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ECONOMIC COMMISSION FOR AFRICA
Seminar on Urgent Administrative
Problems of African Governments
Addis Ababa, 2-12 October 1962

FINANCIAL ADMINISTRATION

(Report of Committee II)

I. INTRODUCTION

1. A number of African countries have formulated and adopted long-term or short-term plans of development with a view to promote economic and social development of their countries. The successful implementation of these plans must depend very largely, among other factors, on the nature and extent of support provided by the public administrative machinery. The financial administration has to play a very crucial role in economic planning and, therefore, its role and problems must be considered within the wider context of development programming.

2. The problems of financial administration may be classified in two general categories: Budget management and Tax Administration. These also constitute the principal tools of financial management and they can be used to lend effective support to planning. Budget management should be developed primarily as an effective instrument for the execution of government programmes and the efficiency of tax administration should be improved both in terms of the needs of planning and increased revenue to the government.

II. Budget Management

3. Economic planning is not new to African countries. Its origin can be traced to the developments during the post war years when development programmes were formulated for the utilization of grants from the Metropolitan countries. The recent accession to political independence of several African countries has, however, brought about two significant changes in the budgetary field. As a corollary of political independence, the national legislatures in these countries have come to exercise complete control over public expenditure and indeed on government transactions. Secondly, political independence has increased the scope of government budgets, for example the responsibilities assumed in respect of defence, foreign representation, etc., thus lending further substance to the control exercised by the legislatures. Budgetary systems have, therefore, to be so developed as not only to conform to these political and institutional changes but also to ensure the effective utilization of available resources for purposes of development.

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(a) Scope and Functions of the Budget

4. The scope of the budgets of most of the African countries extends at present to a large part of the activities of a general government nature and to those of government enterprises whose accounts are financially integrated with those of the government. The Seminar observed, however, that not all the activities of a general government nature are included in the budget since the practice of establishing a variety of special funds with the aid of earmarked revenues is quite common in many African countries. A budget should essentially represent a complete and comprehensive work plan of a government during the budget year. The budget should, however, exclude the accounts of independent public enterprises and corporations. The Seminar, therefore, feels very strongly that attempts should be made towards the unification of general government accounts and the practice of debudgetization should be discouraged. A unified system of accounts is not only good for financial administration but it would also ensure more effectively the control of legislature over public expenditure. The Seminar noted with appreciation that in some countries of English expression, attempts are being made towards the unification of public financial accounts through the introduction of the Exchequer or the Consolidated Fund system.

(b) Preparation and Formulation of the Budget

5. The Seminar observed that it is only logical that the Ministry of Finance or the Treasury should be primarily responsible for the formulation of the budget. It should act as a supervisory and coordinating body for the economic and financial policies of the government. The Ministry of Finance should concern itself not only with the administrative aspects of budgeting but also with the economic and social consequences of its decisions. This would require a continuous review and analysis of the financial policy in terms of its effects on the rest of the economy. These functions may be best discharged by the establishment of an economic and statistics research unit in the Ministry of Finance. The Seminar noted that some African countries have already established such research units in their Ministry of Finance and hopes that other countries will follow suit.

6. One of the important considerations in budgeting is to secure accuracy in the preparation of budget estimates. Although such estimates are prepared at the Ministerial or Departmental level, the Ministry of Finance, in its supervisory and coordinating role, can make valuable contribution to budget preparation by giving detailed budget instructions to all ministries or departments. The technical and procedural budget instructions could be included in an "Estimates Circular" and sent to all Ministries. This should be accompanied by a statement of general economic and financial policy, intended to be pursued by the government together with an estimate of available resources during the budget year. This would provide an appropriate framework to all Ministries in the formulation of their budgets and would assure at the very beginning a uniformity in their approach.

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7. Budget preparation also raises the problems of expenditure classification and the number of votes to be included in an Estimate. Expenditure classification or accounting structure of a budget has great significance since it serves as a basis for authorization of expenditure by the legislature and for budget execution and accountability by the administration. At present expenditure is classified in most of the budgets in terms of organizational units and in terms of objects such as salaries, travel expenses, purchases of goods, etc. The Seminar pointed out, however, that there exist wider variations in the schemes of object classification, adopted by not only various African countries, but by various levels of government in a given country. A standardized system of accounting structure has various advantages. In any given African country it would not only improve financial administration but also would facilitate an integration of financial accounts of various levels of government and thus enable to obtain a better picture of government transactions. There is no virtue in a diversity of administrative or financial machinery. It is much easier to maintain a running system of internal audit within a standardized system. The adoption of a standardized system of budget classification by all African countries will facilitate comparative studies of budgetary accounts and establish effective links for inter-country communication in the budgetary field. The Seminar believed, however, that no simple solution can be found for this problem and it may require expert assistance. It is, however, possible that the next Budget Workshop of the Economic Commission for Africa could consider this problem in detail and provide some guidance to African countries in solving this problem.

