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## Local government taxation in Sub-Saharan Africa

A review and an agenda for research

Odd-Helge Fjeldstad, Gérard Chambas and Jean-Francois Brun



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## Summary

This paper reviews the state of knowledge on local government revenue systems in Africa, with a particular emphasis on commonalities and differences between Francophone and Anglophone countries in Sub-Saharan Africa. The analysis focuses on the composition of local government ‘own’ revenues, administrative practices, and how the current system affects economic efficiency and accountability. It is not meant as an exhaustive review of these topics. It aims to highlight some key issues that require greater attention and, in some cases, more substantial research.

The local government tax systems currently in place in Sub-Saharan Africa are largely adopted from the former colonial powers. In contrast to central government tax systems, local government tax systems in many African countries have remained largely unchanged since independence. Exceptions are reforms in East-Africa, which have led to the abolishment of some of the most unpopular taxes, including poll (head) taxes in Tanzania and Uganda, and simplification of the local government tax legislation and administrative practices. Generally, however, fiscal decentralisation reforms in Sub-Saharan Africa are limited to addressing the inter-governmental fiscal transfer system. The central government’s control of the local revenue system remains strong, and more so in the Francophone countries in West Africa than in Anglophone East Africa. Due to the overall fiscal constraints, the reform of the local tax system has been considered less important than mobilisation of central government revenues. Local tax systems are often distortive, costly to administer, and exacerbate inequity. Moreover, in most African countries there is little or no co-ordination between various levels of government with respect to taxation. This has partly to do with lack of capacity at all levels. At the local level the serious shortage of qualified staff at the treasury and planning departments is particularly critical.

Based on findings from the review and knowledge gaps identified, areas for further research are suggested. The need for research on commonalities and differences within and between Anglophone and Francophone countries in Africa is emphasised. Both technical and political-economy questions are under-explored in the literature. Combining research on the technical and administrative framework for local taxation with the political and economic realities at the local and central levels has the potential to identify constraints and practices that can guide policy work and be used as benchmarks to assess actual policy implementation.

## 1. Introduction

A sound revenue system for local governments is an essential pre-condition for the success of fiscal decentralisation (Bird 2010; Martinez-Vazquez, McLure and Vaillancourt 2006; Ebel and Taliercio 2005; Olowu and Wunsch 2003). In addition to raising revenues, local revenue mobilisation has the potential to foster political and administrative accountability by empowering communities (Smoke 2013; Mikesell 2002, 2007; Shah 1998; Oates 1998). However, the local revenue potential is often low and collection costs high compared to many central government taxes.

The central government tax systems of most African countries have been the subject of major reforms that have adapted tax legislations both to the country specific contexts and to a changing international environment over the course of the past twenty-five years (Chambas *et al.* 2005; Keen 2012; Keen and Mansour 2008). In contrast, local tax systems in many African countries have remained largely unchanged since independence, in particular in Francophone Africa. The focus on central taxation is explained by (a) political factors (the decentralisation process has been resisted or undermined by central government institutions fearful of losing power and rationale); (b) economic factors (aiming to address fiscal deficits and constraints); and (c) administrative factors (it is generally easier and less costly to collect large revenues from central government taxes).

In some countries in East Africa, local tax reforms have led to the abolishment of so called ‘nuisance’ taxes, including poll (head) taxes in Tanzania and Uganda, and simplification of the local tax legislation and administrative procedures (Fjeldstad and Heggstad 2012; Fjeldstad *et al.* 2010; Fjeldstad and Therkildsen 2008). However, fiscal decentralisation is often limited to addressing the fiscal transfer system and the central government’s control remains strong and more so in the Francophone countries in West Africa than in Anglophone East Africa. Decentralisation extended to all national territories remains a recent phenomenon. Due to the overall fiscal constraints, the reform of the local tax system has been considered less important than mobilisation of central government revenues.

Local tax systems across Africa are characterised by a large number of taxes, levies and fees (Brosio 2000; Fjeldstad and Heggstad 2012; Fjeldstad and Semboja 2000). In some countries local governments seem to raise whatever taxes, fees, and charges they are capable of raising, often without worrying too much about the economic distortions and distribution effects that these instruments create. The large number of taxes, fees and charges is a major problem from several perspectives, including the development of an effective, transparent and accountable local tax system. Further, it often leads to overestimation of the local revenue potential. In most African countries there is little or no co-ordination between various levels of government with respect to taxation. This has partly to do with lack of capacity at all levels.

This paper reviews the state of knowledge on local government revenue systems in Africa, with a particular focus on Sub-Saharan Africa. The analysis focuses on the composition of local government ‘own’ revenues, administrative practices, and how the current system affects economic efficiency and accountability. The study is not meant as an exhaustive review of these topics. It aims to highlight some key issues that require more attention and, in some cases, more substantial research. Based on findings from the review and knowledge gaps identified, areas for further research on local government revenue systems in Africa are suggested. Both technical and political-economy questions are under-explored in the literature. Combining research on the technical administrative framework for local taxation with the political and economic realities at the local and central levels have the potential to identify constraints and practices that can guide policy work and be used as benchmarks to assess actual policy implementation.

The paper is organised as follows: Section 2 focuses on local government revenue structures and tax legislation within Sub-Saharan Africa. Section 3 addresses local tax administration and administrative practises. Thereafter, in section 4 a strategy for further research on local government taxation in Africa is outlined. Finally, section 5 concludes.



## 2. Local government revenue structure and legislation

This section examines local government revenue systems in Africa, including tax and non-tax revenues shared with the central government. The purpose here is to establish a diagnosis of the local government own revenue systems and to identify main challenges for reform.

The local government revenue systems currently in place in Sub-Saharan Africa are largely adopted from developed countries, generally from the former colonial powers. Local taxation in urban municipalities in Francophone Africa therefore follows the French administrative tradition, while countries in Anglophone Africa follow the English tradition. Local government institutions in most African countries often appear to be decentralised extensions of the central government. Mobilisation of own local revenues is a condition for the development of decentralised local authorities, of which two definitions are relevant, i.e. (a) narrowly defined own local revenues and (b) own local revenues. *Narrowly defined own local revenues* includes tax and non-tax revenue directly mobilised by the local government authorities. These revenues include:

- 1) *Property taxes* essentially based on urban residential and commercial buildings and (rarely) on agricultural land.
- 2) *Rental income on property owned by the local government authority.*
- 3) *Per capita tax (poll tax)* is a residence tax imposed annually on adults above a certain age (e.g. 18 years). Women, poor and disabled people are often exempted.
- 4) *Taxes on activities* cover various forms of business licences and taxes based on professional activities.
- 5) *Local taxes or fees on utilities*, including local service charges on water and electricity.
- 6) *Fees* for the use of public facilities, for instance, markets, abattoirs, equipment intended to facilitate economic activities, etc.
- 7) *Livestock or grazing fees imposed on pastoralists* moving through the locality.
- 8) *Royalties* in compensation for the exploitation of natural resources (mineral resources, quarries, fishery resources and forests).
- 9) *Miscellaneous taxes, levies and stamp duties* such as taxes on tourism, road tolls, etc.

The amount of narrowly defined own local revenues is an 'indicator' of the local authorities' mobilisation effort and of the accountability relation that local taxpayers are likely to establish between the local levy and the supply of local public goods (Smoke 2013: 3). Mobilisation of narrowly defined own local revenues may have a favourable effect on the effectiveness of local expenditure due to the accountability introduced at the level of the local authority (Raich 2005).

The broader category '*own local revenues*' is an 'indicator' of the financial autonomy of local government authorities. Own local revenue includes the local government's share in taxes collected by the central level (i.e. tax sharing) and the narrowly defined own local revenues. Since revenue

sharing does not rely on a discretionary decision of the central government, it contributes to the local authorities' financial autonomy.<sup>1</sup>

In addition to these two definitions, which include an indicator of the local mobilisation effort and an indicator of financial autonomy respectively, it is important to include an indicator measuring all the revenues available to local authorities. The concept '*total local revenues*' (TLR) includes own local revenues, transfers from the central government, external financial contributions such as donor funded projects/programmes (for instance, integrated rural development programmes), constituency development funds (for instance, Kenya's Constituency Development Fund (KCDF)) and social development funds (for instance, Morocco's Social Development Agency and Tanzania's Social Action Fund (TASAF)). The additional components of the TLR largely rely on discretionary decisions by the central government or another institution.

## 2.1 Own local revenues: a diagnosis

The local tax legislations currently in place in sub-Saharan Africa are largely adopted from developed countries, generally from the former colonial powers. Thus, local taxation in urban municipalities in Francophone Africa follows the French administrative tradition. For instance, municipalities in Benin, Côte d'Ivoire, Mali, and Senegal essentially apply the 'old four' traditional taxes: *tax on buildings*, *land tax*, *business licence* and *liquor licence*. In Anglophone Africa, property taxes (on residence and commercial buildings), business licenses and user charges on locally provided services (e.g. water, sewage, garbage, etc.) are commonly applied. In rural councils, poll taxes and various taxes and fees on agricultural production and marketing have been common.

### 2.1.1 Assessment of some local revenue bases

#### ***Property taxation***

Property taxation consists of taxing either rental values or, most commonly, the value of the property (Bahl and Martinez-Vazquez 2007; Bird and Slack 2007; Bahl *et al.* 2010; McCluskey and Franzsen 2005). This tax base raises some fundamental challenges since the availability of relevant property registers and data is generally limited, except in South Africa (Franzsen 2007).

In theory, assessment of property value and revenue collection are straightforward: conduct a cadastral survey that assesses the market or site value of each plot of land or property, and send a tax bill to each owner. In practice, however, cadastral surveys are expensive and time-consuming (Bahl and Smoke 2003: 79). The task is often beyond the financial and technical capability of many local governments. Tax offices in many sub-Saharan African countries, except in South Africa, are short on assessors, if they have any at all (Farvacque-Vitkovic and Godin 1998). In Uganda, for instance, there were eleven certified land and property valuers responsible for valuing three million parcels a decade ago (McCluskey *et al.* 2003). The corresponding figures for Tanzania were approximately 100 certified valuers and five million parcels. Thus, it is difficult to conduct and maintain assessments, which are also often eroded by inflation. Particularly when property prices are changing rapidly, it is difficult to administer. Accordingly, the property tax base is inelastic, despite growth in the physical size or value of property, because old valuations are not updated and new properties not identified. In most cases, the system has been inherited from the colonial era and is poorly suited to present conditions.

