign trade and for maintaining the rhythm of national investments and the level of employment.

174. During the period, national investment represented a 15 to 20 per cent of Gross National Product and a great part was public investment. For expanding its investment capacity the government raised the rate of its participation in the G.D.P. The expansion of government consumption rose slowly from 9 per cent of G.D.P. in 1958 to 12 per cent in 1964, but the expansion of the government total expenditure went up fast from £G 53 millions in 1957/58 to £G 185 in 1965; the rate of participation in G.D.P. was 14 per cent in the first mentioned year and 25 per cent in the last year.

175. On the other hand, revenues amounted to £G 60 millions in 1957/58 and increased to £G 141 millions in 1965; the rate of participation in G.D.P. was 16 per cent in the first year and 18 per cent in the last (against 25 per cent of expenditures participation).

176. As it can be seen, expenditures in relation to G.D.P. had a high elasticity which was supported by an almost inelastic revenue system (if we discount new taxes, increases in tariffs, increases in rates and so on). In this condition a chronic deficit followed. Deficit represented 27 per cent of current revenues in 1960/61, 37 per cent in 1962/63 and 23 per cent in 1965

177. The fiscal deficit is a consequence of a policy of expansion of investments to increase the rate of development and for maintaining a level of internal demand to permit a sustained level of employment; and on the other hand of the vulnerability of the revenue budget to the fluctuation of foreign trade. Taxes on foreign trade represented 60 per cent of current revenues in 1960/61, but this importance was reduced to 45 per cent in 1965, due to the decreases in the foreign trade activities and the development of compensatory

receipts in domestic taxation. In relation to G.D.P. the taxation on cocoa exports represented 3.2 per cent in 1960/61, but in 1965 this rate was reduced to 1.3 per cent. In relation to the total current revenues cocoa export duties were 22 per cent in 1960/61, but in 1965 its contributions were only 7 per cent of the total current revenues.

178. So, the fiscal deficit was a consequence of an effort to expand public investment in very adverse financial conditions, due to the depressive effect of the foreign trade crisis.

TABLE 34

GHANA: Fiscal deficit of the Central Government

Year	Expenditures <sup>a/</sup>	Revenues <sup>b/</sup>	Deficit (-) Surplus (+)	Deficit as a percentage of total expenditures
1953/54	45.9	48.2	+2.3	-
1954/55	45.1	80.2	+35.1	-
1955/56	47.7	52.5	+4.8	-
1956/57	55.2	49.4	-5.8	10.5
1957/58	52.6	59.8	+7.2	-
1958/59	61.9	66.6	+4.7	-
1959/60	76.1	70.1	-6.0	7.9
1960/61	107.7	83.2	-24.5	22.7
1961/62	114.3	75.0	-39.3	29.0
1962/63	132.7	82.5	-50.2	37.8
1963/64	144.2	122.5	-21.7	15.0
1965	184.5	141.0	-43.5	23.6

<sup>a/</sup> Included budgetary and extrabudgetary expenditures

<sup>b/</sup> Includes current revenues and extraordinary receipts

Source: Central Bureau of Statistics, Economic Survey 1964.

Fiscal deficit has been financed with internal and external loans, use of revenues, creation of new money, etc. aspects which will be considered when the fiscal situation is examined in the short run.



F. Fiscal policy in the period 1959/60 to 1965

179. Within the framework of the long term policy examined above, it is possible to make a more complete analysis of the fiscal policy followed in recent years. Information for the period 1959/60 to 1965 is available and will be used for this purpose in the following sections. In general, the policy followed in this period can be characterized by the efforts to expand the economic activity, without consideration of the financial implications and the priorities to be followed.

Analysis of expenditures by major functions

180. From 1959/60 to 1965, public expenditure rose from LG 88 million to LG 185 million. This expansion was principally in social services, and financial services. General administration increased slowly. In table 35 it can be seen that the amount of these expansions and the changes in the structure of the different functional items.

181. Economic services decreased in relative terms from 38 per cent of total expenditures to 33 per cent in 1963/64. Expenditures in agriculture represented around 7 to 10 percent, amount not satisfactory for a country which suffer from shortages in foodstuff production. Fuel and power expenditures increased from LG 4.1 million in 1959/60 to around LG 8 million in latest years as an effort to finish the Volta River Dam. Construction and manufacturing also increased in the period. But transport and communications stagnated around LG 16 million in the period; this represented reduction in relative terms to a 10.0 per cent of expenditures, instead of the 18 per cent in 1959/60. This means that the government considered that infrastructure had received too much attention before and, therefore, there was a shift to develop more speedily industry and construction as well as energy to supply manufacture.

182. In the social services it is clear that government puts great emphasis on education (increase from 15 per cent in 1959/60 to 19 per cent in 1965). Community services also received attention in the period.

TABLE 35

GHANA: Central Government Expenditures, By Functions

(Millions LG)

Heads	1959/60 (actual)	1960/61 (actual)	1961/62 (actual)	1962/63 (actual)	1963/64 (actual)
1. <u>Economic Services</u>	<u>33.6</u>	<u>44.0</u>	<u>46.9</u>	<u>49.4</u>	<u>52.3</u>
1.1 Agriculture	7.7	11.5	8.7	10.3	11.1
1.2 Fuel and power	3.6	5.7	8.7	10.9	11.5
1.3 Manufacture and Con- structions	4.8	7.0	12.6	6.1	12.9
1.4 Transport & Communicat- ions	15.7	19.6	15.7	16.2	16.6
1.5 Other	1.8	0.2	1.2	5.9	0.2
2. <u>Social Services</u>	<u>25.5</u>	<u>31.7</u>	<u>36.1</u>	<u>45.1</u>	<u>52.0</u>
2.1 Education	12.8	15.0	17.2	22.9	28.3
2.2 Health	4.5	6.0	9.2	9.6	8.9
2.3 Social Security	1.6	1.9	1.6	2.6	2.9
2.4 Community Services	3.0	3.9	3.9	5.0	8.1
2.5 Other	3.6	4.9	4.2	5.0	3.8
3. <u>General Services</u>	<u>21.7</u>	<u>28.7</u>	<u>28.1</u>	<u>32.6</u>	<u>30.5</u>
3.1 General Administration	13.1	14.0	11.6	15.5	13.6
3.2 Defence	4.9	10.0	12.0	11.1	10.6
3.3 Justice and Police	3.7	4.7	4.6	6.1	6.3
4. <u>Financial Services</u>	<u>7.2</u>	<u>9.3</u>	<u>6.7</u>	<u>7.0</u>	<u>25.6</u>
4.1 Public Debt	1.5	2.8	2.5	3.4	23.7
4.2 Other	5.7	6.5	4.2	3.6	1.9
Grand total	88.0	113.7	117.8	134.1	160.4

(Percentages)

1. <u>Economic Services</u>	<u>38.1</u>	<u>38.7</u>	<u>39.7</u>	<u>36.7</u>	<u>32.6</u>
1.1 Agriculture	8.8	10.2	7.4	7.7	6.9
1.2 Fuel and Power	4.1	5.0	7.4	8.1	7.2
1.3 Manufacturing and Con- structions	5.4	6.2	10.7	4.5	8.0
1.4 Transport and Communi- cations	17.8	17.2	13.3	11.9	10.3
1.5 Other	2.0	0.1	0.9	4.4	0.2

../...

TABLE 35 (Cont'd)

GHANA: Central Government Expenditures, By Functions  
(percentages)

Heads	1959/60 (actual)	1960/61 (actual)	1961/62 (actual)	1962/63 (actual)	1963/64 (actual)
<u>2. Social Services</u>	<u>29.0</u>	<u>28.0</u>	<u>30.8</u>	<u>33.7</u>	<u>32.5</u>
2.1 Education	14.6	13.2	14.6	17.1	17.6
2.2 Health	5.1	5.3	7.8	7.1	5.6
2.3 Social Security	1.8	1.7	1.4	2.0	1.8
2.4 Community Services	3.5	3.5	3.4	3.8	5.1
2.5 Other	4.0	4.3	3.6	3.7	2.4
<u>3. General Services</u>	<u>24.6</u>	<u>25.3</u>	<u>23.8</u>	<u>24.3</u>	<u>19.0</u>
3.1 General Administration	14.9	12.3	9.8	11.8	8.5
3.2 Defence	5.5	8.8	10.1	8.3	6.6
3.3 Justice and Police	4.2	4.2	3.9	4.5	3.9
<u>4. Financial Services</u>	<u>8.3</u>	<u>8.0</u>	<u>5.7</u>	<u>5.3</u>	<u>15.9</u>
4.1 Public Debt	1.1	2.4	2.2	2.6	14.8
4.2 Others	7.2	5.6	3.5	2.7	1.1
	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance

183. General administration has experienced a decrease in relative terms from 15 percent in 1959/60 to 8.5 percent in 1963/64. Both the army and police on the other hand, increased their expenditures. Defence increased from 5.5 per cent in 1959/60 to 8.5 in 1965.

184. Finally, financial services increased in 1963/64 and 1965, due to the service of the external loans and financial contributions committed by the government.

#### Expenditures on consumption and investments

185. The Central Government is expending in current operations less than 60 per cent of total expenses. Investments represent, therefore, around 40 per cent. In table 36 details are included.

TABLE 36

GHANA: Central Government expenditures by economic items  
(£G million)

Economic items	1959/60	1960/61	1961/62	1962/63	1963/64	1965 <sup>1/</sup>
1. <u>Current Expenditures</u>	<u>50.4</u>	<u>67.0</u>	<u>69.4</u>	<u>79.8</u>	<u>92.0</u>	<u>109.9</u>
1.1 Consumption	34.5	45.4	46.5	49.0	60.9	66.8
1.2 Current transfers	15.9	21.6	22.9	30.8	31.1	43.1
2. <u>Capital Expenditures</u>	<u>43.6</u>	<u>52.6</u>	<u>60.6</u>	<u>52.5</u>	<u>70.8</u>	<u>86.8</u>
2.1 Real Investments	18.0	31.2	31.6	30.5	31.5	50.7
2.2 Financial Claims	18.0	12.1	21.7	5.0	20.8	15.8
2.3 Capital transfers	<u>7.6</u>	<u>9.3</u>	<u>7.3</u>	<u>17.0</u>	<u>18.5</u>	<u>20.3</u>
Total	<u>94.0</u>	<u>119.6</u>	<u>130.0</u>	<u>132.3</u>	<u>162.8</u>	<u>196.7</u>
(percentages)						
1. <u>Current Expenditures</u>	<u>53.6</u>	<u>56.0</u>	<u>53.4</u>	<u>60.3</u>	<u>56.5</u>	<u>55.7</u>
1.1 Consumption	36.7	38.0	35.8	37.0	37.4	33.9
1.2 Current transfers	16.9	18.0	17.6	23.3	19.1	21.8
2. <u>Capital Expenditures</u>	<u>46.4</u>	<u>44.0</u>	<u>46.6</u>	<u>39.7</u>	<u>43.5</u>	<u>44.0</u>
2.1 Real Investments	19.1	26.1	24.7	23.1	19.3	25.7
2.2 Financial Claims	19.1	10.1	16.7	3.7	12.8	8.0
2.3 Capital transfers	<u>8.1</u>	<u>7.8</u>	<u>5.2</u>	<u>12.9</u>	<u>11.4</u>	<u>10.3</u>
Total	100.0	100.0	100.0	100.0	100.0	100.0

<sup>1/</sup> Includes 15 months. This explains difference with other tables.

186. The table is interesting for the analysis of the economic structure of the expenditures. In the current expenditure side, consumption represents the same share in the period, but current transfer increased more. This is a result of a policy of subsidies to prices and public enterprises and at the same time of containment of salaries. The increases in the salary expenditures are due to increase in the number of public employees and transfers of the existing workers to higher positions. The division of ministries into new ministries was a system for increasing positions in the government.

