

Sub-national Taxation and Financing

Synthesis of learning retreat conducted at IDS for the DDLGN on 8-11 March 2016

Introduction

As the topic of domestic resource mobilization in financing development and promoting good governance becomes increasingly important, so too does the need to understand the role played by local governments in meeting these objectives. Countries approach decentralisation and fiscal transfers with different objectives and strategies. This invariably has a bearing on the ability of local governments both to raise revenues and provide public goods. In November 2014, the Swiss Agency for Development and Cooperation (SDC) and the Institute of Development Studies (IDS) facilitated an e-discussion on sustainable local government financing. The discussion was hosted by the SDC's Democratisation, Decentralisation and Local Governance Network (DDLGN) DGroups online space. It provided a platform for practitioners and researchers to share knowledge about sources of local government revenue, challenges faced in raising this revenue and the implications of this for service delivery and the relationship between local governments and their citizens.

Following the e-dialogue, in March 2016, the DDLGN and IDS organized a retreat on sub-national taxation and financing. The four-day retreat allowed for a more in-depth navigation of existing local government structures with a view to identifying success stories, detecting shortcomings and drawing lessons that can be beneficial to those engaged in decentralisation processes. The retreat consisted of thirteen presentations by researchers on theoretical and practical aspects of decentralisation and local government revenues, sharing participants' experiences through peer-learning sessions and group sessions aimed at deliberating over real-life scenarios. Various topics were covered including an introduction to the theoretical aspects of decentralisation and fiscal transfers, natural resource revenues, the practical realities of financing local governments in developing countries, participatory budgeting and social accountability, understanding democratic local government (legitimacy, representation and collective action), informal taxation, gender and taxation, local resource mobilisation in cases of ethnic conflict and property taxation.

Each day of the retreat consisted of four main segments: an introductory session, at least three presentations, a peer learning session and a wrap up for the day. Presentations were followed with discussion sessions, even though participants had the opportunity to raise questions or comments during the presentations themselves. Participants were availed with soft copies of the resource materials. In this report, we summarise the discussions that emerged from the trainers' presentations and some of the peer learning sessions. We include a list of the trainers and the titles of their presentations at the end of this document.

Manifestations of Politics in Decentralisation Processes

Nara Monkam's session demonstrated that theoretically, decentralisation is intended to serve three objectives: economic (poverty alleviation and improving efficiency in service delivery); governance (enhancing public participation and increasing accountability) and political (diluting and distributing power from the centre). Ultimately, however, the decision of whether or not a country should decentralise and what form that decentralisation should take is a political decision. It is political because it is premised on the ideal of increasing democracy through increased accountability and distributive justice. It is also political because the operations of local governments (particularly in developing countries) are largely influenced by how much central governments *decide* to transfer to local governments. Paul Smoke cautioned, however, that it is important not to view political will narrowly (as a commitment of a unified government to traditional decentralisation goals). Ultimately, politicians and bureaucrats will support decentralisation for as long as it serves their specific interests.

Often, decentralisation is used as a tool to reward support and suppress opposition. Andres Mejia Acosta observed that in Ecuador, for example, the government often comes up with all sorts of schemes to increase investments in districts that are likely to be swing voters. Opposition led districts are less likely to receive massive investment.

The participants noted that structurally, governments use different strategies to meet their political objectives. Valbona Karachi explained that in Albania, in 2015, the government reduced the local government units from 373 municipalities to 61 municipalities. The government contended that the reduction was aimed at lowering the costs associated with huge fragmentation. However, members of the opposition claimed that it was a move aimed at suppressing them; partly evidenced by the fact that out of the 61 municipalities, only 16 were opposition strongholds. Participants noted that it is still too early to examine whether indeed government has reduced its operational costs. Paul Smoke pointed out that in other countries, an opposite approach has been employed. In Nigeria, for example, the government increased the number of local governments as a means of buttressing its political capital, particularly in rural areas. A similar approach was used in Uganda. Consequently, whichever approach a government chooses, the end result is the same: decentralisation is used to redistribute power by either increasing loyal power bases (increased fragmentation) or eliminating loyal power bases (bunching up local government units).

