

# **The Tax That Failed: The VAT in Niger**

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The value-added tax (VAT) requires considerable sophistication on the part of both the taxpayers and the tax authorities in order to function effectively; not all countries meet this criteria. After Niger implemented the VAT in 1986, instead of realizing an increase in tax revenue it witnessed a decline, creating a major budget crisis. This article discusses why the VAT was an inappropriate choice for Niger, analyzes the reasons for the decline in tax revenue, and proposes alternative policies consistent with the administrative capacity of the Niger government and the existing socioeconomic environment.

By 1991, the value-added tax (VAT) had become a standard source of government revenue in fifty-seven nations.<sup>1</sup> It is thought to have several advantages over some traditional income and turnover taxes. For example, since the latter usually contain cascading features, the VAT provides a potentially more equitable and efficient means of taxation. However, some countries have encountered unexpected difficulties in implementing the VAT and, as a result, have experienced a temporary decrease in revenue instead of the intended increase. One of these, the West African country of Niger, introduced the VAT in 1986. Instead of obtaining the benefits achieved when the VAT was introduced elsewhere, Niger experienced a disaster, at least from the viewpoint of revenue yield. The tax authorities expected that the new tax would generate more revenue than the turnover taxes it replaced, but the opposite occurred.<sup>2</sup>

At the time of its independence in 1960, the socioeconomic structure of Niger was not very different from several other former French colonies of West Africa, except for Côte d'Ivoire where the population was more highly educated and where the infrastructure was more extensive. By 1990, Niger had become one of the poorest countries in the world with a per capita GDP of \$790.<sup>3</sup> Its population of 8.5 million is growing by over 3 percent annually, which has often exceeded the growth of real income.<sup>4</sup>

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In this article, we begin by describing the evolution of the tax system in Niger from the time of the country's independence until the VAT was introduced. Then, we analyze why the VAT failed to generate the expected revenue. Lastly, we discuss whether the VAT could be modified to fulfill the need for a tax that generates adequate revenue without causing undue distortions in the economy.

### EVOLUTION OF THE TAX SYSTEM

When Niger obtained its independence from French rule in 1960, it had a tax structure that was patterned after France's tax system of fifty years earlier. There were upwards of three dozen separate taxes administered and collected by the central government. The tax system was based on an extraordinary volume of rules and regulations, which made it a wonder that anyone could master them sufficiently well to avoid running afoul of the tax administration.<sup>5</sup>

Indirect taxes and fees provided 80 percent of government revenue. Apart from the custom duties, the most important indirect taxes were the turnover taxes on goods and some services (i.e., hotels, restaurants, bars, leasing, and construction). They were levied on sales at each stage of production, except retail trade. Like turnover taxes everywhere, there was the potentially undesirable cascading of taxes as goods passed from one firm to another until the product reached the final point of sale. Avoiding this problem was one reason why France introduced a limited version of the VAT in the mid-1950s. The VAT avoids the cascading feature of a turnover tax by giving firms a credit for taxes included in the cost of goods purchased from other firms. Since documentation must be provided in order to obtain the credit, the VAT requires extensive record keeping. In France, there was considerable resistance to its implementation, especially from smaller firms. It took another fifteen years before the French VAT became a comprehensive tax that included producers, wholesalers, and retailers.<sup>6</sup>

In 1960, the overall tax burden in Niger as measured by the ratio of taxes to GDP was less than 5 percent, one of the lowest tax ratios in Africa. Although there were only minor changes in the kind of taxes and in tax rates during the two decades that followed independence, between 1960 and 1980, the ratio of taxes to GDP increased to nearly 14 percent. As a consequence, the government was able to improve the services that it was offering the population through means such as raising school enrollment rates and providing more extensive health services, especially in rural areas.

Niger's progress in increasing government tax revenue faster than the economy's expansion was due in large measure to the exploitation of its extensive uranium reserves, which began after 1970. The uranium mines provided a significant supplement to the economy's traditional sources of income: cereal farming, livestock herding, and petty commerce. Besides benefiting directly from joint participation in the mining companies, the government imposed three taxes on the uranium mining operations: 1) a corporate profits tax, 2) a royalty on uranium production, and 3) a special fiscal duty on uranium exports. In addition, of course, the new source of income meant that there

were additional income taxes paid by the mine employees and indirect taxes paid on their expenditures. At the peak of their importance in 1980, the three specific taxes on uranium operations accounted for 15 percent of the government's revenue.