187. The policy in transfer payments can be analyzed through the following table:

TABLE 37  
GHANA: Central Government Transfer Payments  
(thousands LG)

	1959-60	1960-61	1961-62	1962-63	1963-64
I. Current Transfers	15,757	21,603	22,871	29,443	36,996
-Interest on public debt	8,620	1,516	1,948	2,642	5,906
-Subsidies	216	583	2	717	1,327
-Pensions	1,519	1,415	1,410	1,720	1,780
-Transfers to households	2,782	3,868	1,864	2,690	3,539
-Transfers to local government	1,705	2,466	1,407	1,280	1,146
-Transfers to public corporations and institutions	8,498	11,598	16,103	20,112	22,939
-Transfers to abroad	175	175	137	282	359
II. Capital Transfers	9,679	9,544	7,474	17,159	18,546
-Transfers to domestic sectors	7,480	9,296	7,274	17,006	18,546
-Transfers to abroad	2,199	248	200	153	-
Total transfers	25,436	31,147	30,345	46,602	55,542
Fiscal deficit	17,900	30,200	42,800	49,800	38,200

188. The table shows that transfers to public corporations and institutions for current and capital purposes amount almost to the sum of fiscal deficit. This means that the origin of the deficit comes mostly from the decentralized

agencies and enterprises, and not from the increasing costs of the central administration. Subsidies to State Corporation and capital contribution, both are the main factors of the fiscal disequilibrium in this period.

189. Capital expenditures are a considerable share of the total expenditures. The Central Government was investing directly in capital goods around 20 per cent of expenditures, a normal rate for developing countries, but if indirect real investments are included the rate amounts to 30 per cent, which is more than satisfactory. In table 38 the composition of capital expenditures is presented.

TABLE 38

GHANA: Composition of Capital Expenditures  
(Millions LG)

	1959/60	1960/61	1961/62	1962/63	1963/64
1. <u>Real Investments</u>	<u>18.0</u>	<u>31.2</u>	<u>31.6</u>	<u>30.5</u>	<u>31.5</u>
- Constructions	14.4	23.3	25.7	23.8	25.4
- Machinery and equipment	3.3	7.3	5.2	5.8	5.7
- Surveys	0.3	0.6	0.7	0.9	0.4
2. <u>Financial Investments</u>	<u>18.0</u>	<u>12.1</u>	<u>21.7</u>	<u>5.0</u>	<u>20.8</u>
- Purchase of existing capital	0.2	0.4	5.9	5.4	0.2
- Loans granted	8.9	3.8	10.1	-	-
- Advances	1.9	6.0	1.5	2.3	2.5
- Subscription to internat. lending institutions	2.1	0.2	0.2	0.2	-
- Sinking fund contrib.	0.3	0.4	0.6	0.4	0.3
- Repayment of public debt	4.6	1.3	3.4	1.3	17.1
3. <u>Capital Transfer</u>	<u>7.6</u>	<u>9.3</u>	<u>7.3</u>	<u>17.0</u>	<u>18.5</u>
- Domestic Transfers	7.5	9.3	7.3	17.0	18.5
- Transfers to abroad	0.1	-	-	-	-
Total	43.6	52.6	60.6	52.5	70.8

190. In this table it can be seen that constructions represent the biggest amount in the total of investments. Repayments of public debt is an increasing item in the latest years because of the borrowing policy of the government.

The structure of the financing system

191. Owing to the failure experienced in increasing the export income of the country, and consequently the collection of duties on foreign trade, the tax system had to develop internal sources of financing.

192. In table 39 the revenue system is shown. The cocoa taxation failure, due to the reduction of the prices in international markets, explain a large part of the shortage of resources for financing the expenditure level. The efforts made in developing the internal sources of taxation, adding new domestic taxes and raising the tax rates, replaced, to some extent, the losses in the taxes on cocoa exports.

193. Some of the taxes on domestic production represented an effective contribution, like for instance the sales taxes. Reforms introduced in 1963/64 in the income and property taxes are producing the first results. But in relation to the expenditure commitments and the losses in the cocoa exportation duties, these efforts were not enough. Improvements in the tax system and in the tax administration are urgent, and cannot be postponed, if the stabilization programme should be accomplished.

194. On the other hand, a complete revision of the strategy of fiscal policy must be undertaken, re-allocating resources and increasing the immobilization.

195. The financing of the investments was only supported to a very small extent by public savings (see table 40). Most of the investment expenditures had been financed by extraordinary means such as the liquidation of reserves, grants, loans, advances, the use of trust and deposits funds, and others.

Such finance procedures can only be understood as an emergency resort in a depressive trend of the economy.

TABLE 39  
GHANA: Central Government Revenues (LG Millions)

	1960/61	1961/62	1962/63	1963/64	1965
I. <u>Current Revenues</u>	<u>70.9</u>	<u>74.7</u>	<u>84.3</u>	<u>103.6</u>	<u>141.0</u>
1. <u>Revenues of Taxation</u>	<u>54.7</u>	<u>62.7</u>	<u>69.8</u>	<u>89.2</u>	<u>125.1</u>
1.1 <u>Taxes on foreign trade</u>	<u>42.0</u>	<u>44.2</u>	<u>46.7</u>	<u>51.8</u>	<u>64.1</u>
- Import duties	28.9	28.9	33.7	34.0	53.8
- Export duties on cocoa	15.3	14.7	12.5	17.5	9.9
- Other export duties	0.8	0.6	0.5	0.7	0.4
1.2 <u>Taxes on domestic production and expenditure</u>	<u>4.1</u>	<u>7.9</u>	<u>10.9</u>	<u>13.8</u>	<u>32.1</u>
- Sales tax	-	-	-	-	16.4
- Excise taxes	2.8	4.0	6.1	8.0	10.7
- Licenses	1.0	1.3	2.1	3.0	3.4
- Others	0.3	2.6	2.7	2.8	1.6
1.3 <u>Taxes on income and property</u>	<u>8.6</u>	<u>10.6</u>	<u>12.2</u>	<u>23.6</u>	<u>28.9</u>
2. <u>Other Revenues</u>	<u>16.2</u>	<u>12.0</u>	<u>14.5</u>	<u>14.4</u>	<u>15.9</u>
2.1 Sales and fees	8.0	7.7	9.2	10.6	10.5
2.2 Interest, profits and rent	7.0	2.5	2.1	2.4	2.3
2.3 Other	1.2	1.8	3.2	1.4	3.1
II <u>Capital Revenues</u>	<u>42.7</u>	<u>43.1</u>	<u>49.8</u>	<u>56.8</u>	<u>43.5</u>
1. <u>Grants</u>	<u>12.5</u>	<u>0.3</u>	<u>-</u>	<u>18.6</u>	<u>1.0</u>
Deficit	30.2	42.8	49.8	38.2	42.5
Grand total	113.6	117.8	134.1	160.4	184.5
(i) deficit as a percentage of total Revenues	26.6	36.3	37.1	23.8	23.1

	(Percentages)				
I. <u>Current Revenues</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
1. <u>Revenues of taxation</u>	<u>77.2</u>	<u>83.9</u>	<u>82.8</u>	<u>86.1</u>	<u>88.7</u>
1.1 <u>Taxes on foreign trade</u>	<u>59.2</u>	<u>59.1</u>	<u>55.4</u>	<u>50.0</u>	<u>45.5</u>
- Import duties	36.5	38.5	40.0	32.8	38.2
- Export duties on cocoa	21.6	19.7	14.8	16.5	7.0
- Other export duties	1.1	0.9	0.6	0.7	.3
1.2 <u>Taxes on domestic Production and expenditures</u>	<u>5.8</u>	<u>10.6</u>	<u>12.9</u>	<u>13.3</u>	<u>22.7</u>
1.3 <u>Taxes on income and property</u>	<u>18.2</u>	<u>14.2</u>	<u>14.5</u>	<u>22.0</u>	<u>20.5</u>
2. <u>Other Revenues</u>	<u>22.8</u>	<u>16.1</u>	<u>17.2</u>	<u>13.9</u>	<u>11.3</u>

Sources: Ministry of Finance



TABLE 40  
GHANA: Investment Financing  
(£G million)

	<u>Current Revenue</u>	<u>Current Expen- diture</u>	<u>Current Account Surplus</u>	<u>Capital Expen- diture</u>	<u>Difference bet- ween Public Saving and In- vestment</u>
1959-60	63.4	50.4	13.0	43.6	30.6
1960-61	70.9	67.0	3.3	52.6	48.7
1961-62	74.7	69.4	5.3	60.6	55.3
1962-63	84.3	79.8	4.5	52.5	48.0
1963-64	103.6	92.0	11.6	70.8	59.2

196. The impact of the deficit financing has resulted in monetary expansion and therefore in inflationary effects. Thus an attempt to accelerate economic development, in critical trade cycle conditions has produced inflation with all the consequences of this phenomenon.

197. The resources for financing the capital account of the Ghanaian Government were the following in £G million:

	<u>1959-60</u>	<u>1960-61</u>	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>
Loans from abroad	-	7.1	5.1	1.0	0.9
Internal loans	<u>22.3</u>	<u>5.9</u>	<u>41.6</u>	<u>53.6</u>	<u>35.3</u>
Total	22.3	13.0	46.7	54.6	36.2

Internal loans were mostly given by suppliers and the banking system. External loans were few in the period, but foreign suppliers had to make some sort of short-term loans to the government. A very important share of the sacrifices for financing government investments were transferred to foreign credit suppliers and internal consumers. The last have to pay higher prices in the markets as a consequence of the injection of money through the budgetary deficits; that is to say, a sort of hidden indirect taxation. The Ghanaian public debt rose from £G 83 million in 1961 to £G 424 million in 1965, of which £G220 million were foreign debts.

KENYA

A. The economic background

198. Economic growth in Kenya has been irregular in the last ten years. During the period 1954 through 1959 extensive capital formation financed by an inflow of foreign funds made possible a boom in production and exports. This was followed by a setback resulting from bad weather and loss of confidence among the non-African community as a result of the political struggle for independence. Per capita income stagnated in 1960 through 1962 at about \$85 per head. In 1963 and following years, normal weather and an increasing confidence made possible a renewal of economic expansion. This improvement was aided by a rise in export income partly as a result of higher sisal prices.

199. Gross Domestic Product is formed by the contribution of the agriculture, manufacturing, trade and government services sectors, as well as other small activities. Agriculture, livestock, forestry and fishing contributed in 1963 to 21 per cent of the monetary economy; but this percentage increases to 46.7 per cent if the subsistence agriculture and related activities are included. The economy of Kenya is mainly agricultural and exports<sup>1/</sup> are provided by this sector. More than 85 per cent of the African population is engaged on the land and lives on a subsistence level.

200. Manufacturing contributes nearly 13 per cent of monetary GDP. This industry consists of agricultural processing in small plants, but there is an expanding sector of larger units producing soft and semi-durable

---

<sup>1/</sup> Coffee, tea, sisal, pyrethrum, etc.

consumer goods. Basic economic services such as water, electric power and communications are fairly well-developed. Wholesale and retail trade, banking, insurance and real estate account for some 19 per cent of cash production.

201. During the last ten years exports have more than doubled in volume, but prices have fallen by less than 20 per cent. Thus the increase in export proceeds was not much less: it now accounts for a third of monetary GDP. Imports have risen slowly, and have fallen as a percentage of GDP from 56 per cent in 1954 to 43 per cent in 1963. Trade deficit fell from 33 per cent to 6 per cent in the period.

202. At the same time, gross capital formation dropped from a level of about £45 million in 1955-57 (represents 30 per cent of cash GDP) to £29 million 1963 (around 15 per cent of GDP). Private and government investments have fallen drastically in recent years. Private investment amounted to £30.7 million in 1956 and tapered off to £27 million in 1960 and fell steeply to £17.5 million in 1961. In 1963 and 1964 it seems to have been stabilized at around £20 million.

