

**FUNDING OPTIONS
FOR AGRICULTURAL
DEVELOPMENT:
THE CASE FOR
SPECIAL PURPOSE LEVIES**

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**FAO LEGAL
PAPERS
ONLINE #44**

March 2005

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A. Introduction

The problem is a familiar one for a legislative consultant. You are drafting a law for a government agency, and they want to collect funds to cover the costs of providing certain services. To take a concrete example, a forestry agency wants to collect funds from the forest industry, to use for the purpose of reforestation. There is clearly a public interest in ensuring that trees felled in forestry operations are replaced, so it is important that funds collected for reforestation are applied to that purpose. Therefore, you look at setting up a special fund under the law, and providing for a levy to be collected from certain industry participants, paid into the fund, and then paid out of the fund for reforestation. Ideally, the funds would be “dedicated”, a term sometimes used to mean that the funds are kept separate, and can only be used for the purpose specified.¹

This seems simple enough, until you talk to the country’s Treasury officials. Their view is that levies and any other revenues collected by government agencies should go into the state’s “consolidated revenue”, so that all the funds available can be distributed among all the government agencies to provide services to the public in accordance with government priorities, under the normal budgetary processes. But, you ask, what if that means that funds collected for reforestation are not used for reforestation? Aren’t those funds collected on false pretences, with the result that the country’s forest resource may not be replaced? But, the Treasury officials reply, if every agency which collects revenue from economic activities can keep those funds for their own purposes, how are the “non-economic” sectors like education and health, police and courts, to be funded?

There is a genuine dilemma here: can the need to commit funds on an ongoing basis to pay for reforestation or any other special purpose be met, without undermining the government’s capacity to

pay for other public services? From the point of view of the agency concerned, it wants a reliable, ongoing stream of funds, collected from its sector of the economy to service particular needs of the sector. From the Treasury’s point of view, it will want to limit the number of special cases which receive such favourable treatment, so as to keep leakage of budget funds to a minimum.

In certain countries there has been a proliferation of such “special purpose levies” (SPLs) in recent years, and principles and guidelines have been developed to govern when such levies are acceptable. A surprising number of interesting issues arise, in balancing the needs of “dedicated funds” with the needs of “consolidated revenue”. The issues are of two main types –

- political: are levies for special purposes desirable or not? and
- operational: if they are desirable, what is the best way to provide for them?

An inquiry into their desirability asks in what circumstances and under what conditions are SPLs acceptable. What will be their impact on the country’s revenue system, and the ability to use taxation as a lever in controlling the economy? Secondly, what role might such levies play in influencing public attitudes and behaviour (e.g., pollution levies), in other words, as instruments for regulation? Thirdly, what is the impact of such levies on the delivery of basic services to the public (e.g., water supply)? Fourth, what impact do such levies have on public administration – for example, on accountability and transparency? Fifth, what will be their impact on markets, competition and trade, taking into account World Trade Organization concerns?

The other main concern with special purpose levies is the operational one: what is the best way of setting them up and administering them? In the first place, there are legal questions – are there any “competency” issues (the legal power to set up such a levy) – for example under a federal system, where there is a constitutional distribution of

¹ Another term used when funds are tied in this manner is “sequestered”.

