

Notes on Technical Assistance

1. Technical Assistance over past decade the "growth area" of aid. e.g. Now 40% plus of bilateral British. £411 million 1988 vs £408 million Project-Programme-Other Non-Project grants. About half of the £411 is salaries and related costs of British ta personnel (including consultancies). £205 million for comparison is equivalent to total government wages and salaries bill for nationals of Mozambique, Tanzanian and (not or) Uganda.
2. Over 1980s:
 - a. share ta in ODA to SSA has risen
 - b. £ per ta year has risen
 - c. GDP growth of recipients has fallen. Presumably c is not result of a/b but at least rising ta has not turned it around.
3. The numbers of ta personnel are out of control. "Have a headache? Take two expatriates" is a semi-sick joke because it is too close to reality on both African and external agency side. (In principle, official, volunteer and ngo expatriates are not all that different in this respect.)
4. A large number of expatriates run discrete projects totally (de facto or even de jure) outside government control and in no real way monitorable by or accountable to governments. This leads to:
 - a. fragmentation of programmes at all stages from conceptualization through operation to monitoring and revision;
 - b. non-coordination of operations (in one district in Mozambique about 50 donor aided and controlled projects from over 20 donors - how could district administration possibly know what was going on let alone coordinate? How could anyone focus on priority programmes or mutual support of projects for each other and for their "customers"?);
 - c. sustainability - projects are for 3 to 6 (or occasionally up to 10) years. Not integrated in government structure so no funds, personnel, administrative memory, government commitment to keep going when ta personnel depart (ngo's especially bad on this);

- d. no accountability to "customers", to host state nor - very often - to donor (except in sense of spending (wasting?) money on 'right' heads.
5. Even within state structure powerful special enclave units are set up or taken over and de facto made into expatriate feudal baronies. The Marketing Development Bureau in Tanzania is a gross example over 1975/81. Very often these monopolise information and advice and in effect control segments of state policy. Even were the results uniformly good (the MDB was an unmitigated disaster) they are neither accountable nor national capacity building - quite the reverse (disasters resulting from blind following of MDB advice cost at least 500,000 tonnes of grain, 15% of GDP over 6 years and totally destroyed capacity of an - admittedly creaky but functional - crop marketing system).
6. Very often the personnel structures are such that it is ambiguous whom they are advising. If clearly advising donor/aid agency OK. If advising government and responsible/accountable to it (like any other civil servants) OK. Problem is that often nominally advising government but report to whichever agency pays them first and that agency de facto or de jure edits their advice to government (without openly admitting to doing so nor taking responsibility for it - MDB an egregious case.)
7. TA (aid agency) substitution for government backed by threat no agree, no money from us and will see none from anybody else. One government sent a programme paper on a high profile, Prime Minister launched strategy for rural reconstruction to a major institution for advice/elaboration. The agency (using TA personnel) did two reports which in fact constituted a much narrower, more expatriate and capital intensive, alternative set of projects. These it caused to be distributed with a government cover note and without the government's own paper.
8. TA agencies seek to insert staff and programmes to suit their agendas and to build their empires. They do not stick to responding to requests, making suggestions, discussing/negotiating in government set framework. For example, Civil Service reform is needed in most states at most times. Assistance in dealing with it (preferably

within an ongoing nuts and bolts type structure or process such as a modernised Treasury Organisation and Methods Division and a Civil Service Commission triennial review of terms, conditions and job descriptions) may be needed (especially on comparative experience elsewhere) and if so, should be sought. Teleguided, unaccountable ta jobs on externally set agendas are quite another matter. TA agencies like power. TA personnel are an effective, cheap way of getting it. At turn of 1960s France's Jeanneney Report advised that ta could keep Paris in command of Francophone world and ensure that EEC capital aid went largely to contracts with French firms. Cynical, yes. Acutely analytical, yes. Correct to date in a majority of cases, yes! (caveat emptor.) In an extreme case an agency has proposed that a country channel all ta (personnel/consultancy) requests and offers via that agency and it will design an overall plan and select which personnel, consultants, sources of finance. So blatant a piece of would-be imperial takeover is rare (and would be laughable were it not seriously made and considered by some senior circles in the state) but less sweeping and blatant efforts are common.

9. TA purporting to become more locally sensitive and to build local capacity (the word national is rarely used - local, domestic are) often hires off the best government servants at salaries the state cannot dream of matching. (It has - in general - grave qualms about government designed aid provided supplements to keep them in national public service - none about hiring them out of it at \$12,000 to \$40,000 a year.) Some are as agency staff (I once sat with a government's current people across from aid agency whose ta people included their "bought out" experienced citizen predecessors!) and others as 'independent, national' [sic!] consultancy firms.
10. TA is subject to fads/fashions. Very rapid shifts in grossly oversimplified emphasis on one or two things (which may be valid and important in context) taken out of context and dropped just when their relationship to other elements and ways to act on them begin to be understood. 'Missionary zeal' (zealotry?), silver bullet, technical fix, "cargo cultism" at its worst.

11. The 'cures' (or at least ameliorative treatments) flow from the symptoms or - more basically - the implicit diagnosis of - too much, too random, too unaccountable to recipient (victim?).
12. Governments (and providers) should be more selective. There are too many ta personnel in most cases but also gaps, i.e. of say 2,000 in some Eastern/Southern African countries probably 1,000 to 1,500 are unnecessary or worse (assuming funds to reclaim some ex-public service staff) while 250-500 needed are not there! In new areas/activities or reconstruction cases, some operational as well as some training people are needed. In such cases too few expatriates slows capacity building because they must do operational and have no time left to work with or train. (In any case standard "counterpart" idea is nonsense. It assumes a qualified, semi-experienced citizen who will stay in same unit indefinitely. How often is that true?)
13. All expatriates working in a country - unless specifically on aid agency staff to advise it - should be in normal government units and structures accountable to senior citizen civil servants as well as to ministers. They should be in advisory (i.e. strategy-policy-monitory), training, specialist operational and back-up roles, and only rarely running discrete field projects. (The latter is not per se wrong but should be - and become increasingly - secondary. This is true of ngo's too. They should be able to build national/local civil society (or local government) capacity and not operate (control) projects at village level as a permanent focus.)
14. Ambiguity can be ended. Either a ta person is external agency servant or temporary government civil servant. If the latter he has same duties (including confidentiality) to government as any other civil servant. He (occasionally she - ta is still a chauvinist world) should not serve as paying agency's spokesperson (Trojan horse?) or inside data source (except as authorised by citizen personnel to whom accountable) in government. Violation of this principle should be the subject of firm warnings (to ta person and agency) and, if repeated, of departures.
15. An agency doing a study on a government proposal has every right to disagree, to criticize, to propose alternatives - in its own name. It has no right to suggest (let alone insist) its alternative be

circulated instead of national proposal. Discussion leading to agreement or to national and agency papers circulated is sound; substitution by consultant or his paymaster is wrong.