Understanding Local Government Capacity

Giulia Mascgani observed that one of the pertinent factors to take into account in any decentralisation process is the capacity of local governments. Local governments may have the financial resources to run their activities but not the technical capacity. It is thus important that individual local governments are treated according to their capacity. Paul Smoke noted that frequently, decentralisation fails either because (a) concentration is placed on passing "one size fits all" legal frameworks where local governments are left to either sink or swim; or (b) the decentralisation process is heavily managed at the centre by taking baby footsteps that make no noticeable

difference. What is needed is a balanced approach. Capable governments should not be held back when they could move ahead. Similarly, it is important not to give too much power to those local governments that are incapable of handling a lot because it is quite likely that they will fail. Smoke recommended a strategic asymmetrical approach; one that takes into account the fact that different local governments have different capacities.

Mkhululi Ngwenya gave the example of Zimbabwe where city councils are increasingly having powers devolved to them. This has allowed the councils to directly engage in the provision of services such as water, electricity and health. One city council, the Bulawayo City Council, has been particularly progressive. It set up smart meters for water: a pre-paid service intended to reduce the costs of following up on debtors. The council has competent engineers working for it, which has increased the success of the project. Bulawayo City Council is also an opposition stronghold. In a bid to frustrate its progress, at one point, the central government withdrew the council's power to provide water. However, this ended up being counter-productive as the central government was unable to efficiently step in to provide the service, making the central government unpopular. Six months later, it reinstated the council's power. Mkhululi concluded that part of the success of the city council emanated from the fact that it works closely with the local community and civil society organizations to ensure that it has their support.

According to Paul Smoke, sequencing is crucial to the successful implementation of local government strategies. Even where there is an agreed political commitment, the consensus on the commitment needs to be properly developed. Otherwise, rushing to hastily decentralise is likely to result in failure. In Uganda's case, when the National Resistance Army (now National Resistance Movement) came into power in the late 1980s, it gave too much power too quickly to local governments before building lines of accountability. As a result, the systems on the ground were not functioning properly. With time, individual ministries that felt that their powers were being trampled on by decentralisation decided to keep the money to themselves. Donors also started second-guessing the process and curtailed some of the powers that donor projects had given to local governments (for example, health and education management). Subsequently, donors significantly reduced the funds that were being transferred to local governments. In the 1990s, a big chunk of monetary transfers to local governments by donors were unconditional. Now, over 97% of those grants are conditional and most of the powers of local governments have been clawed back.

The discussion also underscored the fact that while technical capacity is important, it is equally important to retain an element of political connection to ensure sustainability of reforms. Andres noted, for example, that in Peru, there are various local governments that possess sophisticated technical capacity but no political party has a local branch in those jurisdictions. While it may seem that these systems are working because of the absence of politics, Andres maintained that pure technical reform was not likely to meaningfully take off or be sustainable in the absence of political backing.

Distribution of Natural Resource Revenues

Andres explained which factors affect the degree of vertical decentralization of natural resource revenues and those influencing their horizontal distribution (across all jurisdictions). Citing the experience of four Andean countries (Ecuador, Colombia, Peru and Bolivia), he observed that the variations in how different central governments decentralized NR revenues depended on the bargaining strength of subnational governments, i.e. the territorial representation of interests and capacity to mobilize citizens for social protest. The horizontal distribution of revenues were explained by the extent to which local elites were directly or indirectly part of government coalition, and whether there is political party alignment between central government and the subnational government in question.

The horizontal distribution of natural resource revenues across subnational governments is determined by two competing interests: offsetting differences in revenue raising capacities on the one hand and distributing revenues according to the existing capacity and revenue collection efforts on the other hand.

Jacquiline Ngoma gave the example of Tanzania where she reported that while there is a lot of income that is generated as a result of natural resources, communities in producing subnational governments benefit very little from that income. She observed that communities that possess gold still remain among the poorest with limited services and suffering from health issues such as HIV. There is not much that reflects the economic activities taking place in those areas. Annonciata Ndikumusaba shared a different experience for the case of Burundi. She observed that while taxes relating to mineral production are collected at the national level, producing municipalities get 2% more in the form of transfers when government is sharing these taxes. Valbona noted that a similar treatment is found in Albania where the national government collects mineral rents but allocates an additional percentage to mineral producing subnational governments.