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<sup>1</sup> In contrast to own local revenues in the strict sense, local authorities usually cannot decide the rates and the base of shared taxes. Moreover, the distribution of the shared revenues generally falls within the responsibility of the central government. The distribution of revenues between local and central government authorities may

Cadastral systems may work in areas with regular street patterns, named streets, and numbered houses. In the absence of street addresses, tax bills are not deliverable and penalties are unenforceable. The absence or scarcity of clear ownership titles is another challenge facing property taxation. Collection is often poor and many bills go unpaid because taxpayers cannot be identified or they resist payment because their housing conditions are very poor or basic services and infrastructure are not provided to their areas.

Similar obstacles concern activity taxes (business licences) applicable to micro-businesses. While tax authorities are able to apply the conventional business licence to medium sized and large companies that are likely to keep accounts, they encounter great difficulties with micro-businesses which often operate without any forms of book-keeping.

### ***The head tax (per capita tax)***

Despite negative memories linked to the acts of violence that characterised the collection of head or per capita taxes during the colonial period, head taxes are still applied in many countries, especially in rural areas in Francophone Africa.<sup>2</sup> Per capita taxes have also contributed to financing the central government. These, in principle, simple tax systems, designed to overcome obstacles to the mobilisation of direct taxation in rural areas, were collected with the help of collection aids (village chiefs, district chiefs). For instance, in Mali, in the early 1980s, *per capita* and other taxes collected for the central government at the local level allowed for a stable levy amounting to about 10% of the central government's total public levy, i.e. approximately 1.5% of the GDP (Chambas 1994).

In many countries in Francophone Africa it has been difficult to turn the *per capita* taxes into local tax revenue. Commonly, periods of severe drought, coercive collection practices, the objective to adopt measures that are favourable to rural areas, and the need to restoring a compromised popularity have led governments to not only abolish poll taxes, but also all direct taxes applied in rural areas. However, local governments in some French-speaking countries have managed to generate revenues from this tax base. For instance, one tax item in Senegalese rural communities is made up of the *per capita tax* at an annual rate of 1000 CFA Francs, i.e. about USD 2. Likewise, in Mali, the Local and Regional Development Tax (*Taxe de Développement Régional et Local*, TDRL), with a rate that varies between regions, is based on the old *per capita* taxes. The *borough tax* in Niger is another example.

In East Africa, head tax became one of the most important own revenue sources for local government authorities after independence. In Tanzania, the head tax (renamed to 'development levy' in 1983) contributed with over 60% of total own revenues in rural councils and about 50% in urban councils in 1984/85 (Fjeldstad and Semboja 2001). 12 years later, in 1997, revenues from the development levy had declined to about 30% of total own revenues in a sample of 42 rural councils, and 19% on average in 10 urban councils. This general drop in revenues was to a large extent attributed to the decision to exempt women from paying the tax in 1991. Thereafter and until 2003, when it was abolished, the poll tax' share of the own revenues in rural councils in Tanzania remained fairly unchanged, while there was a substantial decline in its importance in urban councils (Fjeldstad and Therkildsen 2008).

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<sup>2</sup> In urban areas, *per capita* taxes have quickly become obsolete. Despite attempts to use neighbourhood chiefs in some countries, for instance in Mali and Senegal, it has not been possible to find local collectors for these taxes. In addition, the loss of social links in cities has reduced the social 'self-enforcement' to pay the tax. Furthermore, neighbourhood chiefs are often involved in 'political power games' that have undermined their broad-based legitimacy.

Today, per capita or poll taxes are abolished in most Anglophone African countries, most recently in Uganda in 2005. The poll tax was highly detested by the population and tax revolts were reported in several countries. Local governments relied heavily on simple physical coercion to collect the tax. Roadblocks manned by the local militia or police and village-by-village invasions by collectors were frequently used as tools of tax enforcement (Fjeldstad 2001). The use of coercion in enforcement of the poll tax was pronounced and detested and was undoubtedly not beneficial for building constructive state-citizen relations and to improving government accountability.<sup>3</sup>

### *Shared revenues and transfers*

In French-speaking countries, such as Morocco or Cameroon, taxes passed on by the central government ('tax sharing') play an increasingly important role for local government revenues. Revenue sharing, however, often implies low predictability for local government authorities. Commonly, the involved central government bodies do not provide prior information on the amounts to be passed on. Furthermore, the transfer time often varies substantially and the allocation criteria are often opaque.

Almost without exception, governments across the world assign more expenditure functions to local authorities than what can be financed from their own revenue sources. This is also the case across Africa. However, the level of intergovernmental transfers varies widely between countries and also between rural and urban councils within individual countries (Chitembo 2009). In Botswana, for instance, rural councils receive 92% of their total revenues from the central government, compared to 62% for urban areas. In Uganda, local government are heavily dependent on transfers from the central government (88% of total revenues in 2007), while local governments in South Africa, on average, generate the bulk of the revenues from 'own' sources (89% in 2007). Transfers and grants also constitute the biggest share of total receipts to the local councils in Anglophone West-Africa (Jibao 2009). For instance, in 2007 local councils in Nigeria received on average almost 78% of their revenue from transfers; in Sierra Leone they received 74% of their revenue from transfers, in Ghana 69% and in The Gambia 65%. In Liberia local councils rely 100% on transfers from the central government since revenue collection is centralised (ibid.).

Transfers from the central government can reduce the local authorities' own revenue mobilisation effort. A similar effect also concerns external contributions (grants and/or loans). However, transfers from the central government or external financing can also stimulate the local mobilisation effort by granting awards for high performance or through conditionalities linked to the communities' performance.

Transfers from the central government as well as external funding, e.g. from foreign donors, are generally volatile and often unpredictable. Fiscal transfers and grants from the central government to local government authorities, seems to be more predictable in English-speaking countries than in Francophone Africa. Still, transfers are often delayed. In Tanzania, for instance, the national guidelines and budget ceilings developed by the Ministry of Finance are often not received by the

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<sup>3</sup> People could take to the extreme to evade the levy, for instance, by literally hiding in the bush when tax collectors were approaching. Tax resistance sometimes also took more violent forms. Fjeldstad (2001), reports that in Kilosa District Council in Tanzania tax collectors avoided certain villages due to the high personal risks involved in tax collection. Other villages were only visited by collectors accompanied by the local militia. The Tanzanian newspaper *Daily News* (28 November, 1997:5) reported that '[o]ver twenty Moshi Municipal Council workers who were on a special operation to net development levy defaulters were attacked by a mob at Mbuyuni Market on Wednesday afternoon and eight of them were injured, some seriously, ...' The tax revolt in Arumero District in North-East Tanzania in 1998, included the refusal of almost the entire district population to pay the development levy, the beating up of council collectors, and the burning of the council chairman's house and his subsequent resignation (Kelsall 2000).

local government authorities until very late in the budgeting process (Fjeldstad *et al* 2010). Consequently, to initiate the planning process, some LGAs use indicative budget figures from the previous fiscal year. Jibao (2009) reports that there are cases when District Assemblies in Ghana receive their first quarter allocation of the Common Fund in the third or fourth quarter of the year, with the rest of the three quarters overlapping into the following fiscal year and so on.

### 2.1.2 Effects of the current local tax legislation

The weaknesses of local tax legislation often contributes to produce own local revenues that commonly generate substantial economic distortions, and have negative impacts on local government accountability and state-citizen relations. This is a major challenge for local governance (Smoke 2013; Shah and Thompson 2004).

#### ***Distortions***

A complex and non-transparent local government revenue system is costly to administer and facilitates corruption and mismanagement (Bardhan and Mookherjee 2002; Fjeldstad and Semboja 2000). Moreover, many local taxes have a distorting effect on resource allocation decisions, and, thus an inhibiting effect on the start-up of new enterprises and the achievement of economic growth (Bahiigwa *et al.* 2004; Devas and Kelly 2001; Sander 2003). These effects occur when effective rates vary substantially between different goods that are traded, or when license fees are set too high for start-up small-scale enterprises to survive. In addition, the levels and types of local revenue instruments by themselves can result in the tax burden falling more on the poor than on the relatively better off in local communities (Fjeldstad and Semboja 2001). This is mainly due to the basic design of the local revenue system and the way revenues are collected.

Many local authorities apply levies, sometimes *ad hoc*, that generate unevaluated and largely underestimated distortions. More specifically, this concerns levies on agricultural productions and road toll fees, ('droits de ficelle'). Such levies may have detrimental economic and social effects, are incompatible with the principle of economic neutrality adopted for central government taxation and are contrary to regional integration policies.

#### ***Low levels of own local revenues***

With the exception of South Africa, the total local revenues in African countries in 1999 did not exceed 1% of the GDP compared to 5.5% of GDP on average for developing countries in other regions (Shah 2004). A comparison between African and Latin American countries shows that local government authorities in largely decentralised countries, such as Argentina or Brazil, have levels of revenue reaching 10% of GDP. In other Latin American countries, local authorities have levels of revenue similar to those observed in Africa.

#### ***Revenue concentration***

The major part of own local revenue is concentrated to a limited number of local government authorities. In Benin, for instance, the per capita local revenue of the ten poorest municipalities amounts to 541 CFA Francs against 8,489 CFA Francs per capita for the five richest (urban) municipalities, i.e. a ratio of 1 to 16. The phenomenon of local revenue concentration is widespread. In Guinea in 2007, the 33 inland urban municipalities and the 303 rural communities collected 6.633 billion Guinean Francs compared to 10.823 billion Guinean Francs for the five municipalities that make up the Conakry urban agglomeration.