16. States must stop the practice of disintegrating public services by buying out their "brightest and best" talents:
 - a. agencies should be told that any public servant (including university) resigning without prior consent may not be used as agency staff or consultant in respect to that country for five years (i.e. can be taken to Washington or another country - not barrier to freedom of movement or employer);
 - b. agencies should respond to (including discussing) coherent state proposals to pay supplements to key staff in public service preferably in the context of a national "topping up" scheme;
 - c. "b" is practicable. In, e.g. Mozambique, Uganda, Tanzania ta salary and related costs exceed state civil service pay-roll. If the ta was cut 25% then could hire nationals into public service to replace half ta and pay 20% to 100% increments to up to half of staff. (Up to half because some large categories of personnel - e.g. teachers/nurses may well need to be covered.) If grant or soft loan aid is in extremis (U, T, M are in extremis) acceptable for recurrent budget use, it is acceptable for salary supplements too! Yes, that erodes self-reliance and risks re-colonisation. It risks it less if it is, a.) transparent; b.) in a recipient designed/negotiated structure; c.) so set up as to allow planning to phase down and out. The present poaching of staff and agency initiated 'side payments' to serving staff meet none of those three criteria.

17. States should coordinate their own ta requests. A national strategy and frame with decentralised (ministry, province, domestic ngo) implementation within strategic guide-lines is central. Then non-priority offers can be altered to meet priorities, undesired initiatives rejected, key gaps filled, real issues debated, accountability preserved or recreated. Not wholly - the oligopsonist peddler of knowledge and funds has market power against which the

sovereignty of a weak state, however well deployed, is only a partial defence - but partially, better than now, perhaps cumulatively.

18. Fads should be rejected. New or renewed themes - e.g. "production by poor people", "rehabilitation of livelihoods", "ecology, poverty and environment", "gender aspects of development", accounting as a key to transparency and accountability - are important. But they are important as strands in a design, not as substitutes for overall strategies nor as sole priorities. Radical uprootings of strategies, policies and institutions have high initial costs in personnel, operational capacity and disorganisation. They are sometimes necessary but should not be resorted to when marginal or incremental improvements would serve and cannot be the main theme of governance for very long or there will be no functioning governance. Fads in or imported by ta should be reined in, trimmed to size and incorporated in strategy-policy frames - if they have a valid core. And that core should be continued, even if the fad passes and ta on the theme (e.g. basic public services, production by poor people, eradication of absolute poverty from about 1979 through 1986) becomes unfashionable and hard to secure.
19. It can be argued that the above assumes an ideal recipient state. It does not. It assumes a legitimate state with at least a significant proportion of public concerns in its praxis of operation, a certain degree of capacity and a desire to build more. TA as now operated subverts the concerns, threatens the legitimacy and fragments/corrodes the capacity as well as (sometimes more than) it enhances or builds them. If the state is so bad that these conditions are not met there is little ta can do. If the problem is capacity then with the consent of the state very heavy ta input de facto operating a key sector may be justified. Emergencia in Mozambique is such a case. But, because it has been transparent and the product of open dialogue, the expatriates are in a visible Mozambican structure to whom they report and national operational and professional capacity is visibly being built up (not leached away). If the state has few public purposes and little legitimacy, ta cannot cure that and should not try. (For example, a ta consultant in 1980 was sent by Commonwealth to advise Uganda Treasury for two 6 week stints. After the first he decided he could see and explain

problems, but there was no chance of action. Had a coup not solved his dilemma he would have told C'wealth so and declined to go back. Similarly, in 1990 he told a friend - whom he respects - he would not go to advise him for six months because in the context of his present state regime this was hopeless.) Providing fig leaves and performing functions for Nguema's, Amin's, Acheampong's, Bokassa's, Doe's, Marcos's, Nimeiry's, Binaisa's (and some would say Mobutu's) do not cure the underlying illegitimacy but prop it up and sustain it. Corruption is not cured but corrupts the ta. Only humanitarian and civil society (e.g. external to domestic ngo) support is justified. Yes this is intervention but so was the ta support Amin received to the day he fled from Kampala intervention. Yes, it is a hard judgement and may sometimes be made wrong. But it should be an open judgement not a fudged or hidden one.

20. No - the critique does not necessarily suggest ta is ill-intended. Usually quite the reverse. But good intentions can pave the road to hell. And it is a fact that any professional has a yearning to play Platonic Guardian - at least in his own field - and a desire for structures that help him/her do so. With ta personnel and agencies that tendency can get out of control and do great damage. Better it be recognised, put on the table and guarded against through transparency, accountability and dialogue.

(N)

- R. H. Green
Lewes
18-20/VIII/90

(TA person 1960/61, 1963/—>.
"Mea culpa, mea maxima culpa"
perhaps? Or from a ta
perspective "un clerc
traisonable"?)

Notes on Budgeting, Accounting, Efficiency

By R. H. Green

LTPS Government Spending Target Implications

The Bank's Long Term study implicitly calls for about \$115 to \$140 per capita expenditure on recurrent/emergency/capital accounts before debt service or 28 to 34% of \$400 average GDP again before debt service. This is in fact well above most present levels and up to three times some of them.

The priority areas of human development, infrastructure investment and maintenance (especially transport, power, communication) and agricultural services add up to over 20%. General administration plus law and order (no matter how low defence may become) adds at least 5%. Emergency (safety nets including drought relief and assistance to those unable to earn, e.g. disabled and aged are specifically endorsed in Bank's 1990 WDR) is likely to approach 3% at a minimum.