Carlos Orjales added that even without taking into account fiscal transfers, mineral producing communities are sometimes worse off than non-producing communities. He cited a study that he and others undertook in Peru where they analysed six municipalities and six regional governments. They selected both natural resource producing and non-producing municipalities and governments. They found that those governments that received natural resource revenues had a weaker financial performance. On the other hand, those who did not receive this revenue had more financial discipline and adhered more to rules. Andres referred to this as the subnational curse. The fact that a subnational government is wealthy with resources does not improve its financial standing. It can have weaker performance as a result of rent-seeking tendencies such as corruption.

The Role of Donors in Decentralisation

The participants raised various questions about donor engagement in decentralisation processes. They wondered whether donors were handling decentralisation correctly. They questioned whether the interests and targets of donors were the same as those of local communities. And they questioned whether donors should interfere in socio-political systems. Specifically, should donors continue to work with countries which have not allowed for local ownership of projects or should they wait until participatory systems are in place to allow for more meaningful contributions?

In response to the question of whether donors should interfere with the creation of political settlements, Richard Crook emphasized that that was not the role of donors. He gave the example of Ghana and posed another question: Should donors support decentralised systems in countries like Ghana when they are aware of the existence of clientelism? He observed that donors contribute tremendous resources to district assemblies in Ghana. His advice was that it is still worthwhile to provide this support because local government in Ghana is never going to succeed unless people feel that it is providing some services. In other words, even though corruption and clientelism exist, it is notable that there is still progress being made and that local communities are part of this process.

The discussions underscored the fact that it is important for donors to understand the local contexts in which they operate. It was pointed out that too frequently, donors treat decentralisation as pure devolution yet many countries have a blend of devolution and deconcentration. Specifically, many countries still use line departments to provide certain services. Consequently, when donors start working with a country and order that local governments should take over the provision of those services, they undermine the systems in place. That is why, for example, there are reports of schools being constructed without students to attend classes. It means that donors have not done a good job of coordinating the centre with the local. An example was given of Burundi where some donors focus on capacity building at the local government level while paying almost no attention to the changes in public financial management in central government.

Paul Smoke also advised that donors need to constantly remind themselves of the fact that the immediate goal of decentralisation – at least as far as developing countries are concerned – cannot be that these governments are the deliverers of a huge range of services. They can play an active role in delivering certain services but this needs to be done with specific goals in mind and should be well coordinated. He gave the example of Cambodia where the president decided to go to the lowest level of administration to create a local level government with a small budget and a set of financial management procedures. Observers perceived this as a big mistake because ordinarily, finance should follow function. However, they failed to appreciate the fact that one of the motives that drove the president's decision was the fact that people had lost trust in the central government and this was one of the ways of building credibility. For the first time, people witnessed services being delivered. If Cambodia had listened to the advice of fiscal decentralisation experts, it would have never witnessed this change.

Lastly, participants raised the concern that too frequently, just as a staff member is starting to understand a country, they are moved to another country. This can negatively impact on the success of a project. The situation is made worse if the new staff member is under pressure to prove that they have brought about change. Often, this pressure emanates from the incentive regime at the headquarters. If the incentive is for someone to make a mark as a new programme manager, this is a bad incentive as it is likely to mess up a system that is working in the hope of proving a contribution. To ensure continuity, donors need to have good structures in place that enable well-planned transitions and that do not depend on individuals.

Peer Learning: Valbona Karakaci on the Decentralisation and Local Development Program in Albania



'Working at the local level does pay off'

In Albania, 61 local government units (LGUs) were reconstituted a year ago. The LGUs are very diverse in size, population and economic strength. Since the territorial reform, the LGUs have more functions, and the DLDP is trying to support participatory planning and policy development to ensure social cohesion and the provision of efficient public services. The three core areas of the DLDP program are 1) capacity building at the local level 2) building institutions at the national level, and 3) improving the policy framework by facilitating platforms and knowledge management. Based on a rigorous evaluation method, the DLDP found that they spent more funds at the local level to achieve a limited number of goals, but achieved much more with less spending in building national institutions and influencing the policy framework. Does this imply that less work should be done at the local level? The participants discussed this matter and decided that no, working at the local level is crucial. A major reason for this is because it was exactly the work the DLDP had done at the local level that gave them the information, insight, and legitimacy to be able to influence the policy process at the national level in the way they did. Others added that working at the local level was also key to ensuring sustainability and foundational to the bottom-up Swiss approach.