This disparity of financial resources results in huge differences in the supply of local public goods between local government authorities within countries, and contributes to internal migration. Many people are attracted by better supply of local public goods, and want to leave deprived municipalities, in particular rural areas. Another possible explanation is that poor people try to establish themselves in urban localities with a low tax burden (and often corresponding poor service provision).

### ***Poor intra-governmental cooperation***

Consultations and cooperation between the central government revenue administration and local government authorities are generally limited. In Ghana, for example, national tax officials report that local tax officials sometimes urge citizens to pay local taxes *instead* of national taxes (Prichard 2010). In other countries, e.g. in Benin, Côte d'Ivoire and Mauritania, local authorities are reluctant to support the collection of local revenues. They consider that the central government should be responsible for local tax collection (Chambas 2010). Meanwhile, local officials complain that the national government has monopolised virtually all available tax bases and offers little if any administrative support. This lack of coordination has allowed the emergence of a high degree of arbitrariness and abuse within local tax systems. Little attention is paid to economic efficiency. Due to lack of capacity and poor co-ordination between the central and local government the central level rarely questions local governments' tax proposals. Therefore, local revenue systems have developed without much interference from the central government. Furthermore, lack of co-ordination between the central and local levels has led to duplication of taxes and inconsistencies between taxes imposed by local authorities (e.g., high taxes on export crops) and the national government's policy to encourage export production (Fjeldstad and Semboja 2000; Ellis and James 2003).

The implementation of a local tax system that is not coordinated with the central government tax system is likely to undermine tax reforms and worsen economic distortions. For instance, implementation of cumulative road tolls by various local authorities may be equivalent to reinstating export taxes, which is likely to impact on the producers' incentives. Decentralisation can also increase the risk of market fragmentation. Bardhan (2002) emphasises the central government's critical role in safeguarding the unity of the domestic market. However, to raise revenues, local government authorities can be tempted to introduce 'customs duties' at the borders of their jurisdiction. This may lead to negative externalities for other jurisdictions and can undermine economic development. Thus, one condition for successful decentralisation is to preserve the single domestic market (Weingast 1995).

### ***Tax competition between local government authorities***

Decentralisation through tax competition between different levels of government will, according to theory, contribute to improve the effectiveness of the government. It may provide an opportunity to 're-legitimate the African State' (Elong Mbassi 2008). According to some scholars, *vertical competition* will allow disciplining political representatives by establishing a pressure to reduce the size of the public sector (Brennan and Buchanan 1980), and may also decrease rents and corruption (Fisman and Gatti 2002). Vertical competition may also encourage better accounting of some basic needs traditionally neglected by the central government (Faguet and Sanchez 2007). However, vertical tax competition can be a source of excessive public levies, or a "race-to-the-top" (Keen and Kotsiogiannis 2002). It can also lead to fiscal conflicts between the central government and local authorities through the taxation of the same base. Lastly, the competition of local authorities can erode the central government's credibility.

One of the cornerstones of decentralisation relies on the beneficial effects of *horizontal competition* between local authorities. Tiebout (1956) shows how mobility of individuals, considered synonymous to 'foot voting', will achieve a Pareto optimum: horizontal competition allows people to compare the performance of different local authorities. This will allow people to live or establish their activities in

the most attractive areas, i.e. where the tax-to-public expenditure ratio is the most advantageous. In most African countries, the low level of local levies and poor supply of public goods reduce the scope of 'foot voting' (Bardhan 1997; Manor 1999). Moreover, the possibilities open to relocating populations for economic activities are lower in Africa outside the main cities (Dafflon and Madiès 2008). The lack of transparency of public information further undermines horizontal tax competition.

Despite these obstacles, the Tiebout model emphasises the attractiveness of large urban agglomerations that benefit from a substantial supply of public goods (Tiebout 1961). Bardhan (2002) justifies the relevance of the Tiebout model for developing countries: competition by comparison encourages elected officials to seek for effectiveness (Salmon 1987), disciplines them, limits rent-seeking and makes it possible to punish bad administrators (Brennan and Buchanan 1980). By improving transparency, implementation of Public Expenditure and Financial Accountability (PEFA) assessments at the local level, paves the way for a rigorous comparison of performances based on yardstick competition.<sup>4</sup> However, in order to make their community more attractive, local officials can also reduce the burden of local taxation, in which case horizontal tax competition can lead to a low level of local levy, or a 'race-to-the-bottom' (Wilson 1999).

### ***Impacts on governance and corruption***

Own local resources, essentially consisting of revenues from direct taxation, licenses, fees and charges, could in principle be used to establish a close link between the levy and public service delivery. While central government taxes in the poorest countries affect relatively few people directly (perhaps less than 5% of the total population), local government taxation affect many more (perhaps 30%). To the extent that state-citizens relations are influenced by taxation, local government taxation is therefore central to a better understanding of state-citizen relations. In particular, local taxes on agricultural products, market fees and the poll tax (per capita tax) affect a large number of people. However, the way these taxes are collected, especially the poll tax, often through extra-legal enforcement measures (use of armed road blocks, local militia etc.) undermines the building of constructive relations between citizens and the authorities (Fjeldstad 2001). Among the exceptions is Senegal's rural tax that has generated positive accountability relations between the authorities and the population.

Theoretical works highlight an ambiguous relation between decentralisation and corruption and thus between own local revenue mobilisation and corruption (Boadway and Shah 2009; Fisman and Gatti 2002; Shah 2006). The advantages of fiscal decentralisation are commonly thought to be three-fold (Kolstad and Fjeldstad 2006; Collier 2000; Seabright 1996):

- reference-matching;
- efficiency through competition; and
- increased accountability.

It is argued that decentralisation strengthens the links between local authorities and voters. By being closer to its citizens and hence possibly better informed about local preferences, local government is considered to be in a better position to provide public goods and services which meet people's needs (Seabright 1996). Public services can also be made more efficient and perhaps innovative when

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<sup>4</sup> In the case of Senegal, an assessment has been available since 2009 both for the central government and for the city of Dakar. Until 2005 the PEFA-assessment in Tanzania reviewed the financial management practices and processes at the central government level. Thereafter, in 2006, the focus of the PEFA-review shifted from the central to local government, which accounts for an increasing proportion of expenditures and is primarily responsible for service delivery in sectors such as primary education and primary health (URT 2006).

territories compete with each other for the custom of mobile citizens (Arikan 2004; Weingast 1995). In addition, by reducing the distance between the government and the governed, fiscal decentralisation is expected to stimulate participation and improve accountability (Ivanyna and Shah 2010). Furthermore, it is argued that decentralisation leads to enhanced transparency (Ahlin 2000), and lower transaction costs for citizens and improved countervailing institutions (Boadway and Shah 2009). Consequently, decentralisation could reduce corruption.

In contrast, various research consider decentralisation as an additional corruption factor (Bardhan and Mookherjee 2006a; Bardhan 1997; Besley and Burgess 2002; Prud'homme 1995; Tanzi 1996; Manor 1999; Platteau 2003; Treisman 1999, 2000). Decentralisation may lead to inefficient decisions and use of resources, if there are positive or negative externalities between regions, or if there are economies of scale or scope in fiscal functions. Shifting more fiscal decisions to local governments may also increase national inequity and leave the central government with fewer policy instruments to correct this. In the absence of local electoral contestability, the risk of rent-capture by leaders, elites or interest groups is high. The proximity between local public officials, private operators and citizens can encourage corruption (Prud'homme 1995; Tanzi 1994). Moreover, if the capacity of local institutions is constrained, fiscal decentralisation may transfer tasks to the local level which it is incapable of addressing properly. While national efficiency and equity considerations entail questions of what type of functions to delegate to local levels, the problem of capacity constraints raises questions of whether local institutions are capable of taking on added functions, and whether and how to improve local capacity to enable them to do so. The answers will differ from country to country and between local authorities within countries, especially between rural and urban local government authorities.

As argued by Kolstad and Fjeldstad (2006: 5), the type of fiscal decentralisation may also have an effect on the degree to which local governments are accountable for their decisions. If decentralisation of expenditure is not accompanied by decentralisation of revenue generation, it is easier for local officials to ignore the financial implications of their spending. In other words, the soft budget constraint created by large transfers from central government, may be detrimental to local government performance. There is a tension here, because while generating revenue for local expenditure locally may increase accountability, it may also lead to a more fragmented tax system, which creates national inefficiencies and inequities.

The literature is inconclusive regarding the impact of fiscal decentralization on corruption, and can be summarised as follows (ibid): If local governments have complementary fiscal functions, fiscal decentralisation is likely to lead to an increase in corruption nationally. In other words, if businesses or individuals pay taxes to several local governments, or benefit from the expenditures of several local governments, fiscal decentralisation leads to a situation that is worse in terms of corruption. If, on the other hand, local governments compete fiscally, fiscal decentralisation is likely to lead to a decrease in corruption nationally. Put differently, if businesses or individuals are mobile across local government authorities (LGAs), or otherwise capable of shifting their revenues, costs, or activities between LGAs, fiscal decentralisation may lead to a better situation. The extent to which local governments are complementary or in competition, will depend on the type of tax or expenditure, and is ultimately an empirical question.

## 2.2 Principles for reforming the local government tax system

Reforming the local government tax systems provides an opportunity to mobilise additional public revenues, improve accountability and the supply of publicly provided services. In order to reach these goals, it is necessary to ensure the consistency of the overall tax system and to define a relevant balance between local and central government tax legislations.



### 2.2.1 Building a consistent tax system

Building a coherent overall tax system requires that the mobilisation of own local revenue contributes to improved local services. Possible approaches to achieve this include:

*Mobilise additional public revenues* from tax bases that are location specific and less mobile, and, thus, easier for local governments to collect, such as property taxes.

*Seek greater economic neutrality*, which avoids resorting to local taxes that are a burden on production costs. For example, special attention must be paid to avoid imposing local taxes on export products. Consistent with the reforms of the central government tax system, local taxation must not generate an indirect tax burden on exports.

*Limit the detrimental effects of horizontal tax competition*. If local taxation leads to relocation of activities or wealth, the result will be the loss of own local tax revenue as well as the loss of economic activities for the communities concerned.