8. It is difficult to lay down precisely any rules regarding the number of votes to be shown for each Ministry or Department. This will depend primarily on the scope of activities of each Ministry and on its organizational structure. A large number of votes would unnecessarily involve more work for the administration. On the other hand, a significant reduction in their numbers would hamper effective control by legislature. It is nevertheless possible to provide some general guidance in this respect. In the first place, various specific and non-overlapping functional areas of a Ministry should be clearly identified. The number of votes may then be determined in accordance with these functions. Regard for control of votes by the Treasury is also an important consideration and should be taken into account.

9. The Seminar felt that budgeting for capital projects constitutes one of the most important problems of financial administration in African countries. There is often a tendency towards an upward revision of costs of such projects and sometimes there is significant underexpenditure during the budget year. Although this could be partly attributed to the unfavourable changes in the availability of finance, yet available financial resources can be made to go as far as possible by exercising care and skill in the preparation of budget estimates for such projects. An ideal procedure would be to give sufficient time, say two years, in advance of the budget year to all Ministries to prepare their capital estimates. This, of course, presumes

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that a government has a fairly clear notion of what projects it would want to include two years hence in the budget. Such an advanced planning would enable various Departments to make continuous review and cost analysis of their projects in consultation with the Treasury. It would also allow time to make precise estimates of available resources, of executive capacity and of various technical skills required to execute projects.

(c) Budget Execution

9. One of the principal problems of budget execution is to ensure effective control over public expenditure. The problem can be solved only by the establishment of appropriate institutional structure and by the exercise of financial responsibility. In many cases control is exercised at three levels. Departments are primarily responsible for spending and accounting for their expenditure. In this task the permanent head of the Department is usually assisted by a finance staff located within the Department. The Treasury can exercise control in various ways. It may examine periodically the Departmental accounts or control the progress of expenditure by varying the frequency of issuing general warrants to the Departments. Apart from these administrative arrangements for control within the executive, there is often a constitutional or judicial authority appointed by the legislature and vested with the responsibility of controlling and auditing public expenditure and reporting to the legislature. The Seminar was of the opinion that the institutional arrangements for control were adequate in most of the African countries, but the substance of control needed to be improved in many respects. It is often diluted because of lack of financial responsibility among the administrators and, therefore, the Seminar stressed the urgent need for inculcating financial discipline among those concerned with control of expenditure. Shortage of trained staff and fast rotation of the available trained personnel are other important reasons contributing to a weakening of control. The control as it is conceived in most of the countries is largely in terms of verifying the legality of expenditure. The Seminar recognized that this is a necessary condition of control but believed that this was not sufficient. It is not only necessary to check the legality of expenditure but it must be also assured that the funds are expended with the utmost economy and efficiency. The Seminar, therefore, stressed the urgent need for taking into account the considerations of economy and efficiency in auditing and accounting of expenditure.

10. The Seminar considered the question of closing budgetary accounts as soon as possible after the end of financial years. It was noted that in certain countries the constitutional provisions required the closing of such accounts within a specified time after the end of the fiscal year. There are delays, however, in some countries and the Seminar believed that this could be remedied by the introduction of mechanical accounting whenever possible.

11. The Seminar referred to the importance of budget reclassification by economic and functional categories in order to obtain meaningful information for economic and fiscal policy formulation and to improve the general under-

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standing of government transactions. It noted that this question was discussed in detail at the Workshop on problems of budget reclassification and management in Africa, held by ECA in September 1961. The Seminar expressed its general agreement with the observations and recommendations made by the Budget Workshop. The Seminar thought that it would be particularly useful to present a summary economic-functional classification of budget estimates together with other budget documents.

(d) Budgeting and Planning

12. The Seminar discussed the question of establishing close links between budget management and planning. A close relationship can be assured only if there is an appropriate administrative machinery for coordinating these two activities and if budget management can be so developed as to lend effective support to the implementation of plan projects.

13. The Seminar noted that various administrative arrangements existed in African countries with regard to planning and budgeting. Responsibilities for planning are vested in the Minister of Finance, or Prime Minister or that of State or in a separately organized agency. Irrespective of such arrangements, the most important aspect, the Seminar pointed out, is to ensure that considerations of planning and those of financial management are not divorced. It is, therefore, absolutely essential to secure coordination between the agency responsible for planning and the Ministry of Finance.