#### B. The public sector

203. Kenya has four levels of government: the Kenya Government, the East African Common Services Organization, the seven Regional Authorities and the 40 Municipal and County Councils.

204. The central government has the following Ministries: Agriculture and Animal Husbandry, Commerce and Industry, Education, Finance and Economic Planning, Health and Housing, Home Affairs, Information, Broadcasting and Tourism, Internal Security and Defence, Justice and Constitutional Affairs, Labour and Social Services, Land and Settlement, Local Government, Natural Resources, Works, Communications and Power. Also includes the National Assembly, the Presidency and Prime Minister's Offices, the Judicial Power, and some development agencies.

205. Central government expenditure absorbed around 25 per cent of total GDP in 1963/64 against 21 per cent in 1959-60.

### C. Government expenditure policy

206. Government expenditure increased from £46 million in 1954/55 to £65 million in 1963/64, about 41 per cent in 9 years. The government has made efforts to improve governmental services, in particular in agriculture, education and health (see Table 41).

TABLE 41

KENYA: Distribution of government expenditures by functions  
(million £)

	1954- 1955	1959- 1960	1960- 1961	1961- 1962	1962- 1963	1963- 1964
1. <u>Economic services</u>	9.0	10.2	13.0	13.6	17.2	21.5
Agriculture	4.9	5.6	7.1	7.9	11.7	15.6
Transport	2.7	3.1	3.7	3.9	3.7	3.9
Others	1.4	1.5	2.2	1.8	1.8	1.9
2. <u>Social services</u>	6.6	11.8	13.2	13.9	13.3	13.4
Education	4.3	7.1	8.1	8.6	8.4	8.9
Health	1.8	3.1	3.5	3.5	3.4	3.2
Others	0.5	1.6	1.6	1.8	1.5	1.3
3. <u>General services</u>	9.0	13.6	13.7	13.1	13.3	15.5
4. <u>Financial services</u>	3.4	5.7	6.5	7.7	9.0	11.1
5. <u>Unallocated</u>	18.1	5.1	4.5	4.2	3.6	3.7
Total	46.1	46.4	50.9	52.5	56.4	65.2
Per cent of GDP	29	21	22	23	23	25

Source: Statistical Abstract, Economic and Statistical Division.

207. Expenditures in economic services rose from £9 million in 1954/55 to £21.5 million in 1963/64, which means an increase of 144 per cent in the period. Within the expenditure for economic services, expenditures in agricultural services rose from £5 million in 1954/55 to £15.7 million

in 1963/64; they tripled the two mentioned fiscal years. The government is trying to improve agricultural production which has fallen since independence.

208. Social services have increased steadily from 1959-60 through 1963-64. From £11.8 million it rose to £13.4 million, around 13 per cent in the latest five years. From 1954/55 to 1963/64 this expenditure doubled.

209. Expenditure in education grew from £4.3 million to 8.9 million in this period; more than doubled. Also expenditures in health more than doubled in these 10 years.

210. Expenditure in general services-administration, defence, police and justice-increased 72 per cent in the period. Financial services (public debt and financial claims) almost tripled in the period due to the implications of the financing policy followed.

211. With these different rates of growth, the structure of the expenditure pattern changed in the last 10 years.

212. Economic services absorbed in 1954-55 around 20 per cent of total expenditure, but due to the policy of agricultural promotion this share increased to 33 per cent in 1963-64. Agriculture absorbed 11 per cent in the first mentioned year, and this share rose to 24 per cent in the last fiscal year considered. Transport maintained its relative importance in the period: absorbed around 6 per cent of total expenditure.

~~213. Social services increased their share: from 14 per cent to 21 per~~  
cent. The share devoted to education rose from 9 per cent in 1954-55 to 15 per cent in 1959-60 but decreased after to 13.6 per cent in 1963-64. Health also increased its share to 6.7 per cent in 1959-60 but it decreased to 5 per cent in 1963-64 (see Table 42).

TABLE 42  
KENYA: Structural changes in government expenditures  
(percentages)

	<u>1954-55</u>	<u>1959-60</u>	<u>1963-64</u>
1. <u>Economic services</u>	<u>19.5</u>	<u>22.1</u>	<u>33.0</u>
Agriculture	10.6	12.1	24.1
Transport	5.8	6.7	6.0
Other	3.1	3.3	2.9
2. <u>Social services</u>	<u>14.3</u>	<u>25.6</u>	<u>20.6</u>
Education	9.3	15.4	13.6
Health	3.9	6.7	4.9
Others	1.1	3.5	2.1
3. <u>General services</u>	<u>19.5</u>	<u>29.0</u>	<u>23.8</u>
4. <u>Financial services</u>	<u>7.4</u>	<u>12.3</u>	<u>17.0</u>
5. <u>Unallocated</u>	<u>39.3<sup>a/</sup></u>	<u>11.0</u>	<u>5.6</u>
Total	100.0	100.0	100.0

Source: Table 41.

a/ Emergency Fund is included here.

214. General services have increased very rapidly in the latest years due to the emergency problems, the need to establish a national police and army, etc.

215. Finally, the share absorbed by financial services has also increased due to the impact of the aid policy in the level of repayment of deb-

216. In connection with the investments made by the governments it is not possible to separate current and capital expenditure. As an imperfect indicator, it can be said that development expenditure represented 6 per cent of total expenditure in 1954-55; 17 per cent in 1959-60; and 20 per cent in 1963-64.

D. Government financing policy

217. During a period of transition, with important internal political problems, it is not easy to develop a policy of government financing. When public confidence does not exist in a period of struggle it is difficult for the taxpayer to accept to continue his contributions to the fiscal treasury.

218. But in the case of Kenya the government has developed an appropriate policy. Current revenues rose from £27 million in 1954-55 to £45 million in 1963-64, an increase of about 66 per cent in the period (see Table 43).

TABLE 43

KENYA: Government revenue (million £)

	Taxes on income and wealth				Taxes on foreign trade	Taxes on production and expenditure			Other revenues
	Total	Total	Income tax	Others		Total	Excise	Others	
1954-55	27.3	10.9	8.1	2.8	7.5	4.0	2.1	1.9	4.9
1955-56	32.8	13.0	9.1	3.9	9.4	5.7	2.8	2.9	4.7
1956-57	36.7	12.8	10.4	2.4	8.5	5.7	2.6	3.1	9.7
1957-58	38.0	13.8	11.3	2.5	8.1	5.7	2.9	2.8	10.0
1958-59	36.8	13.7	11.3	2.4	9.5	6.3	3.2	3.1	7.3
1959-60	36.9	12.4	10.4	2.0	10.7	6.5	3.2	3.3	7.3
1960-61	37.1	11.8	10.0	1.8	10.0	7.2	3.6	3.6	8.1
1961-62	39.9	12.1	10.3	1.8	11.7	7.6	3.9	3.7	8.5
1962-63	44.3	12.4	11.1	1.3	13.8	9.1	5.4	3.7	9.0
1963-64	45.4	13.4	12.3	1.1	12.9	9.8	6.0	3.8	9.3

Source: Statistical Abstract, Economic and Statistics Division.

219. Taxes on income and wealth, paid mainly by the non-African industrialists and traders, increased their yield until 1958-59 but later tax collection decreased; the previous level can only be observed in 1963-64. Taxpayers were reluctant to pay income tax, or went away, or sent their capital outside, or they could not obtain enough profit or income.

220. This reduction was compensated with increases in customs duties. Import duties yielded an increasing amount of money. Also excise taxes and other indirect taxes such as stamp tax and petroleum tax, yielded more for the fiscal treasury.

221. All these changes in tax policy modify the tax structure as it can be seen in Table 44.

TABLE 44  
KENYA: Structural changes in the taxation system  
(percentages)

	<u>1954-55</u>	<u>1959-60</u>	<u>1963-64</u>
1. Taxes on income and property	39.7	33.6	29.5
2. Taxes on foreign trade	27.6	29.0	28.4
3. Taxes on domestic production and expenditure	14.7	17.6	21.5
4. Other current revenue	<u>18.0</u>	<u>19.8</u>	<u>20.6</u>
Total	100.0	100.0	100.0

Source: Table 43.

222. Taxes on income and property produced in 1954-55 around 40 per cent of current revenues, but this share decreased to around 30 per cent in 1963-64.

223. On the other hand taxes on foreign trade have maintained their relative position. The share they contribute remains at around 28 per cent in the period.

224. But taxes on domestic production and expenditure increased very much in relative terms: from 15 per cent to 22 per cent in the period.

225. This means, as a whole, that the taxation system of Kenya which is not so dependable on foreign trade as similar countries of Africa, has now a more regressive tax structure based upon taxes levied on consumers rather than producers.



E. The budget deficit

226. Kenya has an unbalanced fiscal situation, comparable with other African countries, as can be seen in Table 45.

TABLE 45

KENYA: Budget gross revenue and expenditure  
(£ million)

<u>Years</u>	<u>Current Revenue</u>	<u>Expenditure</u>	<u>Surplus or deficit</u>	<u>Deficit as percentage of total expenditure</u>
1954-55	27.8	46.1	-18.3	39.7
1955-56	32.8	47.1	-14.3	30.4
1956-57	36.7	46.0	- 9.3	20.2
1957-58	38.0	44.4	- 6.4	14.5
1958-59	36.8	46.1	- 9.3	20.2
1959-60	36.9	46.4	- 9.5	20.6
1960-61	37.1	50.9	-13.8	27.0
1961-62	39.9	52.5	-12.6	23.7
1962-63	44.3	56.4	-12.1	21.6
1963-64	45.4	65.2	-19.8	30.4

Source: Statistical Abstract, Economic and Statistics Division.

227. In average, the fiscal deficit represented 30 per cent in 1954/55-1956/57 against 25 per cent in 1961/62-1963/64.

228. This deficit was financed through the following capital resources:

	<u>1955-56</u>	<u>1959-60</u>	<u>1960-61</u>	<u>1961-62</u>	<u>1962-63</u>	<u>1963-64</u>
Grants from						
UK and USA	2.1	1.0	1.6	2.4	4.0	4.4
Foreign loans	4.0	3.4	6.2	5.3	6.7	8.4
East Africa loans	2.5	2.2	0.4	0.4	0.1	-
Other	<u>0.7</u>	<u>1.0</u>	<u>1.0</u>	<u>1.2</u>	<u>0.6</u>	<u>0.5</u>
Total	9.3	7.6	9.2	9.3	11.4	13.3

229. For the Government of Kenya grants and loans from foreign countries have been decisive in meeting the budget deficit in recent years.

230. It must be said that during the 10-year period from 1954-55 through 1963-64 Kenya had, in its current account, three years of surplus and seven years of deficit. This means that the government was not an instrument for the creation of national savings in the period.

## SUDAN

### A. The problems of the Sudanese economy

231. The economy of the Sudan faced grave problems in recent years. Beginning in 1962, foreign trade suffered critical difficulties leading to growing deficits in the balance of payments. In 1962 total exports amounted to 79 million Sudanese pounds, but in 1964 it decreased to 68 million. On the other hand, imports rose from 89 million to 93 million between 1962 and 1964. The reduction of total value of exports was caused mainly by the poor cotton harvest; the total cotton exported in 1964 decreased by 37 per cent compared with the previous year. But this decrease was partly offset by the increase in value of gum, groundnuts, and sesame exports.

232. In 1961-62 Gross Domestic Product rose by 14.3 per cent, while in 1962-63 it registered an actual growth rate of 0.6 per cent. In 1963-64 the situation continued to be the same; GDP grew approximately 0.7 per cent. For the year 1964-65 a modest increase in the GDP was achieved. Agriculture, the main economic activity which represents around 60 per cent of GDP in normal times, decreased to 51 per cent in 1963-64, due to the impact of the cotton crisis.