*Promote better governance of the supply of public goods*. Taxation of immovable assets such as property makes it easier to apply the principle of ‘whoever benefits pays’, which is the basis for accountability.

*Provide greater fairness*. Property or the use of a real estate assets or consumption of utilities (water, electricity) are consistent with the principle that ‘whoever benefits should pay’. However, reliable assessment of the tax base is needed for equity issues.

### 2.2.2 Striking a balance between local and central tax legislations

It is important to secure consistency between the central and local tax legislations to prevent conflicts between central and local tax administrations, and to avoid double taxation and confusion among taxpayers (Chambas 2010). For instance, Fjeldstad and Semboja (2000) report that due to lack of capacity and poor co-ordination between the central and local government in Tanzania only limited questions are raised at the central level on local governments’ tax proposals. Until year 2000 the local revenue systems therefore developed without much interference from the center. Furthermore, lack of co-ordination between the central and local levels led to duplication of taxes, and inconsistencies between taxes imposed by local government authorities (e.g. high taxes on export crops) and the national government’s policy to encourage export production.

#### ***Marking the boundaries of central and local taxation***

Tax base mobility generates a detrimental effect on vertical tax competition. In order to limit this effect, the least mobile tax bases are commonly taxed at the local level. However, it is not always easy to assess the degree of mobility of a tax base. For example, the annual tax or fee on car ownership is a tax base whose mobility is likely to reach beyond the territory of the local authority, but regulations make it possible to assign this tax base to a territorial constituency.

The definition of the dividing line between local and central taxation must account for other criteria beyond the tax base’s degree of mobility (Bird 2010). Demographic change and development determine a rapid growth in the demand for local public goods. Therefore, it is often necessary to mobilise additional revenues complementary to those made available by the taxation of immobile tax bases (property taxes and business licences).

According to Musgrave (1983), the distribution of taxes between the various levels of government must also take into account their contribution to macroeconomic stabilisation as well as their progressive nature. Hence, taxes contributing to the policy objectives of economic stabilisation and/or redistribution should be assigned to the central government. In order to avoid extreme disparities between local authorities, taxes whose base is distributed in a very non-egalitarian manner (taxes on minerals, oil or forest resources) should also be assigned to the central government level (Ter Minassian 1997).

It is difficult for a local government authority to rely on tax bases for which it has informational disadvantages. The management of taxes whose base concerns several communities must be assigned to the central government, which has the required information on the tax base and more administrative capacity to collect, for instance consumption taxes (VAT, excise duties) or personal and business income taxes. Collection by the central government tax administration may also easier avoid taxpayers and the tax administration having multiple contact points for tax payment (the principle of a ‘single contact point for tax queries’).

While local government authorities generally have an informational advantage when it comes to tax bases assigned to their territory (e.g. real estate), they have limited information on tax bases that are mobile and refers to taxable economic activities covering different territories.

### ***Central government coordination***

Transparent national criteria must assign the base of each tax to a territorial constituency. In the case of taxes whose base is distributed over several local authorities, the rules for assigning them to the various authorities must be established (Smoke 2013). In order to not complicate the local tax system and to not overexploit potential resources, it is desirable to avoid concurrent taxation by different levels of government for the same tax base (Keen and Kotsogiannis 2002). Clear rules and tax brackets defined by the central government reduce the risk of conflicts and tax competition between local authorities. These rules are not contrary to accountability (Bird and Vaillancourt 1998).

### 2.2.3 Segmentation of tax legislation

In order to develop legislation to improve the local tax system, it is necessary to assess the costs of collecting the various categories of taxes. Such an assessment, which is rarely performed, will contribute to establish a tax system, which is as cost effective as possible.

### ***Objectives of segmentation***

Segmentation consists in adapting the legislation to each tax base segment for any given tax.<sup>5</sup> The purpose is to cover all potential tax bases while keeping the collection costs under control. Low collection costs are obtained by substantial simplification of the tax legislation for small liabilities. Simplification makes the tax easier to administer and requires less specialised technical skills. Furthermore, it is likely to reduce taxpayers’ compliance costs.

Segmentation may help making tax legislation more understandable for different categories of taxpayers. In this respect, it is essential to introduce simple presumptive tax regimes for tax base segments with relatively low tax revenue potential. Segmentation does not counter the equality of

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<sup>5</sup> The concept of segmentation is more frequently used in the area of tax administration. The administration method then is adapted to taxpayers’ characteristics. This approach leads to the creation of separate units within the tax administration dedicated to the management of large, medium-sized and small businesses.

treatment of citizens in tax matters. It merely adapts the tax regime to the highly differentiated characteristics of the tax bases.

Legislators are often reluctant to adopt simple presumptive tax regimes, because they imply a loss of fiscal fairness for lower taxpaying segments. However, insofar as the presumptive regime is exclusively applied to small liabilities with a low revenue potential, this effect is limited and it is generally more than made up for by the progress in terms of fairness and by the broadening of tax coverage.

### ***Segmentation applied to property taxation***

Segmentation of the property tax regime is required to account for considerable differences in the characteristics of buildings and land:

*In areas featuring quality housing*, a property tax based on the rental value can be applied.<sup>6</sup> The property tax should also comprise land in urban areas.

*In areas with buildings of lesser value*, implementation of presumptive residence taxes should be considered. The rate of the residence tax can be adjusted according to the characteristics of the housing as well as to the supply of local public goods. This system is applied in Burkina Faso and Tunisia.

*In rural areas*, the application of a residence tax in line with the former poll tax (*per capita* tax) is one of the rare possibilities for rural local authorities to have a minimum of own revenues where there is no commercial or production activity. Currently, in most African countries the application of a tax on rural farm land is unrealistic. Generally, rural properties are not taxed, although property taxation is being extended to rural properties in South Africa (Franzsen 2007: 12). In Namibia, a land tax on commercial farmers was introduced as a measure to fund the country's land reform programme in 2004.

For any given country, the delimitation of the various segments depends on the characteristics of building and land assets, taxpayers' behaviour and administrative means. However, beyond the choice made based on technical considerations, local authorities should take historical and political factors, which may differ widely from one country to the next, into account.

### ***Segmentation applied to taxation of economic activities (business licence)***

The standard mechanisms for mobilising revenues from businesses to local government authorities have been through licensing. Although the original intent was regulatory, local business licensing has increasingly become simply a revenue source in most places. Typically, business licences generate between 5% and 30% of local government own revenues in urban councils in Anglophone Africa (Fjeldstad and Heggstad 2012). In many countries, however, the system has been inequitable and imposed huge costs on businesses, while generating relatively little money. A common complaint from small and medium-sized enterprises is that 'they do not know what to pay, where and to whom'. The regulatory aspects of the licence system have been largely abandoned. In addition, poor policy design and weak administration mean that licence coverage, assessment, collection and enforcement rates are low, leading to poor revenue generation.

Contribution to local government revenues by means of business licences is justified by consumption of public goods. Businesses consume local public goods due to their productive activity and, as such,

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<sup>6</sup> This could also be the market value of the taxed buildings.

should contribute to the financing of local authorities. The business licence, a direct tax, and thus introduces an accountability relation.

Legislators in some African countries have attempted to adapt the business licence regime to the diversity of businesses, which has led them to substitute a general business licence for the former flat-rate regime. They have then defined a segmentation comprising two essential categories: businesses liable to taxation under the conventional business licence and those liable to a general business licence. The latter is generally a hybrid tax, but where turnover is included in the calculation base.

For businesses coming under the general business licence, tax administrations remain confronted with the difficulty of taxing often very different types of business enterprises. For small-sized businesses that do not keep any accounts, it is not possible to reliably assess the turnover. Bodin and Koukpaizan (2009a) propose a new segmentation of small businesses to address this issue. *Micro-businesses*, which are the most numerous, could be made liable to a simple presumptive general business licence regime excluding any reference to turnover. A purely presumptive tax has the advantage of not requiring any highly qualified administrative personnel to apply it. Moreover, the transparency of such a tax is important from the taxpayers' perspective, especially considering that they are often illiterate and have limited knowledge about taxation. *Small businesses* subject to simplified accounting requirements would remain within the scope of the conventional business licence, which would also be applied to large and medium-sized businesses.<sup>7</sup>

#### 2.2.4 Other local taxes

##### *Other local taxes*

Local taxes based on fuel consumption: Taxation of fuel consumption can be considered as the compensation for the use of local road systems and pollution. In most African countries, sharing of national taxes is difficult to implement. Automotive tax discs can provide an alternative solution as an initial step and avoid the inconveniences linked to tax sharing.

Automotive tax discs: The automotive tax disc (labels) can be considered as a compensation for the use of the local road system and the emission of pollution (environmental costs). This tax can be adjusted according to the characteristics of the means of transportation and the contributive capacity of its owner. Automotive tax discs are fairly well accepted taxes and are likely to provide considerable revenues in urban municipalities. Due to the mobility of the tax base, the legislation's coordination must be planned by using location criteria.

#### 2.2.5 Non-tax revenues

Local charges on consumption of utilities: Utilities consumption (especially water and electricity) can easily be assigned to the territory of a local government authority and are indicators of the consumers' contributive capacity. These charges can generate considerable revenues. The main economic rationales for user charges are to produce revenue and to encourage efficient use of resources supplied by the public sector. When properly designed, user charges provide information to public sector suppliers on how much clients are willing to pay for particular services and ensure that what the public sector supplies are valued by citizens.

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<sup>7</sup> Bodin and Koukpaizan (2009b) proposes that small businesses are made liable to income tax within the scope of a very simplified real tax regime (in-out cash-based accounting), but that they are excluded them from VAT liability.

User charges for utilities, including water, electricity, sewage, and solid waste removal, are major sources of revenue in urban municipalities in Southern Africa, especially in Namibia and South Africa (Fjeldstad *et al* 2005; Bahl and Smoke 2003). In particular, service charges on water and electricity supply are important. This revenue is generated by a surcharge added to the cost of the utilities that the local authorities typically buy from the utility companies, or, if the authority itself produces the utility, added to the cost of producing it.