Then in the early 1980s, two events combined to produce a major downturn in the economy. First, the world market for uranium ore weakened as the major industrial countries scaled back their plans for nuclear energy plants. Second, the worldwide recession of 1981–83 had an impact on Niger's other exports. Together, these factors led to a decrease in GDP, which was accompanied by an even larger decrease in tax revenue. During the four years between 1980 and 1984 the real GDP decreased by 21 percent, and during the same period, total tax revenue decreased by 36 percent (both measured in constant 1980 prices). Afterwards, the economy began to recover slowly. By 1990, the real GDP was 14 percent higher than it had been in 1984. However, there was no turnaround of tax revenue; it continued to decrease and, in 1990, it was 13 percent lower than in 1984 (measured in constant prices). However, with a population in 1990 which was 40 percent larger than it had been a decade earlier, real per capita income declined by as much as 30 percent during the decade of the 1980s.<sup>7</sup>

Faced with falling revenue, the government raised some of the special taxes on uranium and, by 1990, this source was again providing about 15 percent of tax revenue. Since the value of uranium exports had decreased by nearly one-half, the increased taxes were insufficient to reverse the decline in total tax revenue. Other governments in a similar situation might have resorted to deficit financing. However, as a member of the African Financial Community, Niger cannot use deficit financing without AFC approval. As a result, the Niger Treasury has been in almost continual crisis from 1990 onwards.<sup>8</sup> Table 1 provides information about the former turnover tax and the VAT as well as for the other principal categories of taxes during the benchmark years 1970, 1980, and 1990.

In brief, Niger presents the rare example of a country where, for several years, the tax system failed to provide increases in tax revenue, even in nominal terms. The consequences are particularly serious because the population growth has outrun the government's ability to maintain the existing infrastructure.

### CHANGING TO THE VAT

The decline in Niger's uranium revenue and the concurrent economic recession were the direct causes of the initial decline in tax revenue after 1980. But the continued decrease after 1985 has been largely due to a dramatic decrease in taxes on goods and services following a change from turnover taxes to the VAT in 1986.

After 1982, the yield of Niger's turnover taxes declined steadily, mostly due to the uranium slump. Eventually, in January 1986, the administration decided to try to recoup the lost revenue by replacing the turnover taxes with a comprehensive VAT.<sup>9</sup> In Africa, Madagascar is the only other country besides Niger that uses the comprehensive form of the VAT. Other countries have chosen less-comprehensive forms,

**TABLE 1**  
**Niger: Central Government Tax Revenue, 1970-1990**

Taxes on:	Billions of CFA francs			Taxes as % of GDP		
	1970	1980	1990	1970	1980	1990
Income	3.8	17.5	11.1	2.1	3.3	1.6
Internal Trade <sup>a</sup>	1.7	16.2	8.5	0.9	3.0	1.2
of which: Turnover	1.0	9.9	---	0.6	1.8	---
VAT	---	---	4.9	---	---	0.7
International Trade	4.2	27.5	25.8	2.3	5.1	3.8
Property, Registration, Licenses, Fines, etc.	1.7	13.4	9.2	0.9	2.5	1.3
Total Tax Revenue <sup>b</sup>	11.4	74.6	54.6	6.3	13.9	7.9

<sup>a</sup> Other taxes include special fees on cigarettes, alcoholic beverages, petroleum products, and uranium.

<sup>b</sup> Excludes collections for previous budget exercises, financial aid, and exceptional income.

Source: Ministère du Plan, Direction de la Statistique et de la Démographie, *Annuaire Statistique: "Séries Longues,"* 1991.

generally restricting the tax to manufacturing, importing, and extractive sectors.<sup>10</sup> Attempting to extend the VAT through the retail level created the danger of spreading Niger's limited administrative resources too thinly.