Tax revenues in SSA today range from 3% to 25% of GDP excluding high surplus mineral fuelled economies (e.g. Botswana and Namibia today but in the past including the main oil exporters and Zambia). Even the top end of that range is well below 28% plus debt service. If one assumes pushing tax and similar (e.g. fee) revenue to 30% of GDP, adding 2% for investment income (e.g. central bank. utilities) and loan repayment, plus 6% net external grants and loans, one reaches 38% with 4% for domestic debt service (net of new domestic long term borrowing) and external debt interest. This is a tough but conceivable target if GDP is over \$300 and present tax revenue over 20% of GDP.

It is much more daunting if GDP is \$200 or below (or tax revenue at or under 10% of GDP). The costs of basic human services (e.g. health, education, water, extension) are only to a limited degree GDP related. They have minimum per capita cost levels below which the services provided are so poor as to be nearly useless. Infrastructure costs also have

constraints - a large relatively sparsely populated country will have high per capita costs for a minimum adequate infrastructure even if its GDP per capita is low (e.g. several Sahelian states).

This problem is illustrated starkly by Mozambique. GDP per capita is about \$150. 34% of this is \$51.

Present expenditure is about \$80 or 56% and is palpably inadequate. It is divided Recurrent - General \$18; Recurrent - Defence \$12; Investment \$30; Emergency (war victims survival and rehabilitation) \$20.

A rough guess as to minimum levels necessary to meet LTPS standards is \$90 divided Recurrent - General \$40 (up from \$18, or net of debt service from \$13 to \$35); Recurrent - Defence \$5 (assuming a peace dividend); Investment \$40 (including restoration of war damage and deferred maintenance); Emergency \$5 (after initial livelihood rehabilitation which would keep this figure near \$20 for the first 5 years after peace if properly funded). That is 67% of present GDP or 35% of 1999 GDP assuming 6% annual real growth, write-off of all non-Bank/Fund external debt and about \$1,250 million net grant/soft loan assistance per year. A 'possible' or 'plausible' target only because Mozambique has to seek it (all other 'options' are worse) but, especially over 1991-5, not one looking very likely to be attainable.

Efficiency: Priority, Accountability, Balance

Efficiency in resource use is not simply avoiding corruption (important as that is where it wastes over 1% of revenue, adds more than 1% to costs or causes unsound decisions) nor about reducing spending (which may, in fact, be very inefficient either in itself or in the way it is managed). It is about getting value for scarce resources and therefore about priorities in allocating them - including at the macro level how much the state should spend and how it should raise it.

Three key words are: honesty, accountability and transparency. They are, as it happens, also key words for good governance more generally, and the second and third are, while somewhat loosely stressed in present discussions on that topic, very rarely related to Budgets and fiscal policy - a surprising and operationally unsound gap.

Honesty saves resources, lowers costs, makes resources easier to raise and - more generally - allows decisions to be made on the basis of clearly stated concerns (which may include interests, e.g. producer prices and minimum wages should be decided considering small farmer, urban consumer, wage worker and employer interests) which go beyond the personal concerns of the decision-taker and, hopefully, exclude his personal financial concerns except in rare cases (e.g. senior civil servants can hardly advise on civil service reform or salaries without affecting their personal interests).

These points are illustrated by an extreme case. In a West African country recorded vaccine 'spoilage' was over 60% (say ten times an acceptable level). When stated as spoilage it led to offers to divert resources to cold chain improvement - useful but not basic. To admit that true spoilage was at most 10 to 15% and that one key official was 'diverting' 50% to private clinics (not least his own) would have wiped out the grant aid covering the vital 40% that was saving thousands of lives. The state is one with a top leadership actively anti-corruption but it took over three years - and the use of a mistake on an unrelated issue - to dislodge the 'spoilage'. This is not good enough and the main losers are the poor Africans who were not vaccinated (some hundreds or thousands of whom are dead as a result) not the donors. Thus the main actors in changing the webs and shadows in which such 'spoilages' survive should be Africans - not least fellow, conscientious civil servants.

Accountability means accounts that show funds were neither stolen, lost nor used other than as allocated (or reallocated - i.e. there is often good reason to reallocate but a proper decision should be taken, recorded and validated as provided in regulations). But it means, or should mean, much more.

It should at the accounting level mean ability to relate resources used to objectives (in real not just financial terms) and to results. Whether this is called programme and performance budgeting or not and exactly how it is structured is secondary, e.g. knowing how many resources (financial and physical) were used to maintain how many kilometres of highways and with what results is necessary for accountability and efficiency. Further, accountability needs non-quantitative records of intentions, reasons, decisions, evaluation, results recorded in minutes and memoranda. Files,

like accounts, matter - the loss of institutional memory and of accounting control in many countries over 1980-89 is a serious deterioration of governance.

Accountability goes beyond this technical level - it includes relating actions to intended beneficiaries (and to their response to them). Deciding who these are and how to weight their needs is a political concern and decisions on it are the responsibility of politicians but being able to identify issues and interests and inform decisions is a civil service one. Whether to use resources to benefit a specific area or sub-class is ultimately political, indicating how it could be done or why a proposed measure would not work (or an actual one is producing negative feedback) is an official's business just as much as evaluating terms of trade movements and their past - present - future impact on revenue.

Transparency interacts with accountability. Without an intelligible record of what has been done, why and with what, results cannot be known. Nobody can be held accountable because there are no reliable accounts (in the technical or the general sense). Nor can there be much efficiency as one can hardly make informed decisions on doing better if it is impossible to know in any detail with any degree of accuracy or certainty what has been done with what results. When a Budget Director says (as one did in 1986) the last audited accounts are 1976/77, the last two years draft expenditure actuals are not even vaguely accurate as to allocation by use and draft budgets are made on the basis of the last audited accounts, there is evidently no transparency about the use of funds (even if there is refreshing candour about the situation), no accountability beyond balancing the chequebook and limited controls to prevent 'spoilage', no true budgetary process.

Budgeting vs Cheque Book Balancing

Budgeting is a process from planning and allocating through budget writing to control/monitoring of flows to evaluation of results. If it is compressed to cash balance management and fraud control within a nominal printed budget, then one has a caricature of a true budgeting process (even though cash balancing and fraud prevention are useful, indeed essential components within such a process).