According to Bahl *et al* (2003: 77), around a quarter of the electricity-distributing authorities in South Africa raise substantial revenues from the surpluses earned from their sales. A large share of these revenues is used to cover the cost of providing the service. However, in some municipalities a substantial surplus is left for general local government purposes. Thus, the tax component of the user fee is hidden for ratepayers, and the 'true level of local government taxation is not transparent' for citizens. The accountability of the local revenue system is therefore undermined. Moreover, if the consumer price of the service (for example, power supply) is overstated by the amount of the implicit tax, it may have negative impacts on economic efficiency (*ibid.*).

There are major difficulties in collecting charges on utility consumption in both French-speaking countries (e.g. in Madagascar) and English-speaking countries (e.g. in Namibia and South Africa). In Namibia, the majority of town councils are not determining their tariffs in accordance with an approved tariff policy of cost recovery (Fjeldstad *et al* 2005). Several trading services, including water distribution, are operated with significant losses in a number of local government authorities. This is also the situation for around a quarter of the municipalities in South Africa (Bahl and Smoke 2003). The situation is worsened by an increasing number of outstanding debtors in many local authorities, that is, consumers who do not pay for basic services due to various reasons, including affordability.

Free or subsidised services may result in over-consumption of such services. Moreover, it may prove difficult to target the beneficiaries of free services. Yet, experiences from Namibia and South Africa show that user charges can impose a heavy burden on lower-income service users, and exclude the poorer segments of the urban population from the services (Fjeldstad *et al* 2005; McDonald and Pape 2002). Adjustments can, however, be made to offset such effects. For instance, user charges can also reflect differences in ability to pay by incorporating sliding scales for the type of user or the amount of usage (Rondinelli *et al.* 1989: 71), although this will require adequate administrative capacity.

Fees: Local non-tax revenue comes in the form of *fees* collected in compensation for the provision of local services (taxes on household waste, certificates from registry office, street vendor charges, market fees, public domain occupancy permits, parking fees, slaughtering taxes, transit dues, bus terminal fees, etc.).

The use of fees makes users of a service support its cost, which changes the breakdown of the tax burden and carries the impact from taxpayers and over to the users. This method of revenue mobilisation, which makes the group of beneficiaries coincide with the group of payers, allows for a particularly narrow accountability relation to be established between provision and collection, which complies with the principle of equivalence. A market mechanism that avoids an excessive demand for local services can thus be set up. Although simple in principle, fee systems are often opaque and complex.<sup>8</sup> They often produce little revenues and generate severe economic distortions as well as undesirable social effects.

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<sup>8</sup> For instance, in Kamuli District in Uganda there are no less than 136 rates for market fees (Iversen *et al.* 2006). In Benin, the charges for public domain occupancy are applied in a very variable and discretionary manner.

Non-tax revenue, which is a compensation for the provision of services, has a significant revenue potential and generates the most direct accountability relations insofar as it corresponds to the pricing of a good or service. Surveys performed in various African countries reveal that users are ready to pay the price of a good or service that meets their needs (Fjeldstad *et al.* 2012).

In African countries of the British administrative tradition, such as Ghana and South Africa, much space is granted to fees (non-tax revenue) in compensation for the provision of local services (Fjeldstad *et al.* 2005). In countries of the French administrative tradition, non-tax revenue plays an increasingly important role.<sup>9</sup>

Local levies on the alienation of property: Most urban local authorities collect non-tax revenue in compensation for the alienation of movable or immovable property under their jurisdiction. To a large extent, the levies collected - often a major revenue source for many urban local authorities - appears as a compensation for urban planning and management operations, i.e. compensation for granting plots of land, etc. The pricing of these levies, which is often not transparent, is a major political and administrative challenge.

Local royalties: Some local government authorities whose territory contains mineral resources or natural wealth collect royalties in compensation for the exploitation of these resources. Such royalties are not directly tied to a local effort of revenue mobilisation; they largely constitute a windfall gain.<sup>10</sup> These royalties, which commonly are not determined in a transparent manner, often generate inequalities between local authorities. In Cameroon this applies to local forest communities. In Tanzania mining companies pay an annual levy of US\$ 2,000,000 per year to the local government authority where the mine is located (Fjeldstad and Heggstad 2011: 24).

## 2.2.6 Shared revenues and equalisation

Sharing of revenues collected at the central level is an alternative to the mobilisation of narrowly defined own local revenues (see section 1). One of the advantages of revenue sharing is larger collection effectiveness and hence lower collection costs. Moreover, as opposed to subsidies and transfers, shared tax revenues preserve the local authorities' autonomy to a large extent, insofar as the sharing rule is predictable and stable.

Revenue sharing has major drawbacks, in particular in French-speaking countries in Africa. Firstly, it does not establish a strong accountability relation between the tax paid by taxpayers and the local authority's provision of public services. Moreover, experiences from many countries show that revenue sharing is performed with excessive delays in the transfer of money to local government authorities. This creates uncertainty for communities with respect to budgeting, planning and implementation of development plans. Local government financial autonomy depends on the stability and predictability of the sharing rules.

Revenue equalisation: Despite efforts to mobilise own local revenues some local government authorities with low revenue potential (in particular in rural areas) can only play their role in development if they benefit from shared revenues (see above) or from fiscal transfers from the central government. This may help reaching a goal of fairness in the supply of local public goods.

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<sup>9</sup> The amounts of non-tax revenue mobilised remain low. In Burkina Faso, in 2007, they made up almost 17% of the local government authorities' total revenues.

<sup>10</sup> Due to their exogenous character with regard to the local mobilisation effort, these royalties should be excluded from the amount of narrowly defined own local revenues (see section 2).

Almost without exception, governments across the world assign more expenditure functions to local authorities than what can be financed from their own revenue sources. This is also the case in Africa. The result of this mismatching of functions and finances – usually referred to as *vertical imbalances* – is that local governments are generally dependent on transfers from higher levels of government (Bird 2010; Boadway and Shah 2009; Boex and Martinez-Vazquez 2006; Bird and Smart 2002). In addition, differences in local revenue bases and administrative capacities may create problems of equalisation (*horizontal imbalance*) between local government authorities, in particular between rural and urban areas. The presence of such imbalances means that one cannot design an appropriate system of local government taxation without simultaneously designing an appropriate system of intergovernmental transfers (Bird 2010: 1).

There are a number of methods to close the fiscal imbalances of sub-national governments, some of which also reduce imbalances between jurisdictions (Ahmad 1997: 6). In practice, transfers may be in the form of grants or revenue sharing whereby a local government receives a share of the revenues from particular taxes collected by the central government within its jurisdiction (McLure 1999: 12). The main mechanism for intergovernmental transfers in Anglophone Africa, however, is conditional and/or unconditional grants from central to local governments (Box 1).<sup>11</sup> There are commonly four such funding flows from the central to local government (Fjeldstad *et al* 2010):

- Recurrent block grants: personal emoluments (PE) component
- Recurrent block grants: other charges (OC) component
- Recurrent subventions and basket funds
- Development (investment) grants and development funds

Of these, the recurrent block grant system generally provides major funding for local government authorities. In Tanzania, for instance, it supplied 65% of all local government funds in fiscal year 2006/07, of which the PE component constituted the lion's share while the OC component accounted for less than 25% of the recurrent block grant allocations.

Several countries have adopted a formula-based recurrent grant system to determine block grant ceilings for priority sectors, including primary education, healthcare, rural water supply, agricultural extension services and local road maintenance (*ibid*). The formula-based system designed for allocating grants to LGAs commonly has the following factors: (i) size of population; (ii) number of school aged children; (iii) poverty count; (iv) infant mortality rate; and (v) distance from council headquarters to service outlets as proxy for land area. In Uganda, for instance, the Constitution establishes a formula for determining the minimum unconditional grant paid to local governments to run decentralized services. Besides the unconditional grant, local governments in Uganda receive conditional and equalization grants (Mugabi 2004: 3).

Clientelism, however, often leads to a distribution of fiscal transfers according to political criteria as reported by Chambas (2010) in the case of Benin. Rational and transparent criteria for the distribution of transfers between local authorities is required to promote effective equalisation. Assignment criteria should encourage local authorities to mobilise narrowly defined own local resources (Bird 1999).

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<sup>11</sup> See Ahmad (1997) for a more detailed discussion of intergovernmental fiscal transfers. Ajam (2001) provides a detailed presentation of intergovernmental fiscal relations in South Africa, and Boex (2003) and Boex and Martinez-Vazquez (2006) discuss the formula-based grant system applied in Tanzania.

### 3. Local government revenue administration

Effective administration is essential for mobilising local government revenues.<sup>12</sup> During the last two decades most English-speaking (Kloeden 2011) and French-speaking countries (Fossat and Bua 2013) in Africa have taken decisive steps to modernise the national tax administration. This modernisation largely consists of the implementation of international good practices that are now widely recognised and generally accessible. Central government revenue administrations in many countries have thus been able to move from administration by tax category to management centred on the main taxpayer categories (implementation of units for large businesses and in some countries for medium-sized businesses). Central tax administrations have sought out effectiveness by concentrating their administrative resources on the main stakes, and they have been able to bring quasi-voluntary tax return procedures into general use. Many national tax administrations have also adopted modern information processing tools based on single tax identification numbers. Overall, many central government tax administrations have pursued greater administrative effectiveness by defining strategic plans and applying performance contracting (e.g. in Senegal). In many Anglophone African countries, advances in administrative effectiveness are reflected in the establishment of semi-autonomous revenue authorities (Fjeldstad and Heggstad 2011; Fjeldstad and Moore 2009).

In contrast to what has taken place at the national level, improving the effectiveness of the local government administration has generally not been a priority for African governments. Local government revenue administrations are commonly characterised by several agencies responsible for collecting different revenue sources, duplication of duties between the various collection agencies, poor exchange of information with other public institutions, unreliable revenue assessments, poor data and information processing. The slow progress to strengthen local revenue administrations contrasts the increasingly important role planned for local authorities in the supply of public services and infrastructure. Nearly all African countries now have decentralisation of public services provision on the policy agenda.