A common element among countries that have successfully adopted the VAT has been a meticulously planned campaign of taxpayer education, which has lasted generally two years or longer before initiating the tax.<sup>11</sup> For example, Korea prepared a film about the VAT which was shown in every movie theater.<sup>12</sup> The switch to the VAT in Niger appears to have been undertaken in less than a year after the decision was made. Perhaps because Niger had a long experience with the turnover tax, it was imagined that the switch to the VAT could be accomplished smoothly and quickly. This did not happen. Other developing countries have often benefited from the collaboration of a group of foreign advisors over a period of up to two or three years while laying preparation for its implementation. Niger did employ such a team, but the consultants were mostly provided through French aid. With hindsight, this was probably unfortunate because Niger did not benefit from the wider experience that other countries had gained in determining the structure and means to implement the VAT. For example, when Indonesia planned for its VAT, it was able to consider the advice offered by advisors from half a dozen countries before deciding what strategy was optimal for its needs.

No one hails a new tax. To make the VAT more palatable, many countries have simultaneously lowered and eliminated some marginal income tax rates, counting on the new VAT to compensate for the lost revenue.<sup>13</sup> Niger made no attempt to modify its income tax, which uses a complicated schedular form with seven marginal rates

ranging from 2 to 60 percent and where certain types of income can be taxed as many as three times. Initially, the standard rate of the VAT was set at 25 percent with a higher rate of 35 percent on luxury items and a lower rate of 15 percent for necessities. No other low-income country has had higher rates than those initially adopted by Niger. Furthermore, the general view has been that a single rate is preferable to multiple rates because it is simpler to administer, reduces compliance costs for small firms, and avoids distortions of consumer choice.<sup>14</sup>

There was so much resistance to the new tax that, eighteen months after it was introduced, the authorities lowered the rates. Since mid-1987, the standard rate has been 17 percent, the luxury rate 24 percent, and the necessity rate 10 percent. The new rates are still higher than for all but a handful of developing countries, mostly Francophone.<sup>15</sup> The authorities hoped that reducing the rates would induce greater compliance and increase revenue. That was an empty hope.

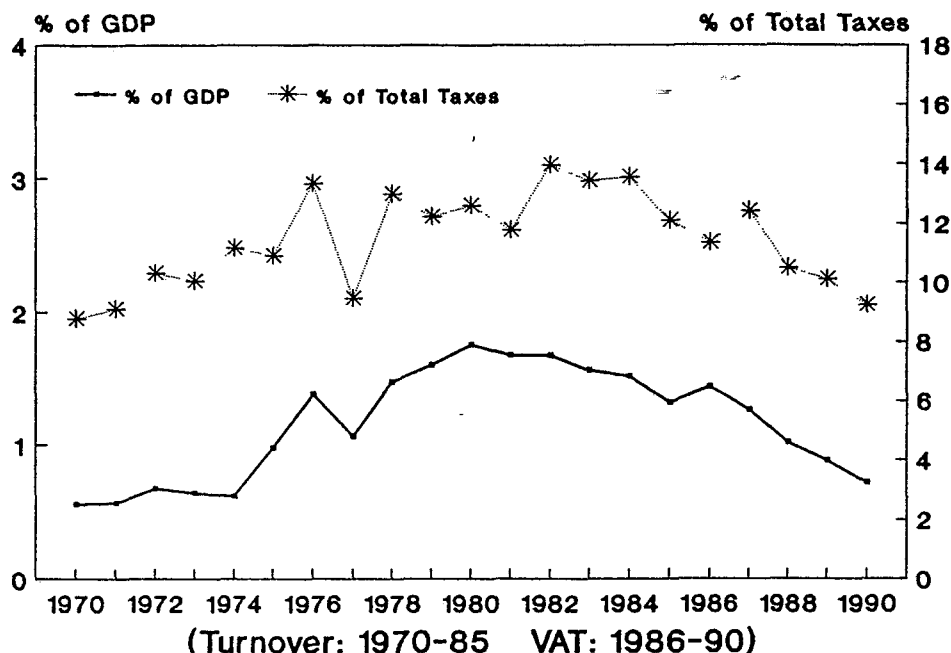
Niger was not alone in having to reduce its initial VAT rates. In 1984, Peru reduced its standard rate from 18 percent to 11 percent, and two years later it reduced the rate further to 6 percent. The reductions were said to be "motivated to improve compliance and remove one of the causes of the rapid growth of the underground economy."<sup>16</sup>