Weekly allocations of allowable spending based on cash in hand or expected in the week may limit bank borrowing - albeit, if the basic problem of over-optimistic revenue guesses which presumably underlay the annual budget remains, they may not. What they surely do is prevent any rational use of resources by spending units.

For example, one Ministry of Finance with commendable overall spending control delayed releases to Ministries and handled some payments for them itself. This prevented their having any ability to allocate or to account totally, hardly an ideal way to improve efficiency. In the case of Health it led to an average delay in clearing Ministry drug shipments of 14 months (in containers, at the port, in the sun). Why? The Ministry of Finance paid clearing and forwarding bills when cash was to hand. The parastatal C and F company was ordered to halt clearing when arrears for any unit (commendably including a government unit passed a given level). Since before the reforms Health was near that level, the Treasury payment pattern took it over it and left it there perhaps six months a year. Demurrage and physical, literal spoilage costs were high. Clearly the more timely use of slightly more money on C and F and slightly less elsewhere in Health could have reduced arrears gradually, kept drugs flowing and generally improved efficiency for a constant total cash cost. Achieving that is what a budgeting process and interim accounting return should achieve.

Balances Within Expenditure

To be efficient expenditure needs to be balanced so staff match transport match operating inputs (whether drugs or text book or water pump spares) match capital stock to be used or serviced (e.g. hospitals, schools, pumps) and the supporting functions of maintenance and training match the physical and human capital stocks. If there are gross imbalances the more abundant resources are partly or largely wasted. For example, agricultural extension officers with no mobility (whether bicycles, motorbikes or land cruisers or with vehicles but lacking spares or fuel) are not much use nor are mobile water technicians with no pump spares. Unmaintained hospitals are dangerous to patients and to staff and unmaintained roads to the financial as well as physical health of users. Failure to train and retrain erodes staff capacity even if it is there, mobile and with some operating supplies and maintained capital stock.

That should be obvious. But many SSA budgets are grossly imbalanced. Mobility, operating supplies, maintenance and training/retraining in the country (technical assistance and the fringe benefits of foreign travel have preserved overseas training) are very much too low relative to staff and fixed capital stock.

Evidently in operational terms the optimum solution is to balance up, i.e. restore levels of other inputs to allow full use of the one in least bad supply (unless there are too many of it, e.g. beekeepers and field level extension staff more generally in Tanzania in the early 1980s). But if overall revenue and forex constraints limit such upward balancing reallocation plus new (in practice more labour intensive) ways of doing things are needed. The issue is not whether there are in an absolute sense too many - e.g. - teachers or school buildings. It is that less teachers and buildings plus more mobility, maintenance, textbooks, furniture and teacher training will produce more education (and probably more pupil years successfully completed). At least one SSA primary school programme is so bad (30 pupil years per 6 year course completion; 80% failure in first post primary year) the only evident reason not to shut it down and start anew is psychological. That case is extreme (not unique) but it illustrates a very general malaise.

To balance means to budget, to act on basis of budget and to administer. SSA countries may try to administer too much; most surely administer core functions very badly perhaps because senior officials handle only the policy aspects of administration, clerks and bookkeepers are neither trained to nor senior enough to handle serious administrative problems and decisions and intermediate administrative officers are none too well trained, respected as performing a crucial role nor common (because of low status, most seek to develop "substantive" roles). For example, in one country a Ministry Director of Maintenance (an engineer) drew up detailed lists of maintenance needs (for buildings, equipment, vehicles) and organised a reasonably well trained staff. It was approved at Ministerial level. Because it was 95% forex content it did not go into Recurrent Budget. Because it was not capital investment it did not go in Public Investment Programme. Because it was not policy it did not go to Chief Secretary. Clearly no clerk or bookkeeper could act on it. It was nobody's business to go to aid agencies to get a meeting of them, the Ministry concerned and Finance to secure funding or physical commitments.

So nothing was done for two years until there was a full-blown crisis. This is an administrative failure and an institutional one - nobody did the wrong thing in terms of extant procedures and job descriptions, but it was in fact nobody's business to do the right thing because administration was fragmentary and undervalued. As the parts when secured were largely grants in kind they do not appear in the Ministry budget so there is still no easy way of telling whether they are adequate at budget level or in arrival flow pattern even though the donors are getting adequate (for them) receipt - routing - installation reports.

Priority

Useful is a necessary but not a sufficient condition for priority. Among the uses (and levels of uses) qualifying as useful it is still necessary to choose on the basis of importance and ability to act without serious negative side costs.

The second point is very important. A second foreign exchange rate has some uses for sweeping up receipts on services and secondary exports as well as remittances and reselling to meet less than top priority uses and/or loosening the inevitable rigidities and lags of a formal allocation system. The Ghana quasi-official bureau de change system parallel to a de facto managed float in the form of an auction and having from 10% to 30% higher forex prices (with no upward trend for this differential) is useful and has near nil costs to the state or for flows to the official float/auction. But in 1986 the Uganda second window was quite different. It bought relatively large amounts of forex but most was resold at the lower first window rate and little at the higher second window one. Failure to keep it self-contained made its deficit the largest single item in Uganda Government expenditure - to the benefit of foreign visitors and non-traditional (in several senses) exporters. The third largest allocation (after petroleum and military equipment) out of foreign exchange from exports was for new banknotes (admittedly after a change of regime but the notes circulating had no presidential face on them, not the wrong one). Both seem to be very doubtful revenue or forex use priorities (and the first was rather promptly ended when analysts detailed its nature and cost).

Priority setting is not easy when taken seriously. How much to spend on improving road versus water maintenance is a complex issue and one on which only horribly wrong answers (not approximately right ones) are clearly identifiable as such. Still worse if one understands the issues are allocational priority within Health. For example, five heart machines may save 100 lives a year and cost about the same as national vaccination against measles which may save 10,000. Clearly the issue is not whether lives are worth saving but of saying it is a priority to save 100 times as many lives by one allocation rather than another. But making that priority choice is choosing who will die - the 100 are quite different people from the 10,000 - and the senior officials and ministers are more likely to be in the 100 than they or their children in the 10,000. To call for clear priority setting is important but should be done in full realisation it is frequently technically and sometimes humanly hard to do so.