#### 3.1 Inappropriate revenue administration

##### 3.1.1 Marginalised local government authorities

Decentralisation has highly increased the tasks and responsibilities of local government authorities. But paradoxically, local government authorities in Francophone Africa commonly do not play a key role in terms of collecting revenues. Local government officials in Mauritania, for instance, are generally reluctant to get implicated in mobilising local revenues, which are not highly appreciated by the population, while they hope to receive transfers from the central government or donors (Bird 2010). Likewise in Mali, many local officials consider that the central administration must take responsibility for mobilising local revenues (Chambas 2010). Frequently, local politicians denigrate the usefulness of local taxes when speaking to citizens.

Recently, an increasing number of local authorities are, however, taking a more active role in revenue mobilisation and also have better information on revenues collected. In many cases they are less inclined to accept lack of information with respect to local revenues collected by the central government tax administration. The latter often neglects to communicate data on tax bases and amounts of revenue collected to local government authorities. This failure to diffuse information, which particularly afflicts smaller local authorities, makes it difficult to develop consistent local budgets.

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<sup>12</sup> In the following text, the term ‘local taxation’ refers to all local revenues (i.e., tax and non-tax revenue).



### 3.1.2 Implications of different administrations

The scheme inherited from the French administrative tradition establishes different organisations for tax and non-tax revenue.<sup>13</sup> *For local taxes, in the strict sense of the term (tax component)*, the revenue administration has the ability to identify taxable bases and calculate the amount of taxes to be collected. The revenue administration draws up a comprehensive list of taxes owed ('roll'), which the local authority's executive approves (roll approval procedure). The tax administration then transfers the rolls to the administration of the National Treasury and the Government Accounting. The latter, whose task is to manage central and local public expenditures, then collects the tax revenue in accordance with the rolls and deposits the revenues collected to each local authority at the Treasury.

*For non-tax revenue*, the administration of the Treasury and the Government Accounting, which serves as the collector, carries out all the tasks required for collection on its own. The accountant of the Treasury, acting as the collector for the local authority, issues receipts and proceeds with collection. Because the criterion of local influences may be preponderant over the criterion of skill in the recruitment process for local authorities, the authority of municipal revenue collectors over collection administrators is frequently weakened. As is the case for local taxes, the product of non-tax revenue is recorded in the local authority's account in the Treasury.

The principle of separating the tasks of tax base definition and tax collection applied to local tax revenue has considerable drawbacks due to difficulties of information exchange and coordination between administrations. They have fundamentally different purposes and are often rivals in the field. The procedure of collecting taxes based on the issuing of rolls comprises many steps, which also imply opportunities for delays and errors. These steps include identification of taxable matters and calculation of the tax owed by the taxpayer; approval of rolls and handling by the administration in charge of collection, sending tax notices to taxpayers, etc.

One drawback with far-reaching consequences consists of asking the departments of Treasury to collect liabilities that have only been recognised by the tax authority. This form of organisation promotes a dilution of responsibility due to the large number of people involved and their potential rivalry. This dilution of responsibilities contributes to a poor mobilisation of local tax revenue and confusion. Often the revenue administration and the government accounting administration blame each other for the failure to mobilise taxes.

### 3.1.3 Limited administrative resources

Generally, revenue administrations in Sub-Saharan Africa have limited human and material resources. Compared to the central government tax bases, local government taxes often direct 'mass taxes' with low revenue potential that are costly and difficult to mobilise. Subject to considerable pressure to increase the tax-to-GDP ratio, revenue authorities are reluctant to put much effort into the collection of low yielding local taxes. The local tax administrations' lack of means is an obvious concern. In urban areas where the concentration of people and activities is high, they generally have few reliable and usable reference points within the scope of modern information processing. This makes the mobilisation of direct mass taxes difficult. In rural areas, the vastness of the territories administered, their remoteness, the low population density and the limited revenue potential make it even more difficult for tax administrations to mobilise mass taxation to finance decentralised authorities. An extreme case is Mauritania where nomad areas have a population density less than 2 people per km<sup>2</sup>.

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<sup>13</sup> This section refers mainly to Francophone countries.

Assigning the collection of local taxes to the national tax administration comes with the risk of diverting their efforts and scarce administrative resources away from their key responsibility, collecting major central government taxes. Most likely this would also undermine the gains acquired over the past two decades through the modernisation of the central government revenue administration. Thus, it is likely that the overload of decentralisation-related assignments create problems for central government tax administrations to fulfil their task of mobilising tax revenue for the central government.

In French-speaking countries the administrations of the National Treasury and of the Government Accounting play key roles as the local government authorities' finance collector. They handle the administration of local expenditures and collect non-tax revenue. The role of being revenue collector for local authorities implies that the Treasury often plays an important role in local development policies.

In Anglophone African countries, local government authorities are generally responsible for collecting and administering local taxes, fees and charges. However, many local authorities experience difficulties in collecting own revenues. Thus, many experiments have been carried out by local governments to increase tax collection productiveness. Practices for collection of local government taxes range from cases where local government authorities collect the taxes themselves to cases where tax collection is outsourced to private agents, semi-private partners and the central government tax administration. Market cooperatives and private companies collecting tax on behalf of the local government are examples (see section 3.6).

Some taxes and fees are collected by the national government and channelled back to the local government. In Malawi the non-tax revenue is intended to be collected by the central government, before the resources are redistributed to district assemblies using a formula approved by the Cabinet (Malawi Government 1998). A less typical example is from Tanzania where the collection of property tax in the commercial capital Dar es Salaam is assigned to the national Tanzania Revenue Authority (Fjeldstad and Heggstad 2011).

#### 3.1.4 Poor data and information processing

From an administrative perspective, local government taxation is essentially made up from direct taxation related to a large number of liabilities (direct mass taxation), which depends on the processing of extensive information. The departments in charge of mobilising local revenues must generally handle information entry and processing on their own without benefiting from the help of third-party "tax collectors" as is the case for some central taxes (e.g. VAT).

The processing of local government fiscal data in Africa is often archaic. For instance, the processing of data on market fees relies on the management of counterfoil books and handling of cash. The paper receipts issued by tax collectors are often subject to fraud (Fjeldstad and Semboja 2000). The management of cash is frequently carried out under insecure conditions. Cash handling often leads to misappropriation. In some French-speaking countries (e.g. Cameroon), it is difficult to obtain a consolidated accounting status of local government finances due to the multiple bank accounts that are not controlled effectively.

In several Anglophone countries in Africa there have been substantial investments in the modernization of the local government treasury departments. For instance, in Tanzania by mid-2007, 85 out of the 133 local government authorities employed computerised financial management systems, though often in combination with a manual system. However, surveys report that very few councils have fully operational computerised financial management systems (PMO-RALG 2007).

Computerisation is no guarantee for the development of an efficient and effective local tax administration. In spite of the huge investments in computerization, budgeting and accounting often remain weak. Gaps between budgets and accounts provide an indication of the quality and realism of budgeting in local government authorities. For instance, in Tanzania there are huge gaps between accounts and budgets (Fjeldstad *et al* 2010). The figures paint a bleak picture over the abilities of the local government authorities to plan and execute their own budgets. The large ‘errors’ of intended budgets come at a period when the automated centralised budgeting tool (PlanRep) was supposed to have been rolled out to all local councils in Tanzania. These experiences clearly indicate the need for further training of council staff on how to make full use of planning tools.

### 3.1.5 Outsourcing local revenue collection to private agents

In several Anglophone African countries the collection of many local government revenue sources has been outsourced in recent years (Fjeldstad *et al* 2009; Iversen *et al* 2006). These include private collection of property taxes in urban councils, market fees in both rural and urban councils, forestry levies mainly in rural councils, cess on certain agricultural products in rural councils, as well as bus stand and parking fees. In Mwanza City Council in Tanzania, for instance, more than one-third of the council’s own revenues in 2006 were collected by private agents. The collection of fish market fees have been outsourced to a fish dealer organisation, while the collection of fees at the central market was contracted to a vegetable cooperative. In another district council in Tanzania, Kilosa, the collection of forest levies (until they were abolished in 2005) was outsourced to a private company whose main activity is the operation of private schools.

Evidence is inconclusive whether outsourcing has led to better revenue performance compared with tax collection by local government officials (Fjeldstad *et al* 2009). Outsourcing can establish a platform from which change can be facilitated, but its initial impact and longer-term successful performance depend on:

- the strength and quality of the management of the local government authority;
- political commitment to support the reform; and
- transparency reflected in the provision of accessible and updated information to the general public on the tendering process and bids received, as well as data on the revenue potential and actual collection (*ibid*).

A major challenge facing privatised revenue collection in local government authorities is related to the assessment of the revenue potential for various tax bases. The revenue assessment is based on the previous year’s reported collection. Substantial underestimation of the revenue potential may imply that actual collection by the agent is significantly higher than what is reflected in the contract. Consequently, when the agreement with the collector stipulates that he may keep the amounts in excess of the agreed level, there is a risk of the agent keeping an ample portion of the collected revenues. In a study from Uganda, Iversen *et al* (2006) found substantial gaps between the local government estimates of the revenue yields from local markets and the actual revenue yield collected by private agents. In six markets studied, the gaps (‘lost revenues’) amounted to between 25% and 74% of total revenue collected in each market. Moreover, the actual gross margins realised by private agents caused by this undervaluation of market yields varied between 71% and 970%. It seems evident that rather than enhancing local revenue, the private tax collection system in Uganda transfers money from ordinary, and often poor rural tax payers, into the pockets of private tax agents and their various associates. On average, 53% of all revenue collected from vendors in the markets could be interpreted as pure redistributive transfers to members of the local elite (Iversen *et al* 2006).

There are examples suggesting that public officials are more effective as revenue collectors than their private alternatives. For instance, over a two-year period Temeke municipal staff in Dar es Salaam added about 80 000 properties to the municipality's flat tax property register at the cost of less than one US dollar per property. During the same period private consultants who were engaged by the municipality added only 5000 properties at a cost of USD 17 per property (Franzsen, 2007:10-11).