Decentralisation, Local Resource Mobilisation, and Conflict

One of the questions that was posed under this discussion was whether decentralization mitigates or fuels conflict. Many argue that decentralization is an effective conflict mitigation strategy because it brings the government closer to the people (increasing the ability of citizens to sanction their leaders and demand accountability), diffuses political power, and allows for different regions to be governed according to their needs and preferences. However, decentralization can also "freeze" and legitimate ethnic identities and undermine nation building. It can also lead to less tolerance of diversity within decentralized units, and pressure for minorities to demand their own separate districts (as was the case in Northeast India and Uganda, where the number of districts

doubled in less than a decade). Decentralisation can also lead to tensions around setting inter-governmental transfers due to regional inequalities.

Jean-Pierre Tranchant noted that findings seem to indicate that decentralisation with fiscal transfers reduce conflict, but when there is a great degree of regional inequality or the presence of regional ethnic parties, the chances of conflict increase. Valbona shared the example of Albania, where one province was raising revenue much more effectively than its neighbour, and this created conflict between the two. As a result, the province lowered its collection performance in order to mitigate the conflict. Annonciata also raised the important point that donors usually see decentralisation as the cornerstone of peacebuilding, but the evidence presented demonstrates that it can also fuel conflict. She shared the example of Burundi, where decentralisation was driven by donors and accountability went upwards towards them and the central government rather than downward to the citizens, so there can be a tension between peace building on the one hand and state building on the other. Participants concluded that donors should be explicit about the purpose of state building activities in a given context. For example, is the focus on institution building for better services or institution building for better dialogue among different interests for trust building?

Lastly, preliminary results of a new empirical study indicate that decentralization of policy and political decentralization are significantly related to lower risks of ethnic civil wars. However, this effect is modest if regions do not have special autonomy status. Regional authority on tax and borrowing in non-autonomic regions fuels conflict. Conversely, increasing fiscal and borrowing capacity of autonomous regions reduces conflict. This is likely due to the fact that fiscal and borrowing capacities are not in themselves a substitute for autonomy from the point of view of ethnic minorities. In other words, their primary objective remains one of obtaining autonomy.

Peer Learning: Hosne Ara Begum on Sharique's Experience in Bangladesh



'PFM reform requires new awareness and skills'

In Bangladesh, local governments are highly reliant on donor funds (20%) and transfers (60%). Before 2006, both councilors and the people didn't want to better implement or pay taxes. In 2006, the Sharique program introduced tax education programs, and leveraged the ward assemblies and open budget meetings to engage on taxation issues. This allowed more tax to be collected, more pro-poor expenditure, and initiated development projects funded by the revenue raised. Still, Sharique found significant gaps in the public financial management (PFM) systems of local governments, including a complete lack of internal or social auditing and poor transparency due to the use of multiple bank accounts and the absence of a budget classification system. Sharique also found that the skills of local government representatives and staff were lacking, and has sought to strengthen their PFM skills. They conducted a training needs assessment, used this to develop a curriculum, and deliver hands-on and coaching. Sharique's experience illustrates the need for national PFM reforms to take into account the capacity building needs at the local level.

Taxation of the Informal Economy

Wilson Prichard presented on informal taxation, distinguishing between taxing informal sector businesses and informal taxation by state and non-state actors (such as bribes by government officials, rebel groups demanding security payments, or chiefs asking for gifts or labour).

Taxing small firms has significant costs and benefits. On the cost side is the expense of collection compared to the small amounts collected in revenue and the regressive incidence that may hinder economic growth and often leads to political opposition. On the benefit side is engaging small business owners in a fiscal contract with the government, increasing long-term inclusion and tax morale and increasing the size of businesses through formalisation. The latter depends on whether formality can bring businesses less harassment, greater predictability, and access to new services such as credit. Taxation has also spurred collective action through the creation of small business associations, but collusion between association leaders and political and economic elites can undermine the governance benefits of this.

Wilson presented several policy options for taxing the informal sector. These included creating new units within revenue administrations to deal with small taxpayers, shifting the responsibility to local governments, allowing small business associations to collect the taxes, or contracting out collection to private firms. He cautioned against the latter, because this removes the prospect of fostering bargaining and reciprocity between the government and citizens based on taxation, and can lead to coercion that weakens trust and legitimacy. However, Carlos Orjales shared that Peru has had a successful experience with outsourcing taxation.