In 1985, the final year of the former turnover taxes, the Ministry of Finance collected 8.5 billion CFA francs on domestically produced goods and services. In 1990, after the VAT had been in place five years, comparable collections had decreased by more than 40 percent to only 4.9 billion CFA francs (prices decreased by about 2 percent between 1985 and 1990).<sup>17</sup> The decline cannot be explained by movements in GDP, which *increased* about 8 percent in real terms and 6 percent in nominal terms between 1985 and 1990. This unforeseen turn of events is highlighted in Figure 1, which illustrates how the former turnover tax and the VAT evolved between 1970 and 1990 as a percentage of total taxes.

Part of the decreased revenue was due to the increased importance of transactions exempt from the VAT. As economic conditions deteriorated after 1980, gross domestic investment in constant prices declined. By the end of the 1980s, it was no more than half as large in constant prices as it had been at the end of the 1970s. Concurrently, foreign economic assistance increased, but the supplies it financed were exempt from the VAT. During the budget year 1986–87, foreign aid-financed investments accounted for 90 percent of all public investments. If the projects had been taxed, VAT collections would have been about a quarter larger.<sup>18</sup>

Concurrent with the increased foreign aid, there has been an increase in the number of persons with diplomatic or assimilated status who are exempt from the VAT. In a larger country, this would not be a significant factor, but given the number of expatriates working on foreign aid-sponsored projects, the part of their expenditures which is exempt from the VAT represents a sizeable loss of revenue. During 1990, the government received 8,000 requests for VAT exemptions but only two government employees were assigned to review the requests.<sup>19</sup>

**FIGURE 1**  
**Turnover and VAT Taxes**



#### WAS NIGER READY FOR THE VAT?

The failure of Niger's Treasury to benefit from the introduction of the VAT raises questions already posed by Gouadain.<sup>20</sup> Was the failure of the VAT in Niger an example of an inappropriate transfer of technology? In other words, does Niger's experience suggest that when taxation technologies, developed and perfected within the socioeconomic context of industrial countries, are transferred to a developing country such as Niger, they are likely to fail or at best work poorly because the conditions are so different? Or would the tax have worked satisfactorily in Niger but for some local administrative failure? Of course, both of these possibilities may have contributed to the VAT's failure.

The International Monetary Fund (IMF) has been prominent in urging developing countries to adopt the VAT.<sup>21</sup> The IMF position has often been that the disadvantages of the VAT due to its complexity and the administrative apparatus necessary to verify the accuracy of tax declarations are outweighed by certain advantages. These include the cross-checking potential, which allows the verification of the accuracy of reported transactions and also provides supplemental data for verifying income tax declarations.<sup>22</sup> However, some developing countries have had difficulties in successfully adopting the VAT, especially with regards to achieving higher revenues from the VAT than from turnover taxes.<sup>23</sup>

The successful implementation of the VAT requires a competent and committed administrative bureaucracy. For most European countries, the ratio of taxpayers to tax staff in the case of the VAT varies between 150 and 200, although the ratio is over 700 in Italy.<sup>24</sup> There is more variation among developing countries, ranging from 125 for Pakistan to 310 for Korea.<sup>25</sup> The VAT office in Niger had a staff of fourteen in 1991 and about 4,200 taxpayers, resulting in an overall ratio of about 300 taxpayers per staff member. As a consequence, it does not seem that Niger is noticeably understaffed relative to norms elsewhere. However, the tax authorities have been able to reach only a small portion of potential taxpayers. As a percentage of its population, Niger (along with Haiti) has the world's lowest percentage of VAT taxpayers, about one-twentieth of one percent, as compared with as high as 5 percent for some developing countries and 5 to 8 percent for most European countries.<sup>26</sup>

This low percentage may not be strictly comparable with other countries because the institutional character of business firms in Niger differs from the structure in Europe. Businesses are designated officially as belonging to either the "formal" or "informal" sector. Firms in the formal sector utilize modern business practices, especially extensive record keeping. Firms are classified as being in the informal sector if they are not able to produce sufficient records to determine applicable taxes (income, business license, VAT, etc.). It is estimated that Niger has 100,000 businesses of all sizes (excluding small-scale farming and herding operations). But among these businesses, in 1991, there were only 200 firms and 550 individuals registered in the formal sector. The vast majority of businesses are classified in the informal sector.