Unit Cost Savings

The basic efficiency goal is to reduce real cost per unit of intended goal or service supplied. This is independent of whether total resource use (spending) must be reduced, can just be held constant or can be increased. In terms of motivation getting more out of constant or slightly rising resources may have the greatest driving force because real cuts may destroy morale and in a context of ability to spend significantly more the need to get more value per unit spent is less compelling. This point is crucial since the IMF (perhaps fairly) and the World Bank (less accurately) advise/enforce cuts in spending and are misheard as unconcerned with sustaining real services provision by efficiency (a mishearing that the presentations of the Fund sometimes further).

A number of routes exist:

- a. Reduce input costs, e.g. a national essential drug list, bulk buying (by honest tender or negotiation), use of generics can reduce unit drug costs 50%. This is not a left/right issue - the Thatcher government in the UK, the WHO and 1970s Mozambique have all pushed variants of this approach.

- b. Reduce leakages, e.g. have at least minimal control over government vehicle use and especially of provision of government petrol to them and reduce cost by 15 to 25% for the same volume of official business and in general check "wastage" and 'spoilage' rates to allow targeted analysis to determine causes (which may be fraudulent, incompetent or administrative) and act to cut the losses.
- c. Repair/maintain on a timely basis. It costs least to do preventative and ongoing maintenance; next to let deferred maintenance build up then rehabilitate; most to treat fixed assets like toothpaste tubes - squeeze dry, never maintain, then replace. Furthermore, the second and third modes lower average operating efficiency because most of the capital stock is usually debilitated. No serious survey of the data suggests otherwise. Why is non-maintenance so common?

First, it is possible to defer most maintenance for one or two years at little cost later - thus deferral is a sensible strategy for a two year shock and recovery. In 1974-75, this tactic was used with some success. Its repetition in the late 1970s and early 1980s became disastrous when the fiscal strains continued and further cutbacks, not claw-backs, came in years three and after.

Second, maintenance has few hard line backers. It has little political sex appeal (until deterioration reaches the rehabilitation required stage). If it is not linked in the budget to directorates or commissionerates but lumped for a ministry it has few senior official backers either.

Third, aid for new projects is easier to get than for rehabilitation (though since 1980 that balance has swung) and external support for routine or preventative maintenance (including units and equipment to do it) is usually very hard to achieve. The idea that providing fiscally unusable new bricks and mortar is moral, rebuilding broken down bricks and mortar OK in a crisis, but providing trowels, bricks and mortar to maintain somehow a "moral risk" undermining recipient probity still lives in practice even if less often openly stated by external aid partners (or is it proprietors?).

- d. Altered input mixes, e.g. labour intensive road repair to increase employment and decrease capital/import requirements; fans for air-

conditioners to cut recurrent (electricity), capital and import costs; motorized bicycles for land cruisers for the same reasons can help cut costs, rebalance spending, reduce import dependence. Other alterations relate to output reprioritisation, e.g. more vaccines, syringes and nurses aids and less hospitals, hi tech equipment and surgeons with a shift to basic preventative health services (and away from tertiary curative ones) as a way to save more lives and years of healthy life per unit of spending.

A Caveat: Wage Cuts Can Raise Labour Costs

Reducing input unit costs does not reduce output costs if it reduces the quality of the input unit even more. The most important case is wages. To pay below the efficiency wage increases labour cost per unit of output - even at unskilled and semi-skilled levels - even though it cuts real wages and even though it may be consistent with getting enough job applicants.

In much of SSA minimum reasonable (just above absolute poverty line) spending per urban household is \$40 to \$60 a month. At most one-third of that can on average be secured by secondary (usually so-called informal) incomes of the main earner and other household members. The minimum wage should not - for economic as well as social reasons - be below \$25 to \$40 a month. Assuming quite modest differential expectations the salary range should go up at least to \$200-250 a month. Paying a \$15 to \$100 range (à la Tanzania government) is grossly inefficient and a \$30 to \$150 range (à la Mozambique government is barely passable at the bottom and inefficiently low at the top).

Why? Because wage earners - like farmers, business persons and almost all other human beings - do respond to economic incentives and disincentives. Sub-efficient pay:

- a. saps morale (e.g. a lorry crew in one country left on time when a plane with four months supply of refrigerated vaccine arrived late. No overtime had been authorised, their pay was \$25-30 a month. Better paid airline, research institute and international agency staff had the morale and could afford to and did work to midnight free to salvage the shipment);

- b. causes 'leakages' of key personnel, e.g. over 50% of top 250 1985 Mozambican civil servants are gone - often to aid agencies and 'private, national' consulting firms serving them, because the moves could raise salaries from \$100-150 to \$750-2,500 a month. In at least some cases it was the push of the \$100-150 (versus say \$200-300) not the pull of the \$750-2,500 that was dominant;
- c. leads to corruption and "privatised user fees". At these levels of pay need not greed is the driving force. For example, in 1987 to be at work cost the whole \$5 a month salary of postal clerks in one country. Therefore they charged users \$.01 to \$.03 per item posted to put on stamps and - more important - ensure it actually went (which with the "fee" it did and without it did, at best, with a great lag). In another state police check points did not halt nominally illegal private food trade, but did charge every loaded lorry or pick-up (however legal its load) a fee of \$0.50 to augment pay of \$10 a month. This is morally not what one normally means by corruption - the pay system is the corruptor and the "collector" the victim while the "payer" is substituting the "fees" for taxes. But clearly it opens the door to normal corruption by greed and creates a 'client constituency' of petty corrupt for the grandees of corruption (notoriously and perhaps deliberately under 1979-81 civilian regime in Ghana);
- d. and moonlighting - time away from job to earn necessary other income. For example, a Senior Immigration Officer in charge at a capital airport did not (or not normally) ask bribes. But the price was that he spent about 3 hours every other day on duty and the rest of the time running an (unrelated) business;
- e. plus daylighting - using government premises, equipment, supplies and contacts to carry on a private business (with variable views on which comes first when schedules conflict) or simply "abstracting" government supplies to run his second income activity;
- f. and/or conflict of interest - operating a (possibly) honest and competent business outside office hours but using (even if subliminally) the official post to secure loans, contracts, clearances, licenses an independent business person could not or could not readily secure.