### B. The public sector

233. Despite these difficult conditions, expenditure of the public sector, under consolidated basis, grew from 125 million Sudanese pounds in 1962-63 to 134 million in 1963-64.<sup>1/</sup> That means in terms of shares of participation in GDP that the public sector absorbed 31 per cent in 1962-63

---

<sup>1/</sup> See Economic Survey, 1964, Khartoum, 1965.

and 33 per cent in 1963-64. But after considering the situation of the country, public expenditures were reduced in 1964-65 to 111 million, about 20 per cent less.

234. The public sector comprises in the Sudan the central government, the Provincial Councils, the Local Councils, the Sudan Railways, the Gezira Board, the Gash Board, the White Nile Schemes Board, Equatoria, Projects Board, the Sudan Airways, the Bank of Sudan, the Agricultural Bank, the Industrial Bank, the University of Khartoum, the Central Electricity and Water Administration, the Sudan Shipping Line, the Industrial Development Corporation and some new government-owned enterprises.

C. Expenditure policy

235. In recent years, the Sudanese government has been trying to put in action the Ten Year Plan of Economic and Social Development 1961/62-1970/71.<sup>1/</sup> Thus, public expenditure has expanded in order to achieve the planned targets. It must be mentioned that in 1961-62 a very high level of investments had prevailed and the same is true for the fiscal years 1962-63 and 1963-64. The execution of a number of big projects has been done in the period, e.g. the investments by the Sudan Railways, the Ministry of Irrigation, and the Wadi Halfa resettlement project. Total investments by the public sector was £S 3.8 million more than forecast in the Plan for its first three years. On the other hand, current expenditure rose very little in the three latest years, as can be seen in Table 46.

236. In the table it can be seen that the investment effort was important during 1962-63 and 1963-64. But for 1964-65 a reduction of investments was made, due to the problems of financing expenditures.

---

1/ See Republic of the Sudan, Ten Year Plan of Economic and Social Development 1961/62-1970/71, 1965/66 Development Budgets, 1st July 1965 to 30th June 1966.

TABLE 46

SUDAN: Public Sector Expenditures

	1962-63	1963-64	1964-65	Percentages		
				1962-63	1963-64	1964-65
I. <u>Current expenditure</u>	<u>76.7</u>	<u>78.5</u>	<u>75.0</u>	<u>61.1</u>	<u>58.8</u>	<u>67.5</u>
Central government	58.5	59.1	60.0			
Provincial councils	12.4	14.1	15.0			
Changes in stocks	5.8	5.3	11.2			
II. <u>Capital expenditure</u>	<u>47.9</u>	<u>55.0</u>	<u>36.0</u>	<u>38.9</u>	<u>41.2</u>	<u>32.5</u>
Central government	33.6	39.7	25.0			
Public entities	8.2	8.5	5.0			
Finance by external non-cash aid	<u>6.1</u>	<u>6.8</u>	<u>6.0</u>			
Total	124.6	133.5	111.0	100.0	100.0	100.0

Source: Economic Survey 1964.

237. The central government expenditure policy was also aggressive on the development side. Table 47 shows that economic services increased their share from 54 per cent in 1961-62 to 58 per cent in 1963-64. The reduction in investment diminished the total share to 49 per cent in 1964-65.

238. Nevertheless the country has continued the agricultural promotion policy. Around 10 per cent of total expenditure of the central government goes to agriculture, a high share for a developing country.

239. Social services have increased the share absorbed in total expenditure: from 24 per cent in 1962-63 to 30 per cent in 1964-65.

TABLE 47  
SUDAN: Central government expenditure

	Million Sudanese £				Percentages			
	1961- 1962	1962- 1963	1963- 1964	1964- 1965	1961- 1962	1962- 1963	1963- 1964	1964- 1965
<u>Economic services</u>	<u>41.4</u>	<u>52.2</u>	<u>57.9</u>	<u>42.6</u>	<u>54</u>	<u>57</u>	<u>58</u>	<u>49</u>
Agriculture	7.3	7.1	5.7	8.7	10	8	6	10
Public works	3.8	4.1	4.3	2.6	5	5	4	3
Development	23.9	33.0	38.9	23.4	31	37	39	27
Other	6.4	8.0	9.0	7.9	8	7	9	9
<u>Social services</u>	<u>20.1</u>	<u>21.5</u>	<u>25.3</u>	<u>25.7</u>	<u>28</u>	<u>24</u>	<u>25</u>	<u>30</u>
Education	4.6	5.0	6.1	6.5	6	5	6	7
Health	4.3	4.8	4.6	4.9	6	6	5	6
Other	11.2	11.7	14.6	14.3	16	13	14	17
<u>General services</u>	<u>14.0</u>	<u>16.8</u>	<u>16.6</u>	<u>18.2</u>	<u>18</u>	<u>18</u>	<u>17</u>	<u>21</u>
General adminis- tration	6.8	8.1	6.8	7.9	8	9	8	9
Defence & security	<u>7.2</u>	<u>8.7</u>	<u>9.8</u>	<u>10.3</u>	<u>10</u>	<u>9</u>	<u>9</u>	<u>12</u>
Total	75.5	90.5	99.8	86.5	100	100	100	100
As per cent of GDP	18.6	22.2	24.3	...				

Source: Ministry of Finance.

240. General services has also increased its share from 18 per cent in 1961-62 to 21 per cent in 1964-65, due to increases in the resources allocated to defence.

241. The participation of central government in GDP increased from 18.6 per cent in 1961-62 to 24.3 per cent in 1964-65.

D. Financing policy

242. The government financing system of the Sudan is based principally on taxation of foreign trade (see Table 48). From 1961-62 through 1963-64 the collection of customs duties increased: in the first fiscal year mentioned 31 million Sudanese pounds were produced for the Treasury and 42 million in the second. This expansion permitted the increase in the expenditure side and the absorption of a higher share in GDP.

243. But in 1964-65 exports were reduced and all the foreign trade returned to the level of the year 1961-62. The government collected 10 million Sudanese pounds less than the previous year in 1964-65.

TABLE 48  
SUDAN: Central government current revenues

	Million Sudanese £				Percentages	
	1961- 1962	1962- 1963	1963- 1964	1964- 1965	1961- 1962	1964- 1965
1. <u>Taxes on income &amp; property</u>	2.1	2.3	3.5	4.0	3.5	5.5
2. <u>Taxes on foreign trade</u>	31.4	36.7	41.6	31.1	52.3	42.1
2.1 Transport duties	(25.8)	(29.8)	(35.1)	(25.9)	(43.0)	(35.1)
2.2 Export duties	(5.6)	(6.9)	(6.5)	(5.2)	(9.3)	(7.0)
3. <u>Taxes on production and expenditure</u>	1.6	1.5	0.6	11.0	2.6	14.8
4. <u>Other current revenues</u>	25.3	33.8	32.3	27.8	41.6	37.6
4.1 Profits from agricultural enterprises	6.2	13.2	8.1	4.3	10.3	5.9
4.2 Other receipts	19.1	20.6	24.2	23.5	31.3	31.7
Total	60.4	74.3	78.0	73.9	100.0	100.0
As per cent of GDP	14.9	18.2	19.0	...		

Source: Ministry of Finance.

244. This reduction was partly compensated with increases in taxes on income and property (collections rose from 2 million in 1961-62 to 4 million in 1964-65) and in taxes on production and expenditure (from 1.6 million to 11 million in the same years).

245. An interesting source of government funds are the profits from agricultural enterprises. They rose from 6 million in 1961-62 to 10 million in 1964-65. Other receipts, like fees and other taxes on consumption also rose in the period.

246. When government revenues are reduced because of the foreign trade problems, the country has to replace these resources by new domestic taxation and reduce at the same time the level of investments as shown by Tables 46 and 47. This case illustrates clearly the financing problems of many developing countries.

E. The budget deficit

247. The development policy promoted by the Sudanese Government and the financing problems produce a budget deficit (see Table 49).

TABLE 49

Years	Revenues	SUDAN: Budget deficit		Deficit as % of Expenditure
		Expenditure	Deficit	
1961-62	60.4	75.5	-15.1	20.1
1962-63	74.3	90.5	-16.2	17.8
1963-64	78.0	99.8	-21.8	21.7
1964-65	73.9	86.5	-12.6	14.4

Source: Tables 47 and 48.

248. For the fiscal year 1964-65 the relative importance of the budget deficit was reduced after the government reduced the investments and raised domestic taxation. Nevertheless, for financing the deficit the



country has received grants and loans from foreign sources for the following amounts in million Sudanese pounds:

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Grants (net)	3.9	3.8	4.5	1.6	4.3
Loans and repayments (net)	<u>2.2</u>	<u>2.8</u>	<u>5.6</u>	<u>10.2</u>	<u>14.5</u>
	6.1	6.6	10.1	11.8	18.8

249. But this policy resulted in an increase of the net foreign debts of the government at the end of the following years by the amount indicated in million Sudanese pounds:

	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
Net foreign debt	27.0	30.5	37.3	43.3	47.7

250. This means that the policy applied by the Sudanese government increased net foreign debt by 20 million pounds from 1961 through 1965.

## TANZANIA

### A. Trends in economic development

251. Tanzania is one of the few African countries in which a sustained rate of growth has been achieved. From 1955 through 1959 the annual compound rate of growth was around 4.6 per cent. From 1960-62 until 1965 the rate of growth was 4.1 per cent at constant prices. Considering only the monetary GDP the annual rate of growth was 5.7 per cent in this period.

252. The annual compound growth rate 1960-62/<sup>to 1965</sup> shows an increase of agriculture by 7.2 per cent, manufacturing by 9.4 per cent, commerce by 7.2 per cent, mining by 5.9 per cent, construction by 6.6 per cent, etc.

253. In order to obtain these results the country increased the share of capital formation in the monetary GDP to 17 per cent in 1960, 19 per cent in 1961, 16 per cent in 1962, 15 per cent in 1963, 15 per cent in 1964 and 19 per cent in 1965 (provisional estimate). Gross capital formation rose from £23 million in 1960 to £36 million in 1965, an increase of around 56 per cent.

254. Foreign trade has been favourable to the country. Exports of sisal, raw cotton, coffee, diamonds, cashew nuts, manufactured woods and some other articles have increased in quantity and/or value from 1961 to 1964.<sup>1/</sup> But in 1965 the price of sisal decreased, as well as that for coffee and many other export products. Total exports dropped from £70 million in 1964 to £63 million in 1965. This produced an impact in the fiscal situation.

---

<sup>1/</sup> Exports to countries outside East Africa.

B. The public sector

255. There are different levels in the institutional framework of the Tanzanian public sector. In the first place is the Central Government which is organized into districts; these districts are combined into 17 administrative regions each headed by a political appointee of the Central Government.

256. The Central Government comprises the President's Office, the First Vice-President's Office, the Second Vice-President's Office, the National Assembly and the Judicial Power. The Administration is formed by the following Ministries: Foreign Affairs; Treasury; Defence, National Service and Youth Services; Health; Home Affairs; Communications and Works; Agriculture, Forest and Wildlife; Industries, Mineral resources and Power; Education; Land, Settlement and Water Development; Commerce and Cooperatives; Economic Affairs and Development Planning; Labour; Community Development and National Culture; Information and Tourism; Housing; and Regional Administration.

257. The East African Common Services Organization is in charge of some aspects of the administration. Local government is organized into 58 District Councils in rural areas and 15 urban authorities, each headed by a legislative council of local citizens.

258. The central government absorbed 24 per cent of GDP in 1965 against 17 per cent in 1962.

C. Government expenditure policy

259. The Government of Tanzania has expanded public expenditure from £29 million in 1962-63 to £57 million in 1964-65, around 94 per cent (see Table 50).