Given the small size of the formal sector in Niger, reaching even one-twentieth of one percent of the population could mean that a high percentage of businesses in the formal sector are being taxed, but this does not appear to be the case. Another indicator of the low percentage of tax coverage is the percentage of consumption that is taxed. The amount of the VAT collected in 1990 was 4.9 billion CFA francs, which was less than one percent of all consumption in contrast to the VAT's official standard rate of 17 percent. Even acknowledging the large amount of exempt consumer goods, the VAT coverage appears small.

The VAT does make an effort to reach the informal sector in Niger by taxing informal businesses on a "forfeit" basis. In determining the amount of the forfeit, the tax authorities are supposed to receive and review a semiannual declaration due from each informal business, but the declaration assumes that the business maintains modern records. It requires four pages of detailed information about sales, reported according to the categories of the three VAT rates; purchases are treated similarly in order to arrive at the necessary information about tax credits. These data are obviously mostly unavailable in the case of informal sector businesses. For example, small traders frequently pay for purchases out of their cash box without noting the transaction anywhere. Thus, it is virtually impossible to make an accurate estimate of informal business activity for the purpose of determining fair VAT assessments. Under these conditions, the tax authorities arrive at the forfeit tax through individual negotiation. The

informal sector businesses, which do not make their VAT declarations based on accounting records, are taxed according to a formula that takes into account the physical size of the business, the number of employees, and other indicators related to what the tax authorities consider its business activities. This process is resented by taxpayers as arbitrary and time-consuming, invites bribery, and produces minimal revenue for the government. The effectiveness of relying on a forfeit system to reach small businesses depends, among other things, on the extent to which the periodic reviews are thorough and frequent.<sup>27</sup>

The principal characteristic of businesses in the informal sector is their lack of organized accounting records. A major reason for the lack of formal bookkeeping among Niger's thousands of small businesses is a literacy rate which is among the world's lowest (less than 30 percent).<sup>28</sup> The informal sector includes 20,000 businesses which pay the business license tax, but among these, only 3,500 are registered VAT taxpayers. Some of the remainder are exempt from the VAT because the volume of their business falls below the minimum turnover subject to the VAT, but the large majority simply have not yet been induced to register and pay the VAT.

The heart of the VAT system is the extensive set of records, books, and accounts that each business must keep in order to justify its declarations and receive credit for VAT payments by its suppliers.<sup>29</sup> Companies in the formal sector complain that they are at a disadvantage because their competitors in the informal sector pay little or no VAT. Businesses perceive that there are significant tax costs in moving from the informal to the formal sector. Indeed, it is alleged that businesses have increasingly sought to reduce their activities that are subject to taxation under the formal regime and divert their activities to the informal sector. The national accounts record that between 1979 and 1990, the share of GDP attributed to the informal sector increased from 67 to 74 percent.<sup>30</sup> Besides indicating the extent to which the structure of the economy has undergone change, this flight toward the informal sector has obvious implications for the revenue yielded by the VAT.

In Niger, informal businesses account for 80 percent of all VAT taxpayers, but the total receipts from the forfeit payments in 1990 amounted to less than one-half of one percent of total VAT collections.<sup>31</sup> The formal businesses that provide virtually the entire VAT revenue can be reached by phone and can be obliged to attend a review of their VAT declarations if the tax authorities request it. When we inquired about the success at enrolling new businesses, the director of the VAT explained that his office was so short of funds that it was all he could do to handle the tax accounts of the formal-sector firms already enrolled. He said it was next to impossible for him to release one of his inspectors for the purpose of trying to locate new businesses to enroll in the VAT. Not only were there no funds to pay for the necessary transportation to reach new potential taxpayers, but he said that due to the chronic budget crisis, the VAT staff has been powerless to reach, with any kind of regularity, the several thousand informal businesses with whom it is supposed to negotiate the individual forfeit taxes.<sup>32</sup>