On the second kind of informal taxation (payments, in money, gifts or time, to state or non-state actors), the research has delivered a couple key findings. First, informal taxes are extensive, and impose a significant and regressive burden on citizens. Second, in Sierra Leone, citizens trust informal actors like chiefs to spend the money to benefit the community more than they trust formal state actors. There are several implications of this. First, where informal taxation is pervasive, the link between decentralisation and strengthening local governments and accountability may not hold. Second, any reform of the formal tax system must take into account the interaction this will have with the informal tax system. Third, if informal taxes are more popular, and sometimes more effective in meeting citizens' needs, should we explore hybrid options between the formal and informal systems? Or, should we focus on shifting progressively from the informal to the formal, and if so, how?

Sengthong Phothisane shared his experience from Laos, where localization (assigning taxation to local government) is working well, but the tax collectors often negotiate with the taxpayers, and this leads to revenue leakages. Wilson responded to this by saying that perhaps negotiation is not so bad as long as the system overall is working better, as local governments have more information and incentives to raise revenue. Further, in Ghana, when businesses were doing poorly, tax collectors negotiated a lower rate that

helped the businesses stay afloat, so it also depends on the context and the goals of the negotiation.

Valbona shared the example of the Roma in Albania, who engage in recycling informally. If they were taxed, they would not be able to continue, but the government is happy for them to be recycling. One option in this situation would be to formalize them without taxing them, which would at least bring them into the net of the public system, but not put them out of business. The most important thing from a governance perspective is to ensure that the benefits are greater than the burdens to citizens in seeking to formalise their businesses.

Peer Learning: Jacques Merat on Local Taxation in Rural Madagascar



'Sometimes the least appealing option is best'

A major issue in Madagascar was that donors were spending significant sums of money on irrigation schemes and rural roads, but these were not being maintained, so that after a few years donors would need to spend money again on the same infrastructure. Jacques' project sought to fix this sustainability problem by assisting municipalities in raising revenue that could be used to maintain the infrastructure. Initial analysis found that municipal revenues could be raised by almost ten times by making increased use of the harvest tax and implementing property taxation, which had been ignored in the past. However, the team soon learned that due to the complex nature of property rights (state-owned land nevertheless sold informally by farmers), this was not feasible and might even trigger conflict. Despite the harvest tax seeming somewhat feudal, the team determined this was the most realistic way to move forward, as collection consists of simply setting up check points on roads to tax trucks carrying crops. The team learned that it was crucial to clarify who was responsible for the upkeep of infrastructure, and that governance aspects of rural development projects necessitate more time and attention. They also found that it was important to have a policy dialogue team working at the national level to help solve problems at the local level, such as transferring the ownership of infrastructure to the municipalities who could better care for them.

Participatory Budgeting and Social Accountability Initiatives

Alex Shankland's presentation revolved around the relationship between citizen engagement, social accountability and tax morale. He noted that direct democracy should increase tax morale because people would have more of a say in how tax revenues are spent. In other words, because citizens are engaged, they become more aware of their rights and responsibilities, including the duty to pay taxes. These are, however, largely theoretical ideals. In the real world, whether in a competitive

democracy or a more authoritarian regime, participatory budgeting is fundamentally about politics. It is about deliberate efforts to ensure representation at the local level.

Similarly, for participatory budgets to be successful, they need to be continuous projects. They cannot consist of little pilot one-off projects in a single neighbourhood because people will simply perceive these as a waste of time. As such, local governments need to commit to engaging in these projects multiple times, monitoring them and following up. The deliberations should be meaningful: they should offer multiple perspectives and a range of choices. If there is no meaningful deliberation or follow up, tax morale will remain low. They should also demonstrate financial commitment, where those funding the projects put serious money on the table. However, even in cases of scarce resources, it is important to undertake these exercises because they promote civic awareness and education. Lastly, these budgets need to strike a balance between different often competing interests: majority vs minority interests, government priorities vs people's priorities, neighbourhood preferences vs needs of higher level city.

Studies in Brazil concluded that participatory budgets had resulted in improvements in healthcare. Specifically, they demonstrated that municipalities with participatory budgeting programs enjoy better results than similar municipalities without those programs.

Alex shared case studies from five different municipalities that implemented participatory budgeting in Mozambique, and had participants split into groups to discuss each case study. By examining the cases, the groups identified the economic, political, and accountability drivers that shaped the success of participatory budgeting and tax morale in each city. As the case studies showed, the different political and economic contexts of each municipality led to very different outcomes, from the success story of Nampula to the non-cooperation of the government in Tete, and the decrease in tax morale in Kilimani because the politician did not keep his promises.