14. The Seminar felt that the existing systems of budget management must be reoriented to the needs of planning. It discussed in this respect the usefulness of programme and performance budgeting and noted particularly the discussion on this subject in the ECA Budget Workshop of 1961. It was recognized that the differences in emphasis of conventional budgeting and that of planning fail to provide adequate budgetary checks and controls on the implementation of plan projects and that performance budgeting would provide a promising approach in bridging the gap between planning and budgeting. The Seminar pointed out, however, that the introduction of performance budgeting would entail major budgetary reforms which could not be undertaken without the availability of sufficient skilled staff. It was stated that this problem should be examined in greater detail and the application of performance budgeting should be systematically planned. The Seminar expressed particular interest in the application of these techniques of budgeting to economic and social services in which a large part of public investment is made and where it is relatively easy to identify real end products as compared to difficulties faced in evaluating performance of general administrative services. It was stated, however, that the adoption of this budgetary technique should be preceded by a careful examination of all the practical implications involved in the process of its application. The Seminar, therefore, recommended that ECA should undertake a few case studies on the practical implications of adopting performance budgeting in African countries and submit the results of these studies to the next ECA Budget Workshop which should consider the entire question in more detail and provide guidance to African countries in this respect.

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III. Tax Administration

15. The question of finance has recently emerged in many African countries as a serious bottleneck to economic development. If the pace of economic development is not to be hindered, the African governments need to give serious attention to their tax systems with a view to improve their efficiency in terms of both development policies and proceeds to the treasury. Tax policy and tax administration are indivisible aspects of any programme of tax reform and therefore these issues must be considered together and not divorced.

16. The efficiency of tax administration will always depend on the soundness of the existing tax system. The African countries should, therefore, undertake a continuous review of their tax systems and develop a system of tax administration which would have the built-in-flexibility to adapt itself to any changes in the tax system.

17. Today well over two-thirds of government revenue in African countries is obtained from indirect taxes, of which taxes on foreign trade transactions are most significant. This excessive dependence on indirect taxes is dangerous and particularly so in export oriented economies where revenue from export duties is susceptible to fluctuations in the world prices for African products. Income taxation is important only in those countries where company taxation yields significant revenue. Personal income taxes have been usually less developed in most of the African countries. Although the administration of personal income taxes is difficult in countries with low per capita incomes, yet their use has to be developed increasingly if sufficient finance has to be assured for development purposes. The Seminar noted that it is possible to start with a rudimentary system of income taxation initially to be levied on wages and salaries and on the incomes of small business enterprises. The tax administration could then be developed concurrently with the development of tax system and administrative reforms such as pay-as-you-earn method could be then introduced to improve the collection of revenue.

18. Customs duties play an important role in the tax system of most of the African countries. For some years to come they are likely to play a major role in financing government plans for economic and social development. Certain steps may, therefore, be taken to improve the efficiency of customs administration. Firstly, the tariff classifications in most of the countries are very complex to administer. The complexity is, of course, the result of several changes introduced over a number of years. The simplification of these classifications would certainly improve the efficiency of administration. Secondly, the efficiency is sometimes impaired by the existence of a complex structure of rates. In several African countries a variety of other taxes, in addition to customs duty, are levied on goods at the point of entry. The Seminar, therefore, stressed the need for rationalization of rate structure.

19. The Seminar noted that intra-African trade often escaped taxation and recognized the difficulties encountered in guarding the land borders. It pointed out that regional cooperation was very essential in solving such problems of customs administration. Reference was made to the Report of the Working Committee on Customs Administration in West Africa, and the Seminar agreed that African countries should consider problems such as harmonization and standardization of customs nomenclature, valuation, legislation, etc.

20. The Seminar discussed the question of providing adequate finances to urban authorities which are called upon to play an increasing role since industrialization is often accompanied by rapid urban growth. Such authorities have often depended on property taxes for their incomes. The productivity of property taxes must depend on methods of valuation and on the rating systems in use. In most of the African countries such methods are backward and outdated and have failed to provide sufficient funds to urban authorities to meet their increasing obligations. The Seminar considered that the revenue from this source could be substantially increased if suitable rating systems and improved methods of valuation are adopted in African countries. It noted that expert assistance may be required in adopting appropriate methods of evaluation and recommended that central governments should provide such assistance to urban authorities.