TABLE 50  
TANZANIA: Central government expenditures, by function  
(£ thousands)

	1962-63	1963-64	1964-65	1965-66 E	1966-67 E
1. <u>Economic services</u>	<u>10,183</u>	<u>10,657</u>	<u>12,997</u>	<u>17,437</u>	<u>16,441</u>
Agriculture	4,019	4,123	3,678	5,572	5,164
Mining	295	281	729	631	425
Fuel and power	600	500	34	-	-
Transportation	2,712	2,723	2,740	6,600	5,941
Public works	1,721	2,043	2,941	2,151	2,468
Other	836	987	2,875	2,483	2,443
2. <u>Social services</u>	<u>9,231</u>	<u>10,266</u>	<u>12,279</u>	<u>16,703</u>	<u>16,302</u>
Education	5,791	6,162	8,127	9,496	9,377
Health	2,537	2,784	2,729	3,771	3,328
Housing	175	-	638	561	1,402
Township development	180	142	123	1,145	823
Other	548	1,178	662	1,730	1,372
3. <u>General services</u>	<u>7,712</u>	<u>9,438</u>	<u>11,196</u>	<u>13,554</u>	<u>12,841</u>
Administration	3,114	3,182	3,340	3,996	3,837
Defence, Police, Justice	4,216	5,498	7,555	9,144	8,526
Fiscal administration	382	812	301	314	478
4. <u>Unallocated</u>	<u>2,483</u>	<u>4,728</u>	<u>6,381</u>	<u>9,903</u>	<u>7,333</u>
Total (net)	29,609	35,089	42,853	57,597	52,917

Source: Background to the Budget. An Economic Survey, 1966-67.

260. It can be seen in the table that financing difficulties obliged the government to reduce expenditure for the 1966-67 budget by around £5 million.

261. Economic services increased from £10 million in 1962-63 to £17 million in 1965-66, more than 70 per cent. Social services increased by 18 per cent; general services by 17 per cent in the period.

262. The relative importance of the different functions was the following in the period:

	(Per cent)				
	1962-63	1963-64	1964-65	1965-66	1966-67
Economic services	34	30	30	31	31
Social services	31	29	29	29	30
General services	27	27	25	24	24
Unallocated	<u>8</u>	<u>14</u>	<u>16</u>	<u>16</u>	<u>15</u>
Total	100	100	100	100	100

263. There are no relevant changes in the structure of expenditure by functions in these five fiscal years, except increases in the share of unallocated expenditures, due to the impact of public debt repayments.

264. But it is interesting to analyze the efforts made by the government in developing the different sectors. In Table 51 is presented the total central government expenditures divided into productive sectors, infrastructure, human resources, general services and unallocated expenditure.

265. Expenditure in the productive sectors, e.g. agriculture, forestry, mining, industry, etc. maintained between the 1962-63 and 1966-67 budgets the share of 17 per cent of total expenditure. The individual share of agriculture diminished in favour of other items in which expenditure to promote industry is included.

266. The share for developing infrastructure increased to 22 per cent of total expenditure. The relative importance of the road programme grew in the period and also the water supply programme.

267. Efforts to develop human resources represent around 30 per cent of total government expenditure. The share for education, as well as for health, decreased a little between 1962-63 and the budget for 1966-67.

TABLE 51

TANZANIA: Sectoral distribution of central government expenditure  
(£ thousand)

	1962-63	1966-67 (£)	Percentage	
			1962-63	1966-67 (E)
1. <u>Productive sectors</u>	<u>5,051</u>	<u>9,039</u>	<u>17.1</u>	<u>17.1</u>
Agriculture, forestry, etc.	4,019	5,164	13.6	9.8
Mining	295	425	1.0	0.8
Other	737	3,450	2.5	6.5
2. <u>Infrastructure</u>	<u>6,049</u>	<u>11,675</u>	<u>20.4</u>	<u>22.1</u>
Water supply	836	2,443	2.9	4.5
Railways	235	100	0.8	0.2
Aviation	87	293	-	0.6
Roads	2,390	5,548	8.2	10.5
Fuel and power	600	-	2.0	-
Township development	180	823	0.7	1.6
Public works	1,721	2,468	5.8	4.7
3. <u>Human resources</u>	<u>9,051</u>	<u>15,472</u>	<u>30.6</u>	<u>29.2</u>
Education	5,791	9,377	19.6	17.6
Health	2,537	3,328	8.5	6.3
Housing	175	1,402	0.6	2.7
Others	548	1,372	1.9	2.6
4. <u>General services</u>	<u>7,712</u>	<u>12,841</u>	<u>26.0</u>	<u>24.3</u>
5. <u>Unallocated</u>	<u>1,746</u>	<u>3,843</u>	<u>5.9</u>	<u>7.3</u>
Total	29,609	52,917	100.0	100.0

Source: Table 50.

268. General services were reduced from 26 per cent to 24 per cent and unallocated expenditure increased few per cent points.

269. In connection with the distribution of expenditure between recurrent and capital items the following shares show the efforts to increase investments:

	<u>1962-63</u>	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66</u>	<u>1966-67</u>
Recurrent expenditure	80.7	79.3	76.3	62.9	74.2
Capital expenditure	<u>19.3</u>	<u>20.7</u>	<u>23.7</u>	<u>37.1</u>	<u>25.8</u>
Total expenditure	100.0	100.0	100.0	100.0	100.0

270. In absolute terms capital expenditure increased from £5.6 million in 1962-63 to £20.7 million in 1965-66, almost four fold. In the 1966-67 budget this amount was reduced to £12 million. In Table 52 the distribution of investments is presented.

271. Investments are mostly concentrated in infrastructure, mainly roads and public works. Investment for increasing production is also considerable.

272. On the other hand, investment for developing human resources, e.g. construction of schools, hospitals, housing, etc. was drastically diminished in the budget for 1966-67.

#### D. Financing policy

273. Recurrent revenue has increased in Tanzania from £25 million in 1962-63 to £35.7 million in 1965-66 (by 43 per cent). For the fiscal year 1966-67 a further increase to £39 million is expected. In recent years a significant change has been the diminution in revenue from government property, arising from the transfer of state investments from the government to the National Development Corporation.

274. The increased yield from indirect taxation has resulted from the introduction of new internal taxes and from a series of increases in

TABLE 52

TANZANIA: Capital expenditure of the central government  
(£ thousand)

	<u>1962-63</u>	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66(E)</u>	<u>1966-67(E)</u>
1. <u>Infrastructure</u>	<u>2,583</u>	<u>2,020</u>	<u>3,573</u>	<u>7,470</u>	<u>5,739</u>
Power	600	500	34	937	-
Transportation & communications	1,055	1,077	1,264	4,767	3,716
Township develop.	301	295	568	209	61
Public works	627	148	1,707	1,557	1,962
2. <u>Production</u>	<u>1,670</u>	<u>2,042</u>	<u>2,660</u>	<u>7,445</u>	<u>3,706</u>
3. <u>Human resources</u>	<u>1,304</u>	<u>1,262</u>	<u>2,350</u>	<u>4,034</u>	<u>919</u>
4. <u>Miscellaneous</u>	<u>117</u>	<u>1,088</u>	<u>1,360</u>	<u>772</u>	<u>1,973</u>
Total capital exp.	5,674	6,412	9,943	20,721	12,337
(Percentages)					
1. <u>Infrastructure</u>	<u>46</u>	<u>31</u>	<u>36</u>	<u>38</u>	<u>47</u>
Power	11	7	-	5	-
Transport & communications	19	17	13	24	30
Township develop.	5	5	6	1	1
Public works	11	2	17	8	16
2. <u>Production</u>	<u>29</u>	<u>32</u>	<u>27</u>	<u>38</u>	<u>30</u>
3. <u>Human resources</u>	<u>23</u>	<u>20</u>	<u>23</u>	<u>20</u>	<u>7</u>
4. <u>Miscellaneous</u>	<u>2</u>	<u>17</u>	<u>14</u>	<u>4</u>	<u>16</u>
Total	100	100	100	100	100

Source: Background to the Budget, An Economic Survey, 1966-67.



customs and excise duties. On the other hand, the growth in direct taxation has largely sprung from the introduction of a development levy and from increases in personal tax. The introduction of the Pay-as-you-Earn System of taxation as from 1 July 1966 is expected to produce a favourable impact on the revenue yield from direct taxation.

275. In Table 53 the collection of recurrent revenue is presented, separating direct and indirect taxation, as well as other revenues.

TABLE 53  
TANZANIA: Recurrent revenue

	<u>1962-63</u>	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66</u>	<u>1966-67</u>
Direct taxation	6.2	7.1	7.7	8.8	10.4
Indirect taxation	14.5	16.6	20.2	22.2	23.9
Government property	2.4	2.6	3.2	2.0	1.9
Miscellaneous	1.2	1.2	1.8	1.8	2.2
Distributable pool of revenue	<u>0.7</u>	<u>0.8</u>	<u>0.9</u>	<u>0.9</u>	<u>0.9</u>
Total	25.0	28.3	33.8	35.7	39.3
(Percentages)					
Direct taxation	24	25	23	25	26
Indirect taxation	58	59	60	62	61
Other revenues	<u>18</u>	<u>16</u>	<u>17</u>	<u>13</u>	<u>13</u>
Total	100	100	100	100	100

Source: Background to the Budget, An Economic Survey, 1966-67.

276. As a consequence of the tax policy, indirect taxation has increased its share in the total current revenue.

#### E. Budget deficit

277. The expenditure policy has meant an expansion of the capital expenditure and an effort to build infrastructure and develop production. This policy has been financed through recurrent revenues as well as capital receipts. The difference between total expenditure and recurrent revenue is shown in Table 54.

TABLE 54  
TANZANIA: Budget deficit

	<u>Recurrent revenue</u>	<u>Total expenditure</u>	<u>Deficit</u>	<u>Deficit as percent of total expenditure</u>
1962-63	25.0	29.6	- 4.6	15.8
1963-64	28.3	35.1	- 6.8	19.4
1964-65	33.8	42.8	- 9.0	20.9
1965-66(E)	35.7	57.6	-21.9	38.0
1966-67(E)	39.3	52.9	-13.6	25.6

278. As it can be seen the relative importance of the budget deficit grew until the fiscal year 1965-66.

279. In connection with the recurrent account balance the figures in £ million are the following:

	<u>1962-63</u>	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66(E)</u>	<u>1966-67(E)</u>
Recurrent revenue	25.0	28.3	33.8	35.7	39.3
Recurrent expenditure	<u>23.6</u>	<u>27.1</u>	<u>31.6</u>	<u>36.4</u>	<u>39.2</u>
Surplus or deficit	1.4	1.2	2.2	-0.7	0.1

280. Capital expenditure is financed by an insignificant amount of government savings. Thus the government has used different sources of funds to balance the budget as follows:

	<u>1962-63</u>	<u>1963-64</u>	<u>1964-65</u>	<u>1965-66(E)</u>	<u>1966-67(E)</u>
External loans	0.3	1.4	2.9)	4.5	6.4
External grants	4.9	1.3	1.0)		0.5
Others	<u>.5</u>	<u>4.8</u>	<u>6.3</u>	<u>6.0</u>	<u>6.8</u>
Total	5.7	7.5	10.2	10.5	13.7

281. External grants were an important source of capital financing until 1964-65. This policy was changed and external loans increased rapidly after 1964-65.

282. The sources of external funds are mainly the governments of the United Kingdom, United States, West Germany, Israel, Sweden, Netherlands, China, Ireland, Canada and Denmark. Private trust or funds have come from British, American and Irish sources. The multilateral sources come from IDA, UNESCO, Refugee Services and Nordic Council.

UNITED ARAB REPUBLIC

A. Development strategy of the UAR

283. The United Arab Republic has given a great importance to the public sector in the direction of economic and social development. In the last decade, the government has nationalized almost 80 per cent of the Egyptian industry; the transportation system; the banking, savings and insurance companies, the administration of foreign trade, and so on. The economic system has been changed from one of predominantly private enterprise to an extensive publicly owned and regulated economy. The co-ordination of the public sector is made through comprehensive development planning.