When the switch was made from the turnover taxes to the VAT, the authorities expected to be able to increase the tax base by including retail businesses that had not been subject to the turnover tax. However, taxpayer resistance has rendered this effort a failure. The large central market in the capital of Niamey houses several hundred merchants whose activities range from small single-product stands selling vegetables, fruits, meat, cigarettes, and the like, to larger shops with fabrics, household goods, and construction materials. Each of these businesses was accustomed to paying the traditional business license tax but not the turnover tax. When the administration informed them that they would be subject to the VAT, they simply refused to pay. The administration has not undertaken to force them to comply with the new tax.<sup>33</sup>

Given the size of the informal sector relative to the formal sector and the administrative capacity of the tax authorities, it is understandable that, in 1982, an IMF advisory team had concluded that it did not believe that Niger was ready to undertake the measures required to replace the turnover taxes with the VAT.<sup>34</sup> However, in 1986, after suffering several years of declining tax revenue, Niger went ahead and made the switch anyway. When another IMF advisory group, which included some of the same members who had prepared the 1982 report, visited Niger in 1986, they praised the government for adopting this most modern of fiscal instruments. The same report stated that the tax was suitable for the structure of the economy and well within the administrative capacity of the government.<sup>35</sup> The fact that the relative size of the informal sector had increased between 1982 and 1986 does not suggest that the VAT was more likely to be successful than four years earlier.

One can only wonder whether the change in the IMF evaluation was based on their perception of positive changes within the administration, or if it was due to an increasing conviction that the net benefits of switching to the VAT were bound to be positive for any developing country, independent of its institutional structure and administrative capacity.

Some of the authors of the IMF reports are also senior officials in the French Ministry of Finance. Since the VAT has been such a success in Europe generally, and especially in France, it is understandable that there might be enthusiastic support to see it implemented elsewhere, especially in countries that have had a special relationship with France for the better part of a century. However, not all French observers are so optimistic about the ability of developing countries to successfully adopt the VAT. Professor Goudain has described his reservations about trying to adapt the VAT to the administrative realities of many developing countries, especially in a country like Niger with its low literacy rate.<sup>36</sup>

Nor are all government officials in France unanimous about the likely success of the VAT in the Francophone countries of Central and West Africa. We were told by officials at the principal aid agency in France (Ministère Français de la Coopération et Développement) that they were skeptical about whether some of the other developing countries in West Africa had the administrative capacity to implement a VAT system

capable of successfully replacing their turnover taxes. They cited the case of Burkina Faso, which had introduced a VAT in January 1992. They said that the officials in Burkina Faso had been advised that it might take three years for the VAT to reach the former level of the turnover taxes. They said that even this estimate might be optimistic in light of the problems that Niger has encountered.

## POLICY ISSUES

The failure of the VAT contrasts sharply with its reputation as a “money machine.”<sup>37</sup> One might wonder if the VAT is worth saving or would Niger be better advised to return to the greater simplicity of the turnover taxes? The turnover taxes functioned reasonably well for several decades and were well understood. Administratively, they were less demanding than the VAT because they only required information on sales rather than on both sales and purchases. Among the several dozen countries that have adopted the VAT, only Vietnam repealed it and that occurred during wartime, although Peru’s decrease from 18 to 7 percent signified a major retreat.<sup>38</sup>

All things considered, the VAT has much to recommend it in the long run. Its self-checking feature should eventually enhance the government’s ability to assess and collect other taxes (income, property). However, it is not evident that time is on Niger’s side. The deteriorating revenue situation has placed great strain on the political system and was a major contributing factor to the 1991 government crisis and the subsequent national conference on political reform. One result was the creation of an exceptional tax to finance “expenditures of a general interest.”<sup>39</sup> Subsequently, the government that was constituted after the national conference has given some evidence that it may be ready to take unusual measures. Most taxes are collected by the Treasury. Increasingly, however, the Treasury has fallen further and further behind both in notifying taxpayers about their liabilities and, especially, in collections.<sup>40</sup> After consultation with foreign advisors, in mid-1992, the Ministry of Finance decided to create a tax collection unit, which would be outside the Treasury, located within the Direction Générale des Impôts. But, it remains to be seen whether this new unit will be given the resources necessary to make it a more efficient collector of taxes than the Treasury itself has been.

