

TAPPING

THE UNTAPPED POTENTIAL:

GIZ Success Stories in Capacity Development for
Local Revenue Enhancement in Sub-Saharan Africa



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PREFACE

Preface

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Effective local revenue mobilisation for service delivery by local governments is one of the key variables to success to any decentralisation reform. In sub-Saharan Africa in particular, the mobilisation of local revenues notably local taxes and user fees has met with a lot of challenges undermining local service delivery and accountability. Capacity development of local and central governments to face these challenges has been the focus of GIZ in many countries.

In general, limited practical information has been documented on the experiences and approaches used to tackle poor revenue performance for local governments. This brochure is an attempt to cover the practical knowledge gap and to report some stories of GIZ Governance and Decentralisation programmes and projects in sub-Saharan Africa. It gathers good practices, provides insights into their support and further paints a picture of some important challenges confronted by local governments:

First of all, the country papers outline the different decentralisation contexts, an important starting point for the GIZ capacity development approach. Though progress is being made, local government financial reforms in many of these countries are yet to empower and guarantee a significant room to manoeuvre for fiscal autonomy of local governments. Other key issues include a narrow tax base and weakness in its exploitation by local governments, inappropriate sub-national transfer systems, imbalance between local government mandates and available resources. On the other hand, the country examples show how decentralisation stakeholders, especially local governments, engage with GIZ to reform and make things work. Even though progress is being achieved; these examples indicate that there is still room for improvement.

Being a document of practical relevance to technical assistance, we hope this brochure that has been realised within the framework the GIZ Sector Network for Good Governance in sub-Saharan Africa (GGA) will contribute to the improvement of GIZ approaches in local revenue mobilisation, as well as stimulate and enlighten discussions for local government support in general. We are grateful to all members of the Fiscal Decentralisation and Local Finance working group who made special effort to analyse and document their experiences. In particular, we express appreciation to the AMCOD support programme, PADDL-Cameroon, PDDC-Benin, SULGO- Tanzania, DGG-Rwanda and editors of this who took this project to its final shape.

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Cluster coordinator "Decentralisation,
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ACRONYMS

List of Acronyms

ADLP	Programme d'Appui à la Décentralisation et la lutte contre la pauvreté - Support to Decentralisation and Poverty Reduction
AMCOD	All Africa Ministerial Conference on Decentralization and Local Development
D4D	Decentralisation for Development Programme
DACF	District Assemblies Common Fund
DDF	District Development Facility
DDS	District Database Systems
DGG	Support to Decentralization as Contribution to Good Governance Program
DP	Development Partners
DPCU	District Planning and Coordinating Unit
EDPRS	Economic Development and Poverty Reduction Strategy
FCFA	Franc de la Communauté Financière Africaine – Franc of the African Financial Community
FDSC	Fiscal Decentralization Steering Committee
GDP (PPP)	Gross Domestic Product (purchasing power parity)
GGA	Sector Network Good Governance in Sub-Saharan Africa
GIS	Geographic Information Systems
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoR	Government of Rwanda
HIV/AIDS	Human Immunodeficiency Virus /Acquired Immune Deficiency Syndrome
IGF	Internally Generated Funds
IT	Information Technology
LDF	Local Development Fund
LGA	Local Government Authorities
LG-PRSP	Local Governance Poverty Reduction Support Programme
LGRP	Local Government Reform Program



MGPDD	Malawi German Programme for the Promotion of Democratic Decentralisation
MINALOC	Ministry of Local Government (Rwanda)
MINECOFIN	Ministry of Finance and Economic Planning (Rwanda)
MLGRD	Ministry of Local Government and Rural Development (Malawi)
MMDAs	Metropolitan, Municipal and District Assemblies
NLGFC	National Local Government Finance Committee
OECD/DAC	Organisation for Economic Co-operation and Development-Development Assistance Committee
PADDL	Decentralization and Local Development Assistance Program
PDDC	Programme d'Appui à la Décentralisation et au Développement Communal – Decentralisation and Local Development Support Programme
PMO	Prime Minister's Office
PO	Presidents' Office
PRSP	Poverty Reduction Strategy Paper
PTF	Partenaire Technique et Financier – Technical Partner and Donor
RALG	Regional Administration and Local Government
RALGA	Rwandese Association of Local Governments (Rwanda)
RCC	Regional Coordinating Councils
RGB	Rwanda Governance Board
RPCU	Regional Planning Coordinating Unit
RRA	Rwanda Revenue Authority
SDI	Support to Decentralization Implementation Program
SfDR	Support for Decentralization Reforms
SULGO	Support to Local Governance Processes
TDL	Taxe de Développement Locale – Local Development Tax
TRA	Tanzania Revenue Authority



SUMMARY

Summary

This brochure examines and paints a picture of some GIZ experiences in its support to local revenue enhancement in nine countries in sub-saharan Africa. It explores how seven GIZ programmes and projects have addressed challenges within this context. The country examples have highlighted the following similar lessons learnt in support to local revenue enhancement:

- Local revenue enhancement can only be facilitated if the national level framework conditions are already favourable or supported concurrently in a systematic manner (multi-level approach)
- Property tax constitutes the most important source of council revenue in many Sub-Saharan countries – for councils to tap this potential they need to be supported to collect and analyse data and maintain databases and cadastres
- The different sources of revenue available to councils have to be analysed and weighed systematically
- Computerisation and use of IT forms part of the needed capacities of councils
- Transparent council budgeting and taxpayer sensitization are crucial for revenue enhancement



TAPPING THE UNTAPPED POTENTIAL:

How GIZ Supports Capacity Development for Local Revenue Enhancement in Sub-Saharan Africa


David Edelmann¹

Around the world, local governments are playing a more and more important role in facilitating development by opening up spaces for citizen participation and by providing public services to their citizens. This is, because local governments are closer to the citizens than national governments; they know what their citizens need and they face strong incentives to respond to these needs. In many sub-Saharan African countries, however, local governments cannot yet sufficiently fulfill their assigned functions and meet the high expectations of their citizens, because they lack the necessary resources to finance the operational and maintenance costs as well as new investments in local services.

In sub-Saharan Africa, local governments manage on average less than 10% of public expenditures. In the European Union, in contrast, local governments account for an average of 25% of public expenditures. Many local governments in sub-Saharan African countries complain about a lack of financial resources that can have many reasons. In some cases, the financial resources assigned to the local governments (own revenues, shared taxes, conditioned and unconditioned transfers) are too little compared to the assigned functions. In addition, the transferred revenues from the central government to local governments often arrive too late or are highly conditioned so that local governments cannot flexibly react to local priorities. In other cases, the local tax administration lacks the capacities to collect the assigned local taxes, user charges or registration fees or the mayors do not want to tax their citizens because they fear that they will not be reelected. This becomes especially serious when citizens do not (yet) see how their local taxes and user fees can improve local governance and service provision and thus compliance of tax payers is low.

In times in which the expectations of the citizens are growing and many national governments are facing a financial crisis, it becomes a key challenge for local governments to find ways to mobilize the resources they need to provide the local services their constituents demand. On the one hand, local governments and their associations can lobby for more predictable and unconditioned intergovernmental transfers and the transfer of more fiscal competences from the central to the local level. On the other hand, local governments can use the given competences for the collection of local taxes and user fees more effectively, which requires *inter alia* strengthened tax administration and tax payer education. In many sub-Saharan African countries, local own-source revenues are still an untapped potential. At the level of AMCOD, local revenue enhancement capacity is one subcomponent of its strategy on “Financing of decentralization, public service delivery and local development”.

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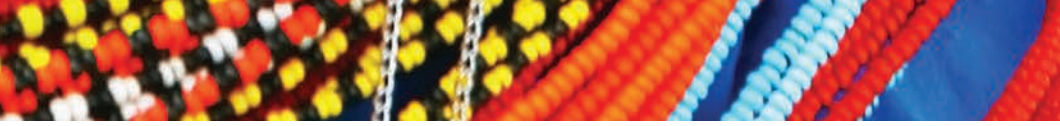


The *Deutsche Gesellschaft für Internationale Zusammenarbeit* (GIZ) has been supporting many central, regional and local governments in sub-Saharan Africa over the last years to tap this potential. By supporting the development of local capacities for local revenue enhancement, GIZ seeks to increase local fiscal autonomy and local fiscal accountability. With more own-source revenues, local governments have more discretion to collect and spend the money according to the priorities and preferences of their constituents. At the same time, local tax payers can hold their local governments to account for how their taxes and fees have been used. Following the slogan “no taxation without representation”, taxpayers will have a strong interest in voicing their ideas and in engaging in local democracy. At the pan-African level, GIZ is also supporting the All African Ministerial Conference on Decentralisation and Local Governance (AMCOD) to deal with local revenue enhancement capacity is one subcomponent of its strategy on “Financing of decentralization, public service delivery and local development”.

GIZ supports the development of capacities for local revenue enhancement at different levels. According to the OECD/DAC definition of capacity development, three distinct levels can be distinguished: the societal level (comprising the system and networks), the organizational level and the individual level. At the societal level, GIZ is supporting central governments, local governments as well as local government associations in designing and implementing favorable framework conditions for local revenue enhancement. This includes the transfer of appropriate fiscal competences in line with the transfer of responsibilities and country-wide structures that support local governments in collecting their local revenues. At the organizational level, GIZ supports for example individual local governments, tax administrations or organizations involved in tax payer education so that they can play their role more effectively in mobilizing local revenues. At the individual level, GIZ trains local government officials, local tax administrators and representatives of civil society so that they can contribute to the functioning of their organizations.

The GIZ activities in support of local revenue enhancement are embedded in broader programs in the field of decentralization and local governance. The GIZ’s approach in this field is characterized by the following 4 principles:

- Holistic approach: GIZ seeks to integrate the political, administrative and fiscal dimension of decentralization and local governance. This means, for example, that GIZ ensures that the transfer of responsibilities is always linked with appropriate resources;
- Multi-level approach: GIZ always works at all levels of government and administration in its partner countries. This means, for example, that GIZ can feed local experience in national policy formulation processes;



- Multi-actor approach: GIZ seeks to facilitate broadly accepted solutions by bringing together the representatives from the central state as well as the local governments, private sector and civil society. This means, for example, that GIZ supports platforms for dialogue and consensus building;
- Evidence-based approach: GIZ provides policy advice based on good practices and lessons learned around the world. This means, for example, that GIZ organizes study tours for decision-makers to allow for first hand-information and peer-to-peer learning.

Further information:

United Cities and Local Governments (2010): Second Global Report on Decentralization and Local Democracy. Local Government Finance (www.uclg.org)

United Cities and Local Governments (2010): Policy Paper on Local Finance (www.uclg.org)

Informal Development Partners Working Group on Local Governance and Decentralization (2009): Fiscal Decentralization and Options for Donor Harmonisation (www.dpwg-lgd.org)

Public Expenditure and Financial Accountability (PEFA) Reports (www.pefa.org)

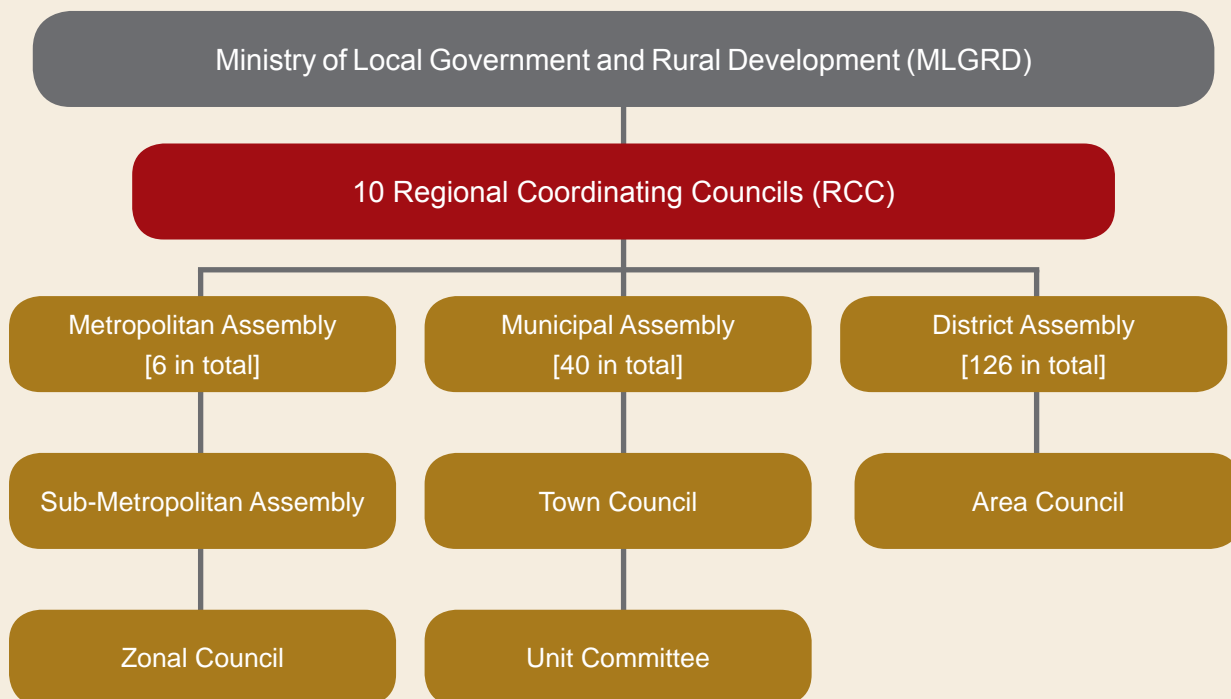