## 3.2 Considerations for reforming local government tax administrations

Many administrative principles for revenue mobilisation in place at the central level can be adopted by the local government tax administration. Thus, based on an analysis of good practices applied by the central government tax administration, an operational guidance can be inferred to increase the effectiveness of local tax administrations by mobilising revenues in a way that do not undermine local economic activities. It must also be ensured that tax collection is enforced in a fair, transparent and accountable manner.

### 3.2.1 A driving role for local authorities

It is important to establish an accountability relation between local taxation and the provision of local public services (Bird 2010). Such an accountability relation is essential for the local authorities to fulfil the needs of citizens and for improving the effectiveness in the supply of public goods. This is in line with deepening local democracy based on principles of accountability. However, this does not imply that local government authorities should be left to act on their own without financial and technical support from the central government. There is a need for the central government to have a coordinating as well as regulating role of local authorities. The reality is that most local government authorities in Africa will continue to be heavily dependent on fiscal transfers from the central government for a long time. Only a few large urban governments located in wealthy areas are able to finance a substantial share of their total expenditure with their own revenue sources.

Most local authorities, with the exception of a few major urban centres, require capacity building in financial management and revenue administration. Further, the capacity of local authorities to mobilise local revenues must have increased control as a corollary. In French-speaking countries in Africa, the Treasury's administration traditionally controls legislation and regulation. Democratic control by the voters, often limited by poor information and transparency, needs to be strengthened.

### 3.2.2 Diversity of local tax administrations

The great diversity of revenue bases and taxpayers suggest that a segmented legislation for local taxes (property taxes, business licences) is needed in most African countries. A segmentation of legislation will enable effective collection of local taxes and allow for lower collection costs. For example, in terms of business licences, three administrative systems can be established according to the specific category of taxpayers (see Bodin and Koukpaizan's scheme 2009a):

- *Large and medium-sized businesses*: business licences as well as property taxes relating to these businesses should be collected by the national tax administration, which should be the single contact point for tax queries of these businesses.<sup>14</sup>

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<sup>14</sup> Due to the possible risks of confusion and abuse, it is essential to avoid the local authorities' interference in the management of businesses liable to a real tax regime. The principle of the single contact point for tax queries is a fundamental principle for modern tax administration.

- *Small businesses*: due to their generally poor managerial capacity small businesses should keep cash-based accounts and meet simplified tax declaration obligations. The principle of the single contact point for tax queries must be preserved.
- *Micro-businesses*: national tax administrations do not have the means required to collect the business licence fee for this category of business, even in the eventuality where a presumptive regime is implemented for business licences. Another form of administration located within the local government administration is required (see below). This accommodates the principle of a single contact point for tax queries, but it is only suggested for micro-activities that this contact point becomes the local authority's revenue collector.

Likewise, property tax related to assets held by households cannot be administered in the same way as property tax on modern commercial buildings with a high rental value or on property assets of low value (see below).

### 3.2.3 Supporting local authorities

In French-speaking countries, the revenue administration of the Treasury is already in charge of collecting non-tax revenue due to its role as the local authorities' revenue collector.<sup>15</sup> It also handles the administrative management of the local authorities' expenditures. As such, the local government authority's revenue collector acts under the supervision of both its original administration and of the local authority's executive. The network of the national treasury's administration at sub-national levels already plays an important role in collecting (some) local revenues. Effective collaboration and exchange of information between the national and local revenue agencies should be encouraged. However, the allocation of responsibilities must be clear and agreed to avoid inefficiencies and potential conflicts. Ideally, local authorities', and in particular the municipalities' revenue collectors, should be in charge of a simple regime of both collection and assessment of local taxes. The central tax authority's role would then be limited to collect local taxes and charges owed by medium sized and larger enterprises that also are liable for income tax and VAT, as well as taxes that require more advanced technical skills to assess. This would preserve the principle of the single contact point for tax queries and of the exclusive involvement of the tax administration in the taxation of businesses (see above). This would contribute to strengthen the administrative organisation in charge of mobilising local revenues and strengthen the relationship between the central and local authorities.

### 3.2.4 Modernising information processing

Modern and distributed computerisation is one of the key conditions for effective implementation of local taxation. It is essential that the computer system is sufficiently autonomous and mastered by the local government authorities. However, the computer systems must be designed and implemented in a way that ensures consistency, smoothness and centralisation of financial information. In cases where local authorities do not control the calculation and collection of certain revenues (e.g. cases of shared tax revenues, and cases of taxes collected by third party organisations such as water or electric companies), they must be informed in real time of all operations linked to their collection. Special care must be taken to secure that information and data on individual tax payers are kept confidential. Experiences, for instance from Benin, show a high level of loss of local tax data (e.g. urban property taxation) stored in public agencies other than the national tax administration. To reduce tax collection costs, information processing time is a relevant performance indicator.

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<sup>15</sup> This section refers specifically to Francophone countries.

The introduction of electronic tools should make it possible to develop more realistic revenue projections for different revenue sources, and to secure the chain of payments by automatically linking accounting transactions and by reducing cash transactions as much as possible. Data on who has paid and the amount paid could potentially improve the fairness of the tax system. Greater effectiveness and fairness in local tax collection and enforcement are crucial to improving local tax compliance.

## 4. An agenda for research on local government taxation in Africa

The above review has identified knowledge gaps and issues for further research. First, there is need for more in depth, country specific analysis of the tax design, legislation and tax administrative practises in selected countries. Second, the review emphasises the importance of cross country comparisons to highlight good practices. Such research should aim to explore commonalties and differences within and between Anglophone and Francophone countries in Africa. In this section we outline a possible strategy and themes for further research.

### 4.1 Strategy for further research

The analysis should include both central and local aspects of local government taxation. The central government tax system might be considered as a reference point. It is important to extract relevant lessons from the major reforms of the central government tax system over the last two decades.

Inadequate and poor quality data limits the scope for econometric analyses of panel data. Therefore, we suggest in-depth field studies in a sample of countries. To enable comparative analysis of two different legislative and administrative traditions, the choice of countries should be a mix of French-speaking and English-speaking. The sampling should aim to secure a varied profile of countries when it comes to mobilisation of local revenues. The research design should aim to establish a common analytical framework for all the selected countries, including the local tax structure and administrative practises.

Research findings should be presented and discussed at seminars involving administrators and practitioners of taxation, at seminars organised by CREDAF (*Centre de Rencontre et d'Études des Dirigeants des Administrations Fiscales, Centre for Meetings and Research of Tax Authority Directors* (in French-speaking countries)) as well as associations of local government authorities such as the association of local government authorities in selected English-speaking African countries and the French-speaking part of the AIMF (*Association Internationale des Maires Francophones or International Association of Francophone Mayors*). Interaction and exchange of information with bilateral and multilateral development partners should also be prepared. More in-depth analytical work should be presented and discussed at international scientific conferences.

The research findings should be published in the form of working papers, articles in peer-reviewed journals, and in the media aiming to reach a wider audience. In order to facilitate visibility and dissemination of the results, in particular aimed at tax practitioners and managers of local authorities, bilingual summaries of the publications will be required.

In order to make relevant comparisons and to examine the role played by different administrative traditions, a sample of English-speaking and French-speaking countries should be selected. Possible English-speaking case countries might include Ghana, Kenya, South Africa, Tanzania, Uganda and Zambia. Possible French-speaking countries could include Benin, Burkina Faso, Côte d'Ivoire, Morocco and Senegal. However, future research should not be limited to these countries.

On this basis, we propose three interrelated components of research:

1. Examination of local government revenue composition and tax legislation.
2. Examination of local government revenue administration.
3. Examination of policy consistency, fiscal efforts and accountability.

## 4.2 Analysis of local government revenue composition and legislation

The objective of this research would be to analyse various components of local government revenues. Focus should, in our view, first be on local authorities' own revenues by selecting indicators for local government authorities' mobilisation effort, and indicators measuring the financial autonomy of these authorities. In addition to tax revenues, the research could also address other categories of revenue: transfers from the central government, support from donors, etc.

### 4.2.1 'Own' local revenues

- (i) Narrowly defined own local revenues are an 'indicator' of the local tax effort.
  - a. Tax revenue: The aim should be to examine the following revenues: per capita taxes, property taxes, activity taxes (business licenses), local taxes on water and electricity.
  - b. Non-tax revenue: The analysis should particularly concern market fees, various charges, fines, etc.
- (ii) Own local resources, including shared revenues are an 'indicator' of the local authorities' financial autonomy. The research should examine revenues generated by shared revenues, the rates applied, and the criteria for assignment between local authorities (transparency of the criteria, discretionary nature, etc.).
- (iii) Local fees for the use of natural resources (forests, quarries, etc.) are non-tax revenue. However, due to their largely exogenous nature, they should not be considered as representative for the local revenue mobilisation effort. In cases where fees from such resources are particularly significant, they should be analysed as a separate category. These revenues are likely to impact on other categories of own local revenues, including collection incentives.

### 4.2.2 'Other' categories of revenue

- (i) Transfers from the central government are often not at the discretion of the local government authorities neither in terms of the amount nor on how the transfers can be spent. In contrast to some English-speaking countries (e.g. Tanzania and Uganda), French-speaking countries are characterised by a lower level of transparency when it comes to the tax assignment criteria discussed above. The granting of transfers may take into consideration the mobilisation effort provided by the local authority. Moreover, in French-speaking countries, the state of the central government finances has substantial impact on the amount and regularity of transfers to local authorities.
- (ii) Flows of aid or loans from development partners tend to fluctuate. It is therefore important to analyse the conditions for grants (which vary between donors), that can generate different effects on local authorities' own revenue mobilisation.
- (iii) Constituency Development Funds (CDFs) and Social Action Funds (SAFs) may have substantial incentive impacts on local government revenue mobilisation. A first step could be to examine how these funds are organised, the granting conditions, and the amount of funding allocated to the local constituency. On that basis the research should aim to identify interrelations with and impacts on the mobilisation of other revenue sources, including local taxes (substitution or complementarity effects, etc.).



### 4.3 Analysis of local government revenue administrations

Relevant research themes include the following issues:

- (i) Human resource policy of the administrations in charge of collecting local revenues. This would include workforce status, contract workers, civil servants, incentive policies, local authorities' degree of autonomy and examination of control and supervision procedures.
- (ii) Commonalties and differences between tax administration organisations. Comparative analysis could aim to identify the differences in their effectiveness.
- (iii) Identify how some central governments provide support to mobilising local revenues.
- (iv) Who and what is driving this process of innovative local revenue mobilisation procedures, and what are the outcomes with respect to revenue mobilisation and accountability?
- (v) Collection costs incurred for various categories of local revenues. Few assessments of collection costs are available to inform reforms on the right combination of local revenue categories.

### 4.4 Analysis of consistency, fiscal effort and accountability

#### 4.4.1 Consistency of the public revenue system

Field studies should aim to identify good practices for local tax systems, which are effective from a fiscal perspective, neutral from an economic standpoint, as well as fair and consistent with the central tax system.

- (i) *Consistency of the overall system of public revenue mobilisation.* A common pitfall is to consider the local tax system in isolation and to search for partial optimisation. This leads to sub-optimal situations that potentially generate distortions.
- (ii) *Duplication and tax competition.* Duplication can derive from imposing central and local taxes on the same tax base (e.g. property tax imposed by municipalities and income tax on rental income imposed by the central government). Duplication can also stem from the cascading application of the same local tax (e.g. road tolls applied in a cumulative manner along thoroughfares in many African countries).

Some theoretical results show that the 'competition principle' can be relevant for a developing economy even if the administrative capacity of local government is limited (Caldeira *et al* 2012). The authors also show that for local public expenditures strategic interactions between neighbouring jurisdictions can emerge.<sup>16</sup> It is relevant to investigate if there is any form of 'tax competition' in developing countries leading to competition on tax rates. Benin is a relevant case since data for 'communes' are available since 2002. It would also be relevant to extend the research to other countries for which data could be collected.

- (iii) *Incompatibility with central tax reforms.* In a situation where export taxes are abolished at the central level, local taxation frequently leads to the reintroduction of pseudo-export taxes on traditional export crops. Two relevant themes for research related to consistency are tax exemptions and coordination between various levels of government:

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<sup>16</sup> Strategic complementarity here means that if a 'commune' spend more on education, neighbouring 'communes' will also spend more on education. If neighbouring 'communes' were spending less on education there would be strategic substitutability.

- a. *Exemptions: source of distortions and of revenue losses.* Exemptions concern both central and local revenues, yet this distinction is not easily made (for instance when exemptions concern shared tax revenue). They generate severe inconsistencies in local tax legislations. Exemptions lead to revenue losses that are often unforeseeable for local authorities, because they commonly are not informed of the granting of exemptions by the central authorities. Exemptions also lead to economic distortions, more specifically by introducing biases in the competition between activities benefiting from exemptions and those that are excluded.
- b. *Coordination:* an essential characteristic of the central and local tax systems is consistency. In order to reach this goal, the central authorities must coordinate tax legislation. Thus, in the area of tax legislation, local authorities' degree of autonomy must be controlled to avoid harmful tax competition.

#### 4.4.2 Effects on local fiscal efforts, compliance and economic distortions

##### (i) *Effects on the local authorities' fiscal effort*

In order to finance local public goods, local governments must provide an effort to mobilise own revenues, which can be understood through the concept of narrow own local revenues. However, the revenue raising ability of local governments generally does not match their level of expenditures. This vertical imbalance needs to be covered by internal transfers from the central government or external transfers in the form of grants from donors or loans. To what extent do such transfers affect the local authorities' tax effort? And do different forms of transfers (e.g. conditional versus unconditional) have different effects on local own revenue mobilisation?

For instance, Benin, where data is available for the period 2002-2008, offers a good opportunity to test the effects of unconditional transfers (Caldeira *et al.* 2012). Senegal is another relevant case in this respect (Caldeira 2012). Tanzania, for instance, can be used as a case to better understand the impacts of conditioning the transfers on the tax effort by local governments (Fjeldstad *et al.* 2010). The analysis could also be extended to other countries.

Internal transfers should be based on efficiency and equity purposes. This is often not the case and transfers may reflect political factors such as electoral concerns. For instance, using Senegal as a case country, may allow us to test the importance of political motives in transfers, since it would be possible to compute local indicators for poverty, get access to data on transfers to local governments and the results of local elections. There are also other countries where this kind of research could be conducted.

##### (ii) *Effects on tax compliance*

The level of own local revenues also depends on citizens' tax compliance behaviour. At the local level, compliance is determined by factors such as the supply of local public goods, enforcement methods, and the accountability relations that are underlying tax compliance behaviour.

Exogenous financing can weaken tax compliance by appearing as substitutes of own local revenues. However, they can also reinforce tax compliance by appearing as complementary by financing the supply of local public goods and thus triggering a virtuous circle based on reinforced compliance. Research based on field studies may help to better understand and explain the implications of this relation (complementarity or substitution).

(iii) *Economic distortions and fairness*

The effects of local public levies in terms of economic distortions are underexplored. Yet, the burden of local levies is likely to be concentrated on certain activities, in particular agricultural export products and trade in goods (Chambas 2010). There is a need for research that measures such effects.

#### 4.4.3 Accountability

A major challenge for many African governments is to establish an accountability relation between the levying of taxes, fees and charges and the supply of public goods and services. The method used to mobilise revenues, essentially through tax collectors, and the low level of direct taxes collected from taxpayers, considerably weaken this accountability relation.

On the other side, the collection of most local revenues may provide an opportunity to establish accountability relations at the local level, since taxpayers often are able to establish a relation between the fiscal burden they endure and the supply of local public goods from which they benefit.

The establishment of an accountability relation is a condition required for good governance of local authorities. This accountability relation at the local level could also favourably affect accountability at the central level through a spill-over effect. Originally, taxpayer associations were often established to deal with central government taxation, employer associations, institutions representing informal sector operators, neighbourhood associations in cities, and other civil society organisations. It is likely that civil society organisations will play an increasing role in establishing accountability relations at the local level in developing countries.

There is a wide range of possible research themes that could help shed light on accountability related to the local government revenue system. These topics, for instance, include links between tax payment and service provision, corruption, and citizens' access to information on revenue collection and spending. However, the notion of accountability may differ according to the nature of the tax (e.g. between a general tax such as the per capita tax, a tax levied on a specific asset such as the property tax, and fees in compensation for a service such as market fees).

## 5. Concluding remarks

In most African countries, creating a more effective transparent and accountable tax system is part of the process of building a state able to promote growth, poverty reduction, social inclusion and reduce aid-dependency more efficiently. Decentralisation offers opportunities in this process. However, an effective decentralisation framework must be based on clear rules. These rules apply both to tax legislation and tax administration. One of the main challenges is to build a coherent domestic taxation system which takes into account both local and central taxation.

A set of principles should be applied in addition to the need for consistent domestic tax legislation. The first principle imposes a clear boundary between local and central taxation. The distribution of taxes between the various levels of government must be defined in a precise way with a clear coordination role for the central government. The second principle of segmentation should be applied to local taxes in a similar way that is already been applied to central taxation. Two main taxes are of specific concern: property tax and taxation of economic activities. Segmentation allows reaching the whole tax base with legislation adapted to each segment of the tax base.

There is also room to increase revenues from other types of taxes and non-tax revenue sources. In this regard, taxes on the consumption of utilities, fees and levies can have a high revenue potential for some local governments. Tax legislation must be kept as simple as possible as there is a risk to overburdening local governments and thereby make them ineffective and inefficient.

Shared revenues with the central government may be a way to cover the imbalance between local own revenues and local expenditure responsibilities. However, in order to be effective, this type of transfers must be disconnected from discretionary decisions that create uncertainties for local governments on the amount transferred and/or on the timing of the transfers.

With respect to local tax administration, African countries have chosen a wide range of institutional arrangements. In some countries, local governments are only involved in the collection of revenues to a limited extent. In countries with a French administrative tradition, the local government authority is commonly responsible for defining the tax base, while the national Treasury is in charge of collecting revenues. Usually, the exchange of information between these administrations is poor. Further, the use of modern information processing and the implementation of electronic devices are often poor or even non-existent. In anglophone countries there have been some attempts to outsource the collection of local revenues to private agents. A key issue yet to be solved relates to correct assessment of the revenue potential of the tax base.

The research approach outlined above will allow us to answer some of the issues addressed in this paper. First, in depth field studies will permit us to thoroughly analyse both legislation (own local revenues and transfers) and tax administration (various institutional arrangements used, support of local government by central administrations, outsourcing procedures, collection costs, local government autonomy etc.). Field studies are important as they will allow us to take into account the views of local authorities, professionals from the different administrations, citizens, and, more generally, the stakeholders involved in the decentralisation process.

The consistency of the domestic tax system can be improved via good practices, notably regarding the administration of local taxes. Moreover, field studies could enable further research to answer questions such as: what are the impacts of central government transfers on the collection of local government own revenue mobilisation? Are transfers subject to economic and/or political distortions? Is there any form of tax competition between local governments? Is state-citizen accountability improved by decentralisation? Answers to such questions may provide important inputs to designing a

better local tax system that is able to raise more revenues at lower costs than the current tax regime that is in place in many African countries.

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**INDEXING TERMS**

Local government

Fiscal decentralisation

Local taxation

Governance

State building

Africa

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This paper reviews the state of knowledge on local government revenue systems in Africa, with a particular focus on commonalities and differences between Francophone and Anglophone countries in Sub-Saharan Africa. The analysis addresses the composition of local government 'own' revenues, administrative practices, and how the current revenue system affects economic efficiency and accountability. Based on findings from the review and knowledge gaps identified, areas for further research on local government revenue mobilisation are suggested. Combining research on the technical and administrative framework for local taxation with the political and economic realities at the local and central levels has the potential to identify constraints and practices that can guide policy work and be used as benchmarks to assess actual policy implementation.