The crux of Niger’s VAT problem is the dominant size of its informal sector and the inability of businesses there to comply with the record keeping required of firms in the formal sector. The administration spends considerable resources collecting almost negligible revenue from the informal sector. In principle, each informal business requires a prior examination to determine if it justifies being classified in the informal sector. Afterwards, if so determined, the negotiation over the VAT assessment begins. It has been recommended that countries in Niger’s situation exempt the truly small businesses and require all others to comply with the normal VAT provisions.<sup>41</sup>

It is not clear how this would benefit Niger because, in recent years, the relative importance of the informal sector has increased. So far, the authorities have been

unable to devise a workable plan to move businesses from the informal to the formal sector. Because so few businesses and individuals have registered in the formal sector where they are required to provide documentation of their activities, the establishment of a national tax register might provide a means of obtaining supplementary information, which could be used to persuade borderline firms in the informal sector that they should declare in the formal sector.<sup>42</sup> Such a registry would bring together all relevant information for determining liabilities under the income and property taxes for each taxpayer. This information would include the individual's formal-sector wages, investment income, house type and value, motor vehicle data, telephone and electricity consumption, and so forth. In the absence of documented sales and purchases, the information in a national tax registry could help the authorities pinpoint the largest evaders.

### CONCLUSIONS

Three factors explain the VAT's failure as a revenue-raising instrument in Niger. First, the government administration was not capable of implementing a tax technology, which was developed where accounting skills and techniques were far more advanced than in Niger. The VAT could not be successfully applied because a fundamental element was missing, namely an extensive network of businesses with interlocking records of transactions to make the self-checking aspect of the VAT successful. Second, the ongoing budget crisis has diverted limited administrative capacity towards activities other than tax collection, and, as a consequence, the VAT network has not only failed to expand in the years since its introduction, but also actually decreased the number of VAT taxpayers. Third, also connected with the economic crisis has been the switch from privately financed investment, which would normally have been at least partially subject to the VAT, to international financial aid which is tax exempt. This alone probably accounts for nearly one-quarter of the absolute decrease in tax receipts, which has occurred since the VAT was first introduced in 1986.

One of the most important reasons for the failure of the VAT has been that the vast majority of firms are registered in the informal sector; they are unable or unwilling to document their purchases and sales. Changing this situation cannot be accomplished without a long-run plan to raise the level of business literacy. The Ministry of Finance could play a positive role in educating businesses about modern accounting practices. However, as long as businesses perceive that their taxes will remain lower if they can avoid moving to the formal sector, the problem of raising VAT collections will continue to plague the administration.

Moreover, no significant progress can be expected in Niger until the government develops a viable plan for dealing effectively with the long-standing budget crisis. The solution to the budget crisis clearly requires a restatement of tax objectives and, most likely, a restructuring of both government expenditures and taxation in order to reduce the deficit to a manageable proportion. The ultimate aim of enhancing equity while

achieving greater economic efficiency and performance will require a concentrated effort, which up to now has been beyond the reach of the government.

## NOTES

In 1991, the authors surveyed the tax system of Niger for the U.S. Agency for International Development under a contract administered by Development Alternatives, Inc. The material gathered during that trip provided the groundwork for the analysis in this study. Professor Gouadain, University of Poitiers, provided helpful comments on an earlier draft as did two anonymous referees; Mme Aude Bourhis of the French Ministry of Cooperation and Development contributed useful background information.