All of these are horribly inefficient and raise unit labour cost. Real wage cuts below the \$25-40/\$200-250 a month range raise them further. It is no accident efficient private firms pay well above state rates in such cases. Nor is it an accident that successful newly industrialising countries have a two to three decade history of trend real wage rises - at least in export sectors - more than offset by a rising productivity trend while many failed NICs (knick knacks?) like the Philippines have the inverse - falling real wages offset by falling labour productivity.

To state this problem is not to offer an easy solution. Overall staffing and terms/conditions reviews are needed. Within them there will usually be a need to reduce numbers. However, that alone cannot free enough resources to rebalance spending and to restore wages/salaries to the minimum levels consistent with efficiency.

One route has been relatively little tried:

- a. identify and exorcise (fire) 'ghosts' (on pay-roll but non-existent) and 'goblins' (on pay-roll, exist, turn up only to be paid) - probably on average 10% of deeply fiscally distressed state employees;
- b. use the 3% annual natural retirement/departure rate to allow 1% hiring in priority posts and 2% staff reduction.

This can cut numbers 20% in 5 years - better than most cut and run shock redeployment efforts achieve and at less fiscal (additional compensation and pensions) and political cost. However its net affect on pay-rolls is likely to be 5% (most ghosts are not high level; professionals will be hired above retirement rates and cleaners numbers reduced). But getting staff down to viable numbers is useful (and so is 5% of pay-roll costs) and the sooner the illusion staff cutting can solve any large portion of the fiscal problem is ended by serious, costed programmes, the better.

Revenue Raising

If one accepts the minimum necessary spending levels of LTPS (and broadly similar implicit ones in ECA's African Alternatives) which do appear to be fairly well estimated in respect to necessary government services and

infrastructure provisions, there is a need for every SSA state except Botswana to raise present domestic recurrent revenue (taxes and related items) relative to GDP.

In the short run the test is not Recurrent Budget balancing. If real Recurrent Revenue is rising at least on a 5% a year trend and domestic bank borrowing is down to 1% of GDP or below (even though the reason is use of external grant or very soft loan aid) there is no cause for immediate alarm over the first three to five years of rehabilitation, adjustment and transformation. But even that test requires more rapid real revenue gains than most SSA economies have achieved on a sustained basis since the 1970s (and often since the 1950s or 1960s).

Negative Revenue Cuts (Subsidies/Exemptions)

One way to raise revenue is to reduce negative revenue (subsidies and tax exemptions). Staple grain food subsidies are not the central issue here unless to incompetent public (e.g. Zambia) or private (e.g. post 1987 Tanzania) marketing bodies. They may need to go, but subsidising poor farmers or urban staple food buyers has a valid social purpose which is much less evident for electricity (especially to large household users), for household piped water and gasoline (primarily used in saloon cars) or amenity goods such as meat and milk. Railways are subsidised world-wide but the levels in SSA (combined with usually weak and often disastrous service) suggest gross inefficiencies. Grain reserves may make sense but when at levels of tonnage and price costing 1% of GDP appear to be rather high insurance premia. Similarly most tax incentives - especially "holidays" - do not appear on empirical study findings to be cost efficient ways to promote investment.

There may be cases for some limited (not open ended), budgeted (not 'discovered' and paid ex post), regularly reviewed subsidies and tax incentives (i.e. give aways). But the case needs to be made not assumed, reviewed regularly and the opportunity cost (spending foregone because of revenue loss) taken into account. If food subsidies effectively reaching 5% of the population (by location and/or employment not poverty) cost as much as the whole Health budget and doubling the latter would sustain a crumbling basic health system previously functional for 70% of the

population, a rather clear opportunity cost case exists for ending the subsidy (as in Tanzania in 1984 albeit social services not only health spending was the intended beneficiary).

Further, for safety nets lower cost alternatives to general subsidies can be explored, e.g.:

- a. subsidise a nutritious but non-preferred staple - e.g. yellow maize:
- b. have "fair price" (private but with set margins and prices) staple food shops which require no subsidy but sell below free market prices (e.g. India and urban Mozambique);
- c. pay food security supplements/subsidies to identified low income group or clinically (e.g. infant and pre-natal malnutrition) selected households (under implementation in urban Mozambique);
- d. limited months per year, low wage employment on labour intensive infrastructure rehabilitation and construction (Botswana in drought context, Ghana in Pamskad).

All are likely to cost less than general food subsidies and assist absolutely poor households at least as much. They are complex to design and to start but not necessarily to administer. Both "a" and "d" are self-selecting - only really poor household members will buy the food or seek the work whereas everyone will take up the general subsidy.

Timing and the position of recipients does matter. If many civil servants receive \$10 to \$100 a month and have access to decent housing (government owned or rented) for 10% of that, the real problem is the wage and salary base and phasing out the 10% before that is corrected is probably unwise. Similarly, if for government and large urban employer workers a subsidy on bread (limited to them as there is no or next to no open market bread) is up to 15% of real consumption power phased reductions paralleling wage increases may be prudent if wage/salary levels are already at or below the efficiency minima (e.g. Maputo/Beira). Per contra if oil refinery workers are overpaid directly (and by "leaking" at least 5% of output into their own cans and pockets) their "position" counsels having fuel reserves or alternative refined products sources to hand before moving.

Revenue Raising Taxes

The key criteria for taxes are:

- a. raising significant revenue (additional revenue for new or re-rated ones);
- b. raising it at a reasonable cost in finance (e.g. 5% to 8% for direct and 3% to 5% for indirect taxes), high level personnel and administrative machinery;
- c. equitable in the sense that the bulk of the taxes due from the bulk of those owing can in fact be collected (a random or 'volunteer' tax is not equitable, e.g. a radio licence paid at Post Office with 250,000 of 2,000,000 sets licensed);
- d. equitable in the sense of fair shares - usually taken to mean progressive with or at worst proportional to income (poll taxes and similar flat rate "community charges" and "development levies" fail this test miserably and often do badly on "c" and "b" as well whether in the UK or in Tanzania);
- e. not having very costly side effects (e.g. huge collection cost unloaded on an intermediary charged with collection nor so distorting prices or incomes as to cause serious production falls or resource reallocation - the basic criticism of the cocoa tax/surplus levels in Ghana over much of 1960-1981 or even today if one believes Ghana should encourage rapid rises in production).