284. For a better execution of the planning process in 1962 the Ministry of Planning was established as the head of all the planning processes in the Republic. Before, in 1960, an Institute for National Planning was created as an independent unit for research and training of public officials in the planning techniques. In 1962 the Public Authority for the Execution of the Industrial Five Year Plan was created.

285. In July 1960, the UAR Government adopted a comprehensive economic and social development plan. The general comprehensive plan began in the fiscal year 1960/61 and ended in 1969/70, and for its implementation it is divided in two five year plans; the first covers from 1960/61 to 1964/65 and the second from 1965/66 to 1969/70. Each five year plan is executed through annual plans, co-ordinated with the public sector budget.

286. The target to double national income was established for a period of ten years. To accomplish this goal a great emphasis was given to the industrialization process, building up at the same time a "sound and balanced economy fulfilling all in all the satisfaction of local consumers needs, the formation of capital and the import-export requirements."<sup>1/</sup>

1/ National Planning Committee, General Frame of the Five Year Plan for Economic and Social Development, Cairo, 1960.

287. The increase in industrial output is the main element of the plan; from a 43 per cent in 1959/60 of the total output, it will occupy 51 per cent in 1969/70. Agricultural output will represent approximately a 20 per cent of the total, and transport and other basic development activities around 12 per cent.

288. Important governmental decisions, like the nationalization of the Suez Canal, the construction of the High Dam in Aswan, the promotion of an effective land reform and the foundation of a Socialist Republic through the approval of the laws of July 1961, in which almost all the industrial sector, all the banking, saving, insurance and foreign commerce sectors were nationalized, had a big impact in the structure of the public sector and therefore in the frame and procedures of the annual budget. The adoption of a systematic planning in 1960 influenced also the fiscal budgeting.

289. The Five Year Plan is executed every year through annual plans. The annual plans are divided in the public sector annual plan and the private sector annual plan. In the case of the public sector, "the need for transforming the budgetary system is reinforced by the change in the function of the budget itself. Traditionally, the budget was used as a tool of fiscal control. Now, it has become a tool of planning. The budget is simply the plan of the Public Sector. Since the Public Sector is taking the responsibility for implementing the largest part of the National Plan, the budgetary system has had to be adapted to the frame of the Plan."<sup>1/</sup>

---

<sup>1/</sup> National Bank of Egypt, Economic Bulletin, Vol. XV, Nos. 2 and 3, Cairo, 1962.

290. The fiscal budget, thus, is the instrument for the execution of the development strategy in the short term. This strategy involves two main concepts: (1) the mobilization of resources through the public sector, and (2) the allocation of resources for an intensive process of industrialization and construction.

291. Following this strategy the UAR has achieved interesting results: the annual growth rate has increased from 2.4 per cent from 1952/53 through 1956/57 to 5.4 per cent from 1956/57 through 1961/62. Data prepared by the Ministry of Planning shows that GDP had increased at a rate of 6.5 per cent between 1959 and 1965, with varying increases according to the sector, ranging in different percentages. From 1959/60 through 1964/65 agricultural production increased by 26 per cent, industry 102 per cent, electricity 141 per cent, transportation 26 per cent, housing 15 per cent, public utilities 41 per cent, etc. Total production rose 40 per cent in the period.

292. For obtaining this rate of growth the country has expanded investments accordingly. Gross capital formation increased from 12.5 per cent of GNP in 1959/60 to 18.2 per cent in 1963/64. Since savings were lower the savings gap has been filled by borrowing from abroad; as a consequence net foreign borrowing increased from 23 per cent of gross capital formation in 1959/60 to around 41 per cent in 1963/64. Table 55 shows the available information.

TABLE 55

Gross National Product at Current Prices  
(In millions of Egyptian pounds)

	1959/60	1960/61	1961/62	1962/63	Provisional 1963/64
GNP at market prices	1,375.6	1,467.1	1,550.6	1,679.8	1,886.0
Net borrowing from abroad	38.9	35.3	76.4	115.2	140.7
Total available resources	1,414.5	1,502.4	1,627.0	1,795.0	2,026.7
Gross capital formation	171.4	229.2	248.3	299.9	340.0 <sup>a/</sup>
Public current expenditure	193.2	210.9	1,378.7	1,495.1	1,686.7 <sup>a/</sup>
Private consumption	1,049.9	1,062.3			
Total uses	1,414.5	1,502.4	1,627.0	1,795.0	2,026.7
Domestic savings	132.5	193.9	171.9	184.7	199.3
Gross capital formation as per cent of GNP	12.5	15.7	16.0	17.9	18.2 <sup>a/</sup>
Gross savings as per cent of GNP	9.6	13.2	11.1	11.0	10.7 <sup>a/</sup>

Source: Ministry of Planning.

a/ Estimates.

293. But the rapid development of industry led to growing imports, creating a difficult balance of payments position, aggravated by the situation of the Egyptian exports in recent years, the deterioration of the terms of trade, etc.

B. The expansion of the public sector

294. The structure of the public sector is very complex in the UAR. The government is headed by the President of the Republic; there are various Vice-Presidents. The legislative branch is represented by the National Assembly. The Executive branch comprises also the Ministries of Interior, Foreign Affairs, Justice, War, Local Administration, Treasury, Economy, Planning, Supply, Wakfs, Public Health, Scientific Research, Culture and

National Guidance, Education, Higher Education, Communications, Industry, High Dam, Public Works, Agriculture, Agrarian Reform and Land Reclamation.

295. As a result of the government expansion, there are a number of decentralized agencies and public enterprises. These entities are controlled through two kinds of agencies: the Public Authorities and the Egyptian Public Organizations. The Public Authorities are single enterprises that generally carry on the traditional government business activities such as railways, posts and telegraph, and consequently they are tax free. On the other hand most of the many enterprises of the Egyptian Public Organizations are organized as joint-stock companies, and the board of the organization is similar to a general assembly of shareholders. In many cases the Egyptian Public Organizations hold 100 per cent of the shares, but in some only 50 per cent is owned.

296. The decentralized agencies develop their activities in different sectors. For instance, in the agricultural sector exists the following Egyptian Public Organizations: for Agricultural Co-operatives, for Desert Reclamation, for Land Development and Agrarian Land Reclamation. The Public Authorities are: for Agricultural Production and for Agrarian Reform. In other sectors exist the High Dam Agency, the Public Authority for the Five Year Industrial Plan. There are also many agencies for culture and recreation, and for social security, like the Public Authority for Insurance and Pensions and Egyptian Public Organizations for Social Insurance.

297. In the public enterprise level exist eight different types. The mining enterprise is the Egyptian Public Organization for Mining. The energy enterprises are the Egyptian Public Organization for Electricity (Cairo Electricity and Gas Department, Hydroelectric Power Department and the Committee for Electrification of the Republic); and the Egyptian Public Organizations for Petroleum. The industrial enterprises are the



Egyptian Public Organizations: for Food Industries, for Spinning and Weaving, for Government Printing Offices, for Chemical Industries, for Metal Industries, for Buildings and Ceramics, for Military Factories and Airplanes, and for Productive Cooperatives and Small Industries.

298. The transport and communications enterprises are the Public Authorities for Egyptian Railways, and for Wire and Wireless Communications, and the Egyptian Public Organizations for Maritime Transport and for Inland Transport. Two other entities also exist: the Post Office Authority and the Suez Canal Authority.

299. In the sector of housing and public utilities there are different Egyptian Organizations: for Civil Works Contracts, for Housing and Public Buildings Contracts, for Public Utilities Contracts, for Public Buildings, for Public Housing, for Housing and Rehabilitation, etc.

300. The supply and storage enterprises are the Egyptian Organizations: for Consumer goods, for Aquatic Resources, for Silos and Storage, and for Flour Mills, Rice Mills and Bakeries. In the trade sector there are three Public Organizations: for Trade, for Cotton Trade, and the Cotton Committee. The Public Authorities are: for the Promotion of Exports, and for Exhibitions and Fairs.

301. Finally, the financial enterprises are: the Central Bank and the Egyptian Public Organizations: for Banks, for Savings, and for Insurance.

302. The local governments are the governorates of Cairo, Alexandria, Port Said, Ismailia, Suez, Kalicubia, Sharkia, Dakhalia, Damietta, Menoufia, Charbia, Kafr El Shaikh, Behera, Giza, Fayoum, Beni-Suef, Minia, Assiut, Sohag, Qena, Aswan, Metruh, New Valley and Red Sea.

#### C. Expenditure policy

303. The government of the UAR has adopted an aggressive expenditure policy, in the revolutionary era, starting from 1952-53. In 1951 the government budget reflected a traditional structure; government activities

were very minor and the private and foreign sector carried out the principal activities of the economy. But after the revolution in 1952 and following years the activities of the government increased rapidly. In 1951-52 the government expended 234 million Egyptian pounds; in the fiscal year 1959-60 this amount doubled to 501 million; and in 1964-65 more than doubled again to 1,183 million. In 13 years, between 1951-52 through 1964-65 government expenditure rose five fold.

304. In 1951-52 government expenditure absorbed 12.8 per cent of GDP. In 1959-60 this rate was 19.6 per cent. And in 1964-65 was around 57 per cent.

#### Sectoral distribution of government expenditure

305. Table 56 includes the expenditure of the public sector (central government, local authorities and net transactions of state enterprises) for the period 1951-52 through 1964-65. Impressive increases can be seen in agriculture, electricity, High Dam, Industry and Housing. On the other hand a reduction in relative terms can be observed in irrigation, transport, defence, education, health, supply and storage, organs of state, and finance and commerce. The reduction of these shares does not mean the government is expending less money in these sectors; it means that the increased resources have been channelled to the above mentioned sectors with higher priority. Despite the decrease in percentages, the expenditures in defence, education, health, have more than doubled in the period.

306. The structural changes of the government expenditure system can be seen more clearly in Table 57. Productive sectors - agriculture and industry - increased their share of the total expenditure from 5 per cent in 1951-52 to 27.9 per cent in 1959-60, and 23.7 per cent in 1964-65. Industry is the sector which has increased more impressively in the period, due to the public policy mentioned in previous paragraphs.