1. Alan A. Tait, ed., *Value-Added Tax: Administration and Policy Issues*, (Washington, D.C.: International Monetary Fund, 1991), 2–3.
2. Alan A. Tait, *Value-Added Tax*, (Washington, D.C.: International Monetary Fund, 1988), 12.
3. This per capita GDP estimate is based on the purchasing-power parity method rather than the conventional official-exchange-rate method; see *World Development Report 1993* (New York: Oxford University Press, 1993).
4. World Bank, *World Tables 1993*, (Washington, D.C.: World Bank, 1993), pp. 452–53.
5. For a more complete survey of the tax system of Niger, see Barlow and Snyder, “French-speaking Africa is Slow to Modernize the Colonial System,” *Journal of International Taxation*, 3 (July/August 1992): 86–91, and Barlow and Snyder, “Taxation in Niger: Problems and Proposals,” *World Development* 21 (July 1993): 1179–89.
6. Carl Shoup, “Choosing Among Types of VATS,” in Malcolm Gillis, Carl Shoup, and Gerardo Sicat, eds., *Value Added Taxation in Developing Countries*, (Washington, D.C.: World Bank, 1990), p. 4.
7. The Niger government is not optimistic about the future. The five-year plan for 1992–96 sets a target increase in GDP of 3.2 percent annually, which is only marginally higher than the current population growth rate; *Marchés Tropicaux* (Oct. 2, 1992): 2614–15.
8. The tax situation by mid-1991 had brought the government to a virtual standstill. The Treasury was reported not to have enough funds even to deliver its tax assessments; *Jeune Afrique*, (June 5–11, 1991): 78.
9. An interpretation of the motives for the switch to the VAT is given in Gouadain, “La Réform Fiscale,” 163–67.
10. Malcolm Gillis, Carl Shoup, and Gerardo Sicat, eds., *Value Added Taxation in Developing Countries*, (Washington, D.C.: World Bank, 1990), p. 219.
11. *Ibid.*, p. 225.
12. Carl Shoup, “Summary,” in Gillis, p. xiv.
13. John Due and Francis Greaney, “The Introduction of a Value-Added Tax in Trinidad and Tobago,” in Richard Bird and Milka Casanegra de Jantscher, eds., *Improving Tax Administration in Developing Countries*, (Washington, D.C.: International Monetary Fund, 1992), pp. 182–87.
14. Milka Casanegra de Jantscher, “Administering the VAT,” in Gillis, pp. 172–73.
15. Tait, 1991, 2–3.
16. Casanegra de Jantscher, p. 173.
17. Niger, Ministère du Plan, Direction de la Statistique et de la Démographie, *Annuaire Statistique: “Séries Longues,”* 1991.
18. International Monetary Fund, Jean-Paul Cornely, and Jacques Baldet, *Niger: Proposals for Increasing the Tax and Custom Base*, (March 25, 1987): 7.
19. France, Inspection Générale des Finances, *Fiscalité et Ajustement Structurel au Niger*, (December 1990): 14.
20. D. Gouadain, “La Réform Fiscale Introuvable,” *Marchés Tropicaux*, (Jan. 19, 1990): 163–67.
21. Tait, 1988 and 1991.

22. Tait, 1988, 233.
23. For a discussion of transitional problems encountered by some developing countries after switching to the VAT, see Tait, 1991, 172–87.
24. Tait, 1988, 250.
25. Tait, 1991, 52.
26. Tait, 1988, 271.
27. Tait, 1988, 120.
28. United Nations Development Program, *Human Development Report 1993* (New York: Oxford University Press, 1993), 139.
29. Tait, 1991, 33.
30. Niger, Ministère du Plan, Direction de la Statistique et de la Démographie, 1991, *Annuaire Statistique 1991*.
31. Interview information obtained in May 1991 from the Director of the VAT Section, Ministry of Finance.
32. Interview with Director of VAT.
33. Interview with Director of VAT. The government has, however, enforced the application of the VAT on merchants with shops around the outside perimeter of Niamey's central market.
34. International Monetary Fund, Jean-Paul Cornely et al., *Study of the Tax System*, (Sept. 28, 1982).
35. International Monetary Fund, *Niger: Proposals*.
36. Gouadain, "La Réform Fiscale," 163–67.
37. Gillis, p. 220.
38. Carl Shoup, "Choosing among Types of VATs," in Gillis, p. 3.
39. *Jeune Afrique* 1645 (16–22 July 1992), pp. 42–48.
40. See footnote 8.
41. Gillis, p. 174.
42. Gillis, p. 176.