21. The Seminar considered the question of the division of tax responsibilities among various levels of government and noted in this respect wide variations in African countries. The Seminar pointed out that this principal consideration must be borne in mind in the division of tax responsibilities. Firstly, such a division should be determined directly by the ability to administer particular taxes and not by the revenue needs of various levels of government. Revenue needs can be met by grants or transfer of tax receipts from the central government. Secondly, taxes with wide economic and fiscal import should be administered by the central government. Such taxes would include income taxes and customs duties and their administration by the central government would ensure comprehensiveness and uniformity in their application. The Seminar noted that personal income taxes in certain countries are administered by provincial or regional governments and expressed the hope that this situation will be remedied.

22. The introduction of new taxes will bring in their wake a host of new problems for tax administration. The most important of these problems, the Seminar noted, will be tax legislation. In this respect, the transplanting of the experience of developed countries may not serve the purpose. The efficiency in administering new taxes would depend largely on the simplicity and clarity of new tax legislation. Avoidance of complexity will reduce litigation and ensure more effective administration of taxes. The new legislation should conform as closely as possible to the local social and institutional set-up. It should take into account the economic and social background of the taxpayer and be intelligible to him. A tax legislation which is understood both by the taxpayer and the tax administration can be

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more effectively enforced than one which constantly poses problems of interpretation.

IV. Mobilization of Small Savings

23. The Seminar believed that the need for financial resources for development is so urgent in African countries that the governments should explore other sources of finance besides improvements in their tax systems. One such source is the mobilization of small savings which are not now available because of lack of banking habits amongst small savers. The Seminar recommended that African governments should establish appropriate financial machinery for the mobilization of these savings. It is, however, not enough to create such machinery but attempts should also be made to bring to the notice of small savers the various investment opportunities in the economy.

V. Training

24. One of the most serious problems facing African countries in all branches of activities is the shortage of skilled personnel. The Seminar, therefore, stressed the importance and urgency of establishing appropriate training programmes for Africans in the field of financial administration. It considered that the best training could be obtained on the job and noted the need for in-service training programmes. It recommended that regional training programmes should be also organized to ensure economy in the cost of operating such programmes and to facilitate greater exchange of mutual problems and difficulties.

VI. Conclusions and Recommendations

25. The Seminar considered the role of the Ministry of Finance or Treasury in budget management and in fiscal and economic policy formulation. It expressed the view that continuous research should be undertaken to assess the effects of government financial policy on the rest of the economy. It, therefore, recommended that African governments should establish an economics and statistics research unit in their Ministry of Finance or equivalent organization to undertake such tasks. It noted that such research units already existed in certain countries.

26. The Seminar discussed the question of accounting structure and its importance in budget management and for development programming. It stressed the need for standardization of accounting structure at all levels of government. It considered that many advantages could be derived from a standardized object classification of expenditure in the budget. It recommended that the next ECA Budget Workshop should consider this problem in detail and provide guidance to African countries in this respect.

27. The Seminar agreed in principle that programme and performance budgeting provides a promising approach to establish a close relationship between planning and budgeting. It was recognized that the introduction

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of such budgetary techniques would give rise to major budgetary reforms which are not possible at this stage in view of the shortage of staff. The Seminar noted, however, that the adoption of performance budgeting by African countries should be preceded by a careful study of all the practical and administrative implications of its application. It, therefore, recommended that ECA should undertake such case studies in the region and submit the results to the next ECA Budget Workshop which should further examine this question in greater detail.

28. The Seminar noted the excessive dependence of most of the African countries on revenue from indirect taxes and the present state of relatively less developed income taxes. It believed that income taxes must play an increasing role in providing needed finances for economic development. It, therefore, recommended that African governments should give serious and urgent attention to the development of these taxes. It noted that African governments should take advantage of international assistance available in this respect and develop appropriate systems of income taxation.

29. The Seminar considered the need for providing adequate financial resources to urban authorities whose functions have increased with rapid urban growth accompanying the process of industrialization. It believed that property taxes could be usefully exploited by urban authorities in fetching substantial amounts of revenue. It recognized that the revenue from property taxes would depend on the adoption of appropriate systems of valuation and rating and that expert assistance may be needed in this respect. The Seminar recommended that central governments of African countries should take active steps in developing this source of revenue for urban authorities and provide them with expert assistance in devising an appropriate property tax system.

30. The Seminar pointed out the shortage of skilled personnel in African countries and stressed the urgent need for establishing appropriate training programmes in all branches of activities. In the field of financial administration, the Seminar considered that in-service training should be given high priority and recommended that technical assistance be made available to Africans to acquire such training. The Seminar noted the advantages of regional training programmes and expressed the hope that such arrangements would be made by eliciting regional cooperation. It further recommended that Institutes of Public Administration existing in various countries should be strengthened to impart comprehensive training in financial administration within the context of wider needs of public administration.