TABLE 56

UAR. Expenditures of the Government by Sectors  
(millions LE)

<u>Sectors</u>	<u>1951- 1952</u>	<u>1959- 1960</u>	<u>1960- 1961</u>	<u>1961- 1962</u>	<u>1962- 1963</u>	<u>1963- 1964</u>	<u>1964- 1965</u>
Agriculture	7.9	25.1	47.6	62.6	76.3	89.1	105.4
Irrigation & drainage	14.9	16.9	26.6	23.3	31.0	27.6	27.6
Electricity	2.8	14.2	16.4	18.5	28.4	34.5	39.0
High Dam	-	13.2	16.3	26.5	40.4	59.7	56.9
Industry	4.8	114.8	123.8	120.0	172.1	190.5	163.9
Transport and Communications	28.9	54.1	81.4	81.5	81.4	79.3	112.9
Suez Canal	-	-	19.0	18.0	21.5	21.0	21.1
Housing and Public Utilities	5.9	11.6	35.6	32.9	86.1	89.3	96.3
Defence, Police and Justice	70.9	97.6	103.3	118.4	138.2	156.3	172.1
Education	40.2	66.8	63.0	73.8	88.6	92.0	96.5
Health	10.1	13.6	13.4	20.8	28.8	31.2	44.3
Culture and Recreation	2.4	6.4	7.5	13.9	19.1	26.2	33.4
Social & Religious	5.9	7.3	51.9	12.2	13.4	17.4	19.9
Supply & Storage	18.9	10.7	7.2	19.7	47.8	53.0	57.5
Scientific Research	0.3	2.3	3.5	5.0	7.5	7.9	8.3
Organs of State	5.3	8.7	16.6	15.2	13.5	15.8	17.7
Finance & Commerce	16.0	38.0	36.3	69.4	75.9	88.6	92.6
Various Projects	-	-	-	11.6	-	-	18.0
<b>Total</b>	<b>234.7</b>	<b>501.3</b>	<b>669.4</b>	<b>743.3</b>	<b>970.0</b>	<b>1079.4</b>	<b>1183.4</b>

TABLE 56(continued)

(Percentages)

Sectors	1951- 1952	1959- 1960	1960- 1961	1961- 1962	1962- 1963	1963- 1964	1964- 1965
Agriculture	3.3	5.0	7.1	8.4	7.8	8.3	8.9
Irrigation & drainage	6.3	3.4	4.0	3.2	3.2	2.6	2.3
Electricity	1.2	2.8	2.4	2.5	2.9	3.2	3.2
High Dam	-	2.6	2.4	3.6	4.2	5.5	4.8
Industry	2.0	22.9	18.5	16.2	17.7	17.7	13.8
Transport and Communications	12.4	10.8	12.2	10.9	8.4	7.3	9.5
Suez Canal	-	-	2.9	2.4	2.2	1.9	1.7
Housing and Public Utilities	2.5	2.3	5.3	4.4	8.8	8.3	8.4
Defence, Police and Justice	30.1	19.5	15.4	15.9	14.3	14.5	14.5
Education	17.1	13.3	9.4	9.9	9.3	8.5	8.1
Health	4.5	2.7	2.0	2.8	2.9	2.9	3.7
Culture and Recreation	1.0	1.3	1.1	1.9	1.9	2.4	2.8
Social and Religious	2.5	1.5	7.8	1.6	1.4	1.6	1.7
Supply and Storage	8.0	2.1	1.1	2.7	4.9	4.9	4.8
Scientific Research	0.1	0.5	0.5	0.7	0.8	0.7	0.7
Organs of State	2.2	1.7	2.5	2.0	1.4	1.5	1.4
Finance and Commerce	6.8	7.6	5.4	9.3	7.9	8.2	7.8
Various Projects	-	-	-	1.6	-	-	1.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Budget Statement 1964-65, Cairo, 1964.

TABLE 57

UAR: Structural Changes in the Expenditure Pattern, 1951/52-1964/65  
(percentages)

<u>Sectors</u>	<u>1951-52</u>	<u>1959-60</u>	<u>1964-65</u>
1. <u>Productive sectors</u>	<u>5.3</u>	<u>27.9</u>	<u>22.7</u>
1.1 Agriculture	3.3	5.0	8.9
1.2 Industry	2.0	22.9	13.8
2. <u>Non-productive sectors</u>	<u>94.7</u>	<u>72.1</u>	<u>77.3</u>
2.1 <u>Services</u>	<u>72.3</u>	<u>50.2</u>	<u>47.4</u>
Education	17.1	13.3	8.1
Defense, police and justice	30.1	19.5	14.5
General services	9.0	9.3	9.2
Other services	16.1	8.1	15.6
2.2 <u>Infrastructure</u>	<u>22.4</u>	<u>21.9</u>	<u>29.9</u>
Irrigation	6.3	3.4	2.3
Electricity	1.2	2.8	3.2
High Dam	-	2.6	4.8
Transport	12.4	10.8	11.2
Others	<u>2.5</u>	<u>2.3</u>	<u>8.4</u>
Total	100.0	100.0	100.0

Source: Table 56.

307. Non-productive sectors absorbed around 95 per cent in 1951-52 against 77 per cent in 1964-65. Efforts in development infrastructure have been made, sacrificing to a certain extent the services; the share devoted to infrastructure increased from 22 per cent in 1951-52 to 30 per cent in 1964-65. But, on the other hand, services decreased from 72 per cent in 1951-52 to 47 per cent in 1964-65. This is a result of the strategy of development adopted in the UAR: education and defence have decreased in shares (not in absolute terms) because, in this stage of development, efforts have been concentrated in developing infrastructure and production.

#### Economic distribution of public expenditures

308. The structure of the expenditure budget analyzed in terms of economic items shows for the central government, under gross basis (without elimination of transfers to the rest of the public sector) that about one third of total gross expenditures goes to investments. From this share, about 47 per cent is absorbed in the operation of public administration and 22 per cent is absorbed by current transfers, especially to the state enterprises. Gross capital formation represents around 27 per cent in recent years (see Table 58).

#### The pattern of government investments

309. The UAR has an income per head of around \$130. This means that at this stage the country needs to accelerate its economic development. It is not strange that public investment is concentrated in developing infrastructure and production.

310. Table 59 shows the total amount of public investment and the sectoral breakdown. In 1951-52 the country invested 58 million pounds against 438 million in 1964-65. Development of infrastructure occupied around 50 per cent of total government investments (services and business budget consolidated) in 1962-63. This share has been reduced to 44 per cent

TABLE 58

UAR: Central Government Gross Expenditure, by Economic Items  
(million £ E)

<u>Items</u>	<u>1962-63</u>	<u>1963-64</u>	<u>Percentages</u>	
			<u>1962-63</u>	<u>1963-64</u>
I. <u>Current expenditures</u>	<u>925</u>	<u>1,051</u>	<u>69</u>	<u>68</u>
1. <u>Operating expenditure</u>	<u>642</u>	<u>712</u>	<u>47</u>	<u>46</u>
1.1 Personal emoluments	216	242		
1.2 Non-personal services	97	104		
1.3 Supplies & materials	225	249		
1.4 Others	104	117		
2. <u>Current transfers</u>	<u>283</u>	<u>337</u>	<u>22</u>	<u>22</u>
2.1 Pensions	14	15		
2.2 Subsidies to persons	6	7		
2.3 Subsidies to prices	36	32		
2.4 Subsidies to private enterprises	3	2		
2.5 Payments to local administration	8	12		
2.6 Payments abroad	-	3		
2.7 Transfers to public enterprises	216	268		
II. <u>Capital expenditure</u>	<u>415</u>	<u>490</u>	<u>31</u>	<u>32</u>
1. Construction	362	411	27	26
2. Acquisition of equipment	6	8		
3. Capital transfers	10	12		
4. Amortization of public debt	<u>7</u>	<u>59</u>		
Total	1,340	1,541	100	100

Source: Estimates based upon figures of the Budget Statement 1963-64.

TABLE 59

U.A.R.: Investment Expenditure of the Public Sector (estimates)

<u>Sectors</u>	<u>Million LE</u>			<u>Percentages</u>		
	<u>1962- 1963</u>	<u>1963- 1964</u>	<u>1964- 1965</u>	<u>1962- 1963</u>	<u>1963- 1964</u>	<u>1964- 1965</u>
<u>1. Development of Infra- structure</u>	<u>183</u>	<u>178</u>	<u>193</u>	<u>50</u>	<u>43</u>	<u>44</u>
Transport and commu- nications	48	26	44			
Suez Canal	8	8	8			
Irrigation and drain- age	39	14	14			
Electricity	23	22	21			
High Dam	12	56	51			
Housing and public utilities	49	36	40			
Supply and storage services	4	16	15			
<u>2. Development of pro- duction</u>	<u>134</u>	<u>196</u>	<u>199</u>	<u>37</u>	<u>48</u>	<u>46</u>
Agriculture	26	55	70			
Industry	108	141	129			
<u>3. Development of human resources</u>	<u>33</u>	<u>31</u>	<u>40</u>	<u>9</u>	<u>8</u>	<u>9</u>
Education	12	10	11			
Health	7	7	9			
Cultural services	7	9	13			
Social services	2	2	3			
Scientific research	5	3	4			
<u>4. General services</u>	<u>13</u>	<u>6</u>	<u>6</u>	<u>4</u>	<u>1</u>	<u>1</u>
Administration	5	-	-			
Defence, police & justice	2	2	1			
Financial & commercial services	6	4	5			
<u>Total</u>	<u>363</u>	<u>411</u>	<u>438</u>	<u>100</u>	<u>100</u>	<u>100</u>

Source: Ministry of Planning.



in 1964-65. Efforts to increase production have continued and expanded. Against a 37 per cent of total investments in 1962-63, they absorbed 46 per cent in 1964-65.

311. On the other hand, development of human resources (education, health, culture, social services, etc.) absorbed about 9 per cent in the period.

312. As individual sectors, industry represented 29 per cent of government investments in 1964-65, the highest share; agriculture absorbed 16 per cent; construction of the Aswan High Dam 12 per cent; and transport, communications and Suez Canal 12 per cent. These four main lines of development absorb about 70 per cent of the total resources for investments.

#### D. The financing policy

313. Many problems are facing the Egyptian economy to finance the level of expenditures and investments. Since the public sector is so great and includes many state enterprises, the financing structure presents some special characteristics.

314. Revenues derived from taxation represent only 60 per cent of total receipts. The rate of services and surplus produced by state enterprises account for almost 30 per cent of the total revenues and the rest is provided by extraordinary receipts (see Table 60).

315. In the fiscal years 1962-63 and 1963-64, the general government budget shows a deficit in current account. In the fiscal year 1964-65 a small surplus in current account can be seen. This means that almost all the public investments are financed by capital receipts, for example, loans from internal and external sources.

TABLE 60

Unit: General Government Revenues<sup>a/</sup> (Million LE)

	1962-63 <u>Actual</u>	1963-64 <u>Estimates</u>	1964-65 <u>Estimates</u>
1. Revenues from taxation	<u>218</u>	<u>286</u>	<u>311</u>
2. Other revenues	<u>134</u>	<u>139</u>	<u>203</u>
2.1 Sale of services	31	39	47
2.2 Surplus of state enterprises	67	69	108
2.3 Extraordinary receipts	17	18	28
2.4 Miscellaneous	19	13	20
Total revenues	<u>352</u>	<u>425</u>	<u>514</u>
Total current expenditure (net)	398	469	496
Balance for investments	-46	-44	+18

Source: Ministry of Treasury.

<sup>a/</sup> Includes central and local government (services budget).

316. The taxation system absorbs around 13 per cent of total GNP, a share not sufficient for a country with such a heavy public sector. It is composed of taxes on foreign trade, on income, on property, and there are also inheritance duties, excise duties, and stamp duties. The amount collected from taxes and duties is presented in Table 61.

317. Taxes on foreign trade are levied on imports and exports. Import duties represent about 50 per cent of total revenues in the Services Budget. In 1962 specific duties were replaced with ad valorem duties on most imported goods. Certain items, such as coffee, tea, motor cars, and tobacco were subject to increases in rates, while the rates were reduced for chemicals, medical equipment and others. About 50 per cent of total import revenues is derived from the duty on tobacco, the imports of which have been quite stable in the last ten years.

TABLE 61

UAK: Revenues from Taxes and Duties

	1957- 1958	1958- 1959	1959- 1960	1960- 1961	1961- 1962	1962- 1963	1963- 1964	1964- 1965
1. <u>Taxes on foreign trade</u>	<u>81</u>	<u>83</u>	<u>85</u>	<u>91</u>	<u>101</u>	<u>121</u>	<u>145</u>	<u>170</u>
1.1 Import duties	67	69	78	85	98	120	142	167
1.2 Export duties	9	8	2	1	-	-	-	-
1.3 Others	5	6	5	5	3	1	3	3
2. <u>Taxes on income</u>	<u>34</u>	<u>32</u>	<u>32</u>	<u>35</u>	<u>33</u>	<u>33</u>	<u>47</u>	<u>47</u>
2.1 Profits	11	11	10	12	13	14	17	15
2.2 Wages	5	5	5	5	6	7	8	8
2.3 Defence	5	4	4	7	5	6	11	12
2.4 Others	13	12	13	11	9	6	11	12
3. <u>Taxes on property</u>	<u>15</u>	<u>17</u>	<u>16</u>	<u>17</u>	<u>15</u>	<u>15</u>	<u>28</u>	<u>28</u>
4. <u>Inheritance duties</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>4</u>	<u>3</u>
5. <u>Excise duties</u>	<u>18</u>	<u>24</u>	<u>23</u>	<u>26</u>	<u>28</u>	<u>35</u>	<u>50</u>	<u>50</u>
6. <u>Stamp duties</u>	<u>6</u>	<u>8</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>10</u>	<u>12</u>	<u>13</u>
Total	156	165	166	180	190	218	286	311

Source: Ministry of Treasury.