On programming a note is needed. The issue is not direct/indirect. A five basic rate single point sales tax exempting unprocessed food and informal sector output as well as household self-provisioning (all desirable on tests b and c!) in SSA can be progressive up to \$3,000 a year income. Combined with a progressive personal income tax with a \$500 tax free base and few (or no) allowances or exemptions such an indirect tax can be the basis for a progressive tax system. In any case expenditure can be made progressive (i.e. services and transfers used/received as a per cent of personal income) rather more easily than revenue. The two should be taken together in analysing and planning fiscal system progressivity, not the revenue side alone.

Some rules of thumb toward meeting these tests are:

1. keep taxes simple, e.g. free plus 4 rates for customs and for basic sales tax (with special rates for tobacco products, alcoholic beverages, gasoline and saloon cars); as few stages as possible (e.g. import and manufacture for sales tax not also wholesale and retail; as few complications as possible (e.g. a tax free base for each adult income earner and no allowances or credits at all on income tax);
2. keep collection points limited in number (e.g. car licenses via third party compulsory insurance; wage earner income tax by employer deduction PAYE; sales tax at point of entry or manufacture only);
3. don't tax same thing several times because one tax could collect the revenue more efficiently, e.g. an income tax, a graduated development levy and a graduated poll tax achieve little or no revenue a single income tax could not raise more effectively ditto a sales tax, a licence fee related to turnover and a stamp duty on receipts graduated by size of receipt;
4. limit the total number of taxes to avoid dissipating personnel and administration on low potential taxes while inadequately staffing, managing all taxes including the high potential ones;
5. don't have specific (fixed amount) taxes or have few and review annually for inflation adjustment. (The same applies even more strongly on review side to licenses which are by their nature specific. There were in 1985 many licence fees set in the 1970s whose real value was 1% to 5% of initial and whose collection cost exceeded revenue as well as some specific indirect taxes with similar characteristics!);
6. Avoid any tax or charge yielding less than \$1.00 per recorded transaction (\$0.10 is the lowest reasonable estimate of unit recording/accounting cost and \$0.15 may often be more realistic) and seek to limit separate collections below \$5.00 (e.g. have quarterly or even annual not monthly payments).

Revenue - Fees and Charges

Several questions arise:

- a. will these yield additional revenue or the same revenue via different channels?
- b. what are the probable collection cost to gross revenue ratios?
- c. will their use increase efficiency of supply of services? (Why? General revenue allocation is fungible so could be reduced as charges rose.)
- d. is their use (with centrally set charges for items supplied centrally e.g. drugs) really a move compatible (in present format) with decentralisation or does it merely seek to use local government and community groups as 'free' tax collectors?
- e. when can such charges serve as a means to substituting lower cost public services for presently purchased, higher cost private ones? (e.g. accessible stand-pipe water for private water carrier supplied water)?

Strategically it needs to be remembered all fees come out of the same household budgets. To set each sector's fees separately with no cross check on the totals (as is now happening) is likely to have serious negative social consequences (and/or very disappointing collections).

The possible limits at basic health and education level seem to be 10 per cent to 20 per cent of total costs. When one adds in total other resources this is about what pilot Senegal and larger established Ghanaian Christian Medical Service units report (the claim of 40 to 45 per cent excluding personnel may well be true but personnel are normally 60 per cent of primary health service costs so that 40 to 45 per cent falls to 16 to 18 per cent). This is useful but why would a sales tax or local rate/rent boast not be a better source i.e. cheaper to collect, less problems with exemptions for very poor, more progressive and - especially for health - collected at times a persons has income not the times his/her income is particularly low?

Fee sizes pose problems. \$0.15 to \$0.25 levels are frequent (e.g. Mozambique, Senegal, Ghana). Recorded collection and accounting costs at least \$0.10 per transaction and takes specialised personnel time (e.g. nurses have better things to do than collect fees; stock clerks are not really competent to do so). A 40 per cent to 60 per cent collection cost ratio brands a revenue source as pure madness from a fiscal stand-point. Loose recording (plus low pay) ensures high 'leakage'. Prosecuting large numbers of nurses, school teachers, buskeepers, clerks and accountants may give a certain vindictive pleasure but it is hardly an efficient way of using anti-corruption talent needed for the grandees of corruption or of court capacity. Nor does it much help delivery of services nor of accounts. To set up a system causing it is to violate a key line of the Lord's Prayer - "lead us not into temptation".

Exemptions pose severe problems in practice. To be effective they must be at local point of contact and speedy - for health instant (appeal mechanisms offering treatment after death are macabre). With 40 per cent plus absolute poverty in SSA (1990 WDR) at least 25 per cent exemption eligibility is likely to be needed to avert serious deprivation of services in many rural and slum urban areas. Managing a system with those parameters is a nightmare except for a local community committed to the exercise.

Health charges should be annual i.e. proto insurance. To charge at time of sickness when income is lowest and non-medical, illness related (e.g. transport) costs highest is economically unsound on perfectly orthodox neo-classical principles. University fees are problematic. The case for is that they ensure high incomes in future to students. The problem is that this does not enable any but presently rich families to pay now. The logical answer is loans recovered by an uplift on income tax for ex-university students. The administrative problems and lag before revenues became significant may raise doubts on how high a priority it is.

A creative, additional resource option?

If local communities can organise charges and exemptions and pay in food, labour for building maintenance or construction, simple furniture, building materials fees, community participation - more accurately user financial participation - could be more positive. It would then unlock resources beyond scarce cash, would involve communities seriously and would necessitate government/community negotiation to make the budget fit. But - while experiments have started on these lines - it remains to be seen whether (even with decentralisation of substantial powers to district levels) the budgetary and administrative problems of such an approach are widely surmountable.

