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TAXATION OF DEVELOPING COUNTRY EXPORTS: APPLICATION TO COFFEE IN BURUNDI

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In many countries, exports of cash crops are an important source of revenues for producers and the government, in addition to generating hard currency. Although cash crop agriculture may be criticized in terms of development potential, the revenues obtained through their taxation may be used to finance development projects or other expenditures. In many countries, this export tax is obtained indirectly, as government agencies are created for purchasing the crop and exporting the finished product. The government may obtain a larger profit margin on the export product by lowering the price offered to producers. Indeed, given that exporters are most often price takers on the world market, the amount of tax revenues obtained are directly a function of the internal price.

While a reduction internal price increases the per unit margin, the quantity supplied may decrease, depending on the price elasticity of supply of the product. It should also be noted that a decrease in internal price leads to a decrease in the amount of hard currency earned from the exports. If the goal of the government is to maximize tax receipts, the internal price for producers (P^*) should be set according to the following relation:

$$P^* = (P_w e_s)/1+e_s,$$

where P_w = world price, e_s = supply elasticity. As governments will face a tradeoff between the price which maximizes tax receipts (P^*) and the price which maximizes hard currency earnings (P_w), one would expect that the price set in any country would fall between the two, thus $P^* < P < P_w$. Thus, if supply relationships are estimated for export products, it is possible to evaluate the choice of internal price in terms of these two goals.

Coffee pricing policy for Burundi over the past two decades is evaluated within this framework, using annual data at the national and regional levels. Short and long run supply elasticities are calculated from functions estimated with Nerlovian equations. Where results are significant, the supply elasticities are used to calculate the price which maximizes government receipts (P^*). Results vary according to region as well as time period; however, it should be noted that in a large number of cases, the internal price was set below P^*, indicating a loss of both tax receipts and foreign currency. Urgent short-run cash needs of the government may be an explanation for this evidence of irrational long-run price policy.