318. On the other hand revenue from export duties is small; some revenue is derived from a tax on the export of rice, onions, and petroleum.

319. Income tax has a schedular system introduced in 1939. In 1949 this tax was supplemented by a global tax levied on total income of physical persons. The schedular taxes are levied on incomes of private persons

and corporations, derived from labor, earned as profits from commerce and industry, and derived from capital invested in movable capital. Taxes on wages and salaries are withheld by the employer, and taxes on interest and dividends are withheld by the paying companies.

320. Taxes on property are levied on land, buildings and on inheritance. All arable land is subject to tax on the basis of its "annual rental value," assessed every ten years by a special central department. Taxes on buildings are also paid on the "annual rental value." The inheritance tax is levied on the total estate and on shares of inheritance.

321. Taxes on income and property produce from 25 to 30 per cent of total revenues of the Services Budget (see Table 62).

TABLE 62

UAR: Structural Changes in the Taxation System

	<u>1957-58</u>	<u>1959-60</u>	<u>1964-65</u>
1. Taxes on income and property	<u>32</u>	<u>30</u>	<u>25</u>
2. Taxes on foreign trade	<u>51</u>	<u>51</u>	<u>54</u>
2.1 Import duties	42	46	53
2.2 Export duties	5	1	-
2.3 Others	4	4	1
3. Taxes on domestic production and expenditure	<u>11</u>	<u>13</u>	<u>16</u>
4. Other tax revenues	<u>5</u>	<u>6</u>	<u>5</u>
Total	100	100	100

Source: Table 61.

322. Taxes on domestic production and expenditure are formed principally by excise taxes. There is no general sales tax in the UAR; excise taxes are levied on sugar, cement, benzine, alcohol, cotton, wool, mazout, etc.

All these taxes have been increased in recent years. The contribution to the budget financing increased, therefore, from 11 per cent of total revenues in 1957-58 to 16 per cent in 1964-65.

- 323. Another tax is the stamp duty, levied on all deeds, documents, applications, registers, contracts, gas, electricity and water supplies, electricity and gas consumption. This tax produces around 5 per cent of total tax revenue.

E. The budget deficit

324. In the United Arab Republic the budget deficit is chronic. In Table 9 the total deficit is presented for the period 1951-52 to 1964-65. After the fiscal year 1953-54 the budget is more unbalanced and with the exemption of 1957-58 and 1958-59 the budget shows a higher deficit.

325. In the period 1951-52 to 1953-54 the average percentage of the deficit in total expenditure was 10.1 per cent; but in the period 1962-63 to 1964-65 was 27.6 per cent.

326. Budget deficit seems to be accommodated to the general conditions of the UAR economy. This deficit is financed through foreign loans the country obtained both in Western and Eastern developed countries, and through monetary expansion, enough to satisfy the monetary needs of an economy in continuous growth.

TABLE 63  
Unit: The Budget Deficit<sup>a/</sup>  
(LE million)

<u>Fiscal years</u>	<u>Revenue</u>	<u>Expenditure</u>	<u>Deficit</u>	<u>Deficit as a percentage of total expenditure</u>
1951-52	194.8	233.6	- 38.8	16.5
1952-53 <sup>b/</sup>	199.3	209.8	- 10.5	5.0
1953-54 <sup>b/</sup>	212.3	233.0	- 20.7	8.8
1954-55 <sup>b/</sup>	232.4	269.9	- 37.5	13.8
1955-56 <sup>b/</sup>	292.8	340.3	- 47.5	13.9
1956-57 <sup>b/</sup>	276.3	358.1	- 81.8	22.8
1957-58 <sup>b/</sup>	333.9	335.3	- 1.4	0.4
1958-59 <sup>b/</sup>	403.3	430.2	- 27.0	6.2
1959-60 <sup>b/</sup>	444.8	511.1	- 66.3	12.9
1960-61 <sup>b/</sup>	540.5	700.1	-159.6	22.8
1961-62 <sup>b/</sup>	550.3	779.7	-229.4	29.4
1962-63	727.5	970.0	-242.5	25.0
1963-64	775.3	1079.4	-304.1	28.1
1964-65	829.3	1184.4	-355.1	29.9

Source: National Bank of Egypt, Economic Bulletin, Vol. XVIII, No. 3, 1965.

a/ Figures as from 1957-58 are budgetary estimates.

b/ Development budget revenue is not included while its expenditure is; this revenue was composed mainly of loans.

## BIBLIOGRAPHY AND SOURCES OF DATA

1. Algeria: Direction Générale du Plan et des études économiques; sous-direction des statistiques: Annuaire Statistiques, 1961.
2. Basutoland: (i) Reports on the Finances and Accounts for the financial years, 1959, 1962 and 1963; (ii) Reports for the years 1959 and 1961 (HMSO, London).
3. Bechuanaland Protectorate Reports, 1959, 1960 and 1963 (HMSO, London).
4. Congo, République Démocratique du: Bulletin trimestriel des statistiques générales, décembre, 1964.
5. Ethiopia: (i) Statistical abstracts, 1963 and 1964; (ii) Economic Review, June and November, 1960, and February, 1962; (iii) National Bank of Ethiopia Quarterly Bulletin, September 1965.
6. Gabon: Ministère d'Etat chargé de l'Economie Nationale du Plan et des Mines: Situation Economique et Sociale, 1963, 1964.
7. Gambia: (i) Financial Reports with appendices for the years 1961 and 1962; (ii) Gambia, 1962 and 1963 (HMSO, London).
8. Ghana: Reports of the Accountant General with financial statements for the years ended 30th June 1959, 1961 and 1962; (ii) Central Bureau of Statistics: Quarterly Digest of Statistics, December 1962-March 1965; (iii) Economic Survey, 1963 and 1964.
9. Ivory Coast: Ministère des Finances des Affaires Economiques et du Plan: (i) Situation Economique de la Côte d'Ivoire, 1960 and 1962; (ii) Bulletin Mensuel de Statistique, no. 2, 1964; no. 1, 1965.
10. Kenya: Statistical Abstracts: 1961, 1963 and 1964.
11. Liberia: (i) Reports of the Treasury Department for the period 1 October 1959 to 30 September 1964; (ii) Bureau of Economic Research and Statistics: The Executive Mansion Division of Statistics: GT Report No. 101, Revenues of the Government of Liberia, 1939-60.
12. Madagascar: Commissariat Général au Plan, Tananarive: Economie Malgache, Evolution 1950-1960.

13. Malawi: Financial Statements for the years 1959/60 - 1961/62 (Nyasaland Protectorate) and 1963/64; (ii) Federation of Rhodesia and Nyasaland Monthly Digest of Statistics, 1960-62; (iii) The Monetary Area of Northern Rhodesia, Nyasaland and Southern Rhodesia Quarterly Bulletin of Financial Statistics, January 1964-January 1965.
14. Mauritius, Colony of: Financial reports for the years 1958/59 and 1959/60.
15. Morocco: Annuaire Statistique du Maroc, 1960 and 1961.
16. Niger, République du: (i) Annuaire Statistique, 1962; (ii) Bulletin du Statistique no. 17, 1er trimestre, 1963; no. 20, 4me trimestre, 1963.
17. Nigeria, Federal Republic of: Reports of the Accountant-General with financial statements for the years ended 31 March 1959, 1962, 1963, 1964.
18. Nigeria, Northern: Reports of the Accountant-General of the region, 1959-64.
19. Nigeria, Eastern: Reports of the Accountant-General of the region with financial statements, 1959-1964.
20. Nigeria, Western: (i) Report of the Accountant-General of the Western Region with financial statements for the year ended 31st March 1959; (ii) The Accounts of the Government of the Western Region for the years ended 31st March 1960 and 1961.
21. Réunion: République Française: Institut National de la Statistique et des Etudes Economiques; Annuaire Statistique de la Reunion, 1958-60.
22. Rhodesia and Nyasaland, Federation of: Reports of the Controller and Auditor-General on the Finance Accounts, Appropriation Accounts and Accounts of Miscellaneous Funds for the years ending 30th June, 1959-62; (ii) as for 13(iii) above.
23. Rhodesia: Quarterly Bulletin of Financial Statistics: July 1965.
24. Senegal: Bulletin Statistique et Economique Mensuel: 1962-65.



25. Seychelles: Annual Report of the Accountant-General: 1959-61 and 1963; (ii) Colonial reports for the years 1960-1964 (HMSO, London); (iii) Annual Report of the Income Tax Department for the year 1964.
26. Sierra Leone: Financial reports for the years 1958-59, 1959-60, 1961-62, 1962-63.
26. Somalia: (i) Somali National Bank: Reports and balance sheets for the financial years 1960-61 and 1962; (ii) Planning Directorate: Quarterly Statistical Bulletin, no. 1, 1965.
28. Somaliland, former British: (i) Report on Somaliland, 1959 (HMSO, London); (ii) Somaliland Protectorate Financial Statements of the Accountant-General for the year ended 31st March 1960.
29. Somaliland, former Italian: Rapport du Gouvernement Italien à l'Assemblée des Nations Unies sur l'Administration de Tutelle de la Somalie, 1959.
30. South Africa, Republic of: (i) Part II of the reports of the Controller and Auditor-General for the financial years 1958-59 and 1959-60; (ii) Monthly Bulletin of Statistics, January 1960-June 1963.
31. Swaziland: Reports for the years 1959-63 (HMSO, London).
32. Togo: République Togolaise: Ministère des Finances, de l'Economie et du Plan: Services de la Statistique Générale: Inventaires Economiques du Togo; 1959-61, 1962-63, 1964.
33. Tanganyika: (i) Statistical Abstract, 1959, 1963; (ii) Reports and Financial Statements by the Accountant-General for the years ended 30th June, 1959 and 1960; (iii) Annual financial statements for the year 1960-61; (iv) Appropriation accounts, Revenue Statements, Accounts of the Funds and other public accounts for the year 1961-62.
34. Tunisia: (i) Annuaire Statistique de la Tunisie, 1960; (ii) Banque Central de la Tunisie: Rapport Annuel, 1959-63.
35. Uganda: Statistical Abstracts, 1960, 1962-64.
36. United Arab Republic: National Bank of Egypt: Economic Bulletin, Vol. XVII, Nos. 1 and 2, 1963 and Vol. XVIII, No. 3, 1965.
37. Upper Volta: République de Haute Volta: Rapport Economique, 1961.

38. Zambia: (i) Northern Rhodesia Financial Reports for the Financial Years ended 30th June 1960 - 1963; (ii) as for 13(iii) above.

Publications of United Nations

1. UN, Statistical Yearbook, 1965.
2. ECA, Economic Bulletin for Africa, Vol. 1, No. 2, 1961.
3. ECA, Statistical Bulletin for Africa, No. 1, Part 1, November 1965.
4. ECA, Report of the Advanced Seminar in Current Problems and Training Needs in Tax Administration, Document E/CN.14/PTSC/1, 1965.
5. ECA, Quelques aspects des relations entre les finances publiques et le développement industriel dans la sous-région de l'Afrique de l'Est, Document E/CN.14/INR/96, 1965.
6. ECA, Government Expenditure on Social Services in Selected African Countries, Document E/CN.14/SDP/6, 1963.
7. ECA, Social Aspects of African Development Planning: Patterns and Trends, Document E/CN.14/SDP/7.