And A Special Category - lowering both central government and user costs for a service now actually purchased privately by most (including very poor) households. A major case is peri urban and low income urban area water. Stand-pipe coverage is usually inadequate. Private sellers (either using free public water or dubiously pure sources) charge very high unit prices resulting in very sub-optimal (for cleansing and sanitation) consumption. User committees could safeguard and maintain facilities (lowering government costs). Soft external finance for most capital costs is frequently available. If raising piped household water charges (which should not be subsidised any more than express airmail or long distance phone calls) cannot provide a cross-subsidy for recurrent costs of stand-pipes than a user committee collected charge (lump sum committee to government - collected as community deems equitable and practicable) may often be both desirable and operationally possible.

Health Warnings - A Valedictory Note

Failure to observe these is likely to cause damage to the health of fiscal policies and the careers of the officials concerned.

1. Know to whom the government is accountable and do not lead by advising bashing its key support group. (e.g. don't propose high cattle taxes in Botswana or high rents for "peasant" land use rights in Tanzania).

2. Reduce (propose reducing) military spending contextually and sequentially.
 - a. if there really is or is about to be a war show costs of lack of peace to strengthen hands of those seeking resolution of violence. Perhaps try to show military expenditure above some level will be counterproductive because economic/fiscal base will collapse. Don't suppose you can convince government military expenditure in actual context is a dispensable luxury.
 - b. if there is no war or real threat of one seek phased, safe run-down. Do not propose "redeploying", i.e. firing, soldiers into unemployment. The probable results are "other ranks" coups or massive armed robbery/banditry - none of which is economically desirable. Rather, first reduce new weaponry and ammunition purchases, then vehicles and fuel. Leave wages, quarters, rations alone. Presently most troops will be toothless and (as paid, fed, clothed, housed) not very unhappy. And military costs should be less by half in real and two thirds in forex terms. (One SSA state has apparently done exactly that.) When demobilising have a genuine interim training - employment - allowance programme to facilitate productive re-establishment in the civil economy. It costs money but reduces danger of (expensive) violence, can pay off economically, helps otherwise desperately poor people regain ability to earn a living (Zimbabwe programme worked for 75 per cent of discharges).
3. Don't start reforms with high symbolic cost/broad resistance measures if at all possible to make initial savings/gains elsewhere. e.g. do not start with maize meal in Zambia or kerosine in Nigeria.
4. Don't botch administration in a way making costs to losers higher. e.g. in 1986/87 Zambia raised price of premium maize meal and left utility grade unchanged. Unfortunately it in parallel raised millers' margin on premium far above utility, so they dropped milling it and produced only premium. Instead of being untouched utility users had to switch to premium. And so to riot. And so to whole programme slipping past point of no return.

5. Don't encourage - or allow - "self help" financing by users directly canvassing aid agencies. That is the route to a donor driven budget and to "balances" of spending (and costs of projects!) bearing little relation to any national priorities. Allow such contacts only after national priorities/draft budgets are set and only for finance to items within those priorities. If other resources are offered/procured, seek to get them shifted to priority list or reject them.

Falmer
19-20/VIII/90

AnnexA Tax Checklist and Plausible Target %'s of GDP

1. Income Tax/Company Tax (5 to 8%)
 - Basic 0 Band - Limited or No Exemptions - 5% to 50% tax bands Personal (and Partnership) Income Tax
 - 40% or 50% Company (and Co-op above some cut-off profit level) Tax
 - Additional Profits Tax on Genuinely Hi Profits (e.g. over 25% after tax on capital employed)
 - Royalties if opportunity cost efficiency (reserve for future use if no revenue now, e.g. natural gas) or high basic surplus considerations (e.g. diamonds) apply.

2. Indirect Tax (12 to 15%)
 - Import Duty - 0 + 4 basic revenue rates (perhaps up to 5 additional protection rates?)
 - Single point (i.e. registered dealer or other avoidance of double taxing main intermediate goods - especially textiles, wood) Sales Tax collected at point of import or registered manufacturer) and with 0 rate, 4 basic rates plus Tobacco/Alcoholic Beverage/Saloon Car Rates

Note - The above tax is arguably a truncated, simplified VAT. Its virtues are that it avoids very hard to collect wholesale and a fortiori retail levels and can be administered simply with multiple rates. Its defect that some double taxing on secondary inputs will result is, in practice, true of VAT. While it cannot readily be applied to services, for large enterprises, e.g. in construction, water, electricity, telecommunications, up-market

hotels and restaurants, simple analogue Sales Taxes could be applied (and for small ones VAT is well nigh uncollectable). In practice actual VAT based proposals in SSA are inferior in virtually all cases to this type of Sales Tax on almost all of the initial criteria set out, especially if they are multi stage, and/or at a single rate requiring re-introduction of excise as a separate, parallel tax.

3. Road (Vehicle Tax) (3 to 5%)

- Fuel Tax (in Sales Tax) as basic element
- Vehicle Tax (in Sales Tax)
- Licence for Heavy Vehicles (because road wear and tear rises with weight more than proportionately but fuel consumption - and tax - does not).

Note: The goal is logically to cover the cash flow annual costs (including loan repayments and interest but not grant or loan capital expenditure) of roads-bridges-ferries-etc., plus any desired luxury or amenity general revenue tax on saloon cars and their fuel. While a more sophisticated (perhaps higher) formula could be devised, this one does imply large increases already, is computable and is the logical parallel to reducing rail subsidies. It does not require more taxes than the three noted. Annual licence fees, registration fees on top of import and sales tax, etc., merely add to the number of taxes not potential revenue or ability to structure incidence. Road tolls are open to that objection too.

4. Rates/Rents (on land or land or land use rights) (2 to 3%)

- ideal local government tax and easier to administer/collect at that level. NB: rural land or land use right taxes or rents are likely to be more collectable and less inequitable than poll taxes.

5. All Other (1 to 3%)

- There are likely to be some taxes suitable to specific countries and some which appear unremovable and do little or no harm.

<u>Total</u>	23% to 34%
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NB: A dynamic, high surplus, export enclave (e.g. diamonds, today or oil in 1974/78 and 1980/82 or copper at times in the period to 1974) may result in much higher direct tax revenues. Only Botswana and Namibia are current examples. And on the record any return by oil to that role would be likely to be relatively short lived (e.g. 1 to 4 years).