Gender and Taxation

Anuradha Joshi made a presentation on gender and taxation, bringing out several key themes. First, there can be gender biases in tax structures, whether explicit or implicit. The VAT, for example, tends to be regressive because poorer households pay more in proportion to their income, and women-headed households make up a majority of low-income households. The VAT can also have disproportionate effects on women depending on which goods are most often purchased by women and which basic consumption goods are exempt or not. For example, if paraffin is not exempt, women may go out to collect firewood instead of buying it, thus increasing the burden of unpaid care. There can also be bias in the informal economy depending on which professions are being taxed and whether or not they are dominated by women. Market taxes, for example, fall most heavily on women, as they tend to outnumber men in market trading.

User fees for services like clean water and education also tend to be paid by women, which can have adverse effects on girls. For example, if a mother can't afford to send all her children to school, she may choose to keep the girls at home and pay the fees only for the boys.

Anu also spoke about how although women are increasingly represented, tax administrations are dominated by men. It may be that if more women held positions of leadership in tax collection, the policies developed would be more sensitive to women's issues and needs.

The group discussed ways that tax policy might help the cause of gender equality. One solution, which has been tried, is to incentivize registering property in the name of the woman by taxing it less. Although this does not give women access to more income, it can increase their bargaining power.

The group came to the conclusion that although it is important to ensure there are no biases disadvantaging women in the tax system, tax is a very blunt instrument when it comes to improving the position of women. The more important areas of action are on the expenditure side, including increasing women's education, and taking care of their health, as well as wage equality and political representation.

Peer Learning: Carlos Orjales on TADAT



Carlos presented the new Tax Administration Diagnostic Assessment Tool (TADAT) created by a group of influential development partners. The value of TADAT as a standardised assessment tool is that it can provide an objective view of the tax administration system and areas that need strengthening or reform. TADAT is composed of 9 critical performance outcome areas, 28 high-level indicators, and 47 measured and scored dimensions (scale of A to D). To date, 16 pilots have been conducted across both developed and developing countries. Based on these experiences, the IMF estimates that an assessment using TADAT would cost about \$150,000 and take about three weeks to perform. Using TADAT will allow for better coordination between donors supporting reform, and will provide a basis for monitoring and evaluating progress. TADAT also allows for comparability between the tax administrations of different countries.

Property Taxation

Tom Goodfellow began the day by introducing the main issues around property taxation. There are many challenges to property taxation in the developing world: irregular street patterns, lack of street names, limited number of property valuation professionals, payment may be resisted by residents dissatisfied with public services,

and official rolls are often very out of date. Still, property is fixed, visible, and as a progressive tax, it can be the bedrock of local government finance. Tom argued that especially now that real estate in developing country cities is booming, it is time to increase efforts to tax property.

Tom introduced the Kelly framework, which comprises the 1) tax base 2) tax rate 3) coverage ratio (how much property is registered on the cadastre) 4) valuation ratio (value registered vs. market value), and 5) the collection ratio. At each of these stages, revenue can be lost, either due to policy, administrative weakness, or political interference.

Finally, the group discussed the various valuation systems used in the countries they know. A real trade-off emerged between ease of implementation and equity concerns. While value-based assessment is more accurate, it requires expertise, market transaction benchmarks, and is more expensive, time-consuming, and difficult for people to understand. Area-based assessment on the other hand is much easier to explain and administer, but is regressive. One system Tom introduced that minimises these trade-offs is a points-based system developed by the Revenue Development Foundation. It starts with the property area and then points are added or deducted for attractive or poor features such as access to electricity, location, house condition, etc.

Next, Nara Monkam introduced some additional issues around property taxation in Africa. One is that in some countries, much of the land belongs to the state. In other places, the statutory system which supports private tenure is in contradiction to customary land tenure systems in which land is owned communally. She also discussed the major political challenges to taxing property, as citizens do not want to pay the tax and local politicians don't want to implement it for fear of losing popularity.

The group reflected on the issue of political will in property taxation and came up with some interesting examples. In Myanmar, the central government wanted to push property taxation, but the local bureaucracy was resistant. This was in contrast to Albania, Laos, and Burundi, where the national elites were opposed to increasing property taxation because they owned a great deal of land. In Peru, there have been massive public demonstrations against property taxation. In Madagascar, it was the Ministry of Finance that resisted property taxation because it didn't want to local governments to increase their own revenue and power. In Serbia, there has been no lack of political will because the IMF has been exerting great pressure and local governments need to raise more revenue because they are getting less transfers from the central government.

At the end of the day, Mick Moore facilitated a role playing exercise where participants had to respond to a proposed property tax reform as either citizens, representatives of small businesses, big businesses, civil servants, the tax administration, or politicians. This revealed the extent to which various interest groups have different incentives to resist property tax reform. Mick suggested that starting with re-evaluating properties is

a mistake, as it mobilises resistance without delivering any benefits. He argued that it is better to start by increasing the coverage ratio and making the system perform better.

The group also discussed various ways to assign responsibility for the tasks involved in property taxation from setting rates to zoning, valuing, billing, collection and enforcement. Although there is no “best” formula, Mick suggested it is not ideal to assign all the tasks to the same level of government. While local governments will have more information on the properties in their area, pushing too many functions down can be problematic due to lack of expertise and increased risks of corruption.

Peer Learning: Alexander Grunauer and Christopher Nell on SDC Cooperation for Property Taxation in Eastern Serbia



‘Increasing Property Taxes through Performance Based Incentives’

Alexander Grunauer and Christopher Nell shared their experiences with the project on Municipal Economic Development in Eastern Serbia. This project involved multiple stakeholders including line ministries (Ministry of Finance, Ministry of Economy and Ministry of State Administration and Local Self-Government), nine municipalities and two donors (SDC and the German Federal Ministry for Economic Development and Cooperation). The project consisted of a total incentive fund of CHF 1,000,000 to be distributed to five municipalities depending on their performance (CHF 400k, 300k, 150k, 100k and 50k). The performance was measured in the period between 1 January 2014 and 31 January 2015 and was based on five criteria: the number of properties registered with the local tax administration, the tax collection ratio (that is, total tax assessed vis-à-vis what was actually collected), the percentage of taxpayers with outstanding tax debts of over RSD 500, the property rates used by the municipalities (the closer to the upper limit, the higher the score) and the property depreciation rates applied by the municipalities (the lower the rate, the higher the score). The presenters documented a tremendous increase in registered properties. The number of registered properties in the competing municipalities increased by 264 per cent compared to 7 per cent in the neighboring municipalities that acted as a control group and 137 per cent in the rest of Serbia. Similarly, property tax income increased by 123 per cent in the participating municipalities, 78 per cent in the control group and 84 per cent in the rest of Serbia. Within a year of the intervention, local property tax revenues had increased by CHF 1,800,000. By early 2016, two of the municipalities (Negotin and Majdanpek) were collecting three times more property tax than they did in 2013. There are various other benefits that can be pegged to this project: (a) the country now has a draft law on Local Self-Government financing that includes performance incentives in intergovernmental transfers and minimizes arbitrary transfers; (b) the project built capacity within local tax administrations, municipal finance departments and the local community (including students and unemployed citizens) and (c) it improved coordination between different levels of government, including improving consultation in policy making processes.

Participants

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List of Trainers

Alex Shankland (IDS)	Participatory Budgeting and Social Accountability Initiatives
Andres Mejia Acosta (King's College London)	Natural Resource Revenues and the Andean Experience
Anuradha Joshi (IDS)	Gender and Taxation
Giulia Mascagni (IDS/ICTD)	Fiscal Decentralization, Local Taxation and Fiscal Transfers
Jean-Pierre Tranchant (IDS)	Local Resource Mobilisation and Ethnic Conflict
Mick Moore (IDS/ICTD)	Property Tax Collection in Pakistan
Nara Monkam (ATAF)	Donors, Decentralisation and Accountability; Property Taxation in Africa: Experiences from African Countries
Paul Smoke (New York University)	Financing Local Governments in Developing Countries
Richard Crook (IDS)	Democratic Local Government and Local Revenue Mobilisation: Issues of Representation, Legitimacy and Collective Action
Tom Goodfellow (University of Sheffield)	Challenges Related to Property Taxation
Wilson Prichard (ICTD/University of Toronto)	Taxation of the Informal Economy at the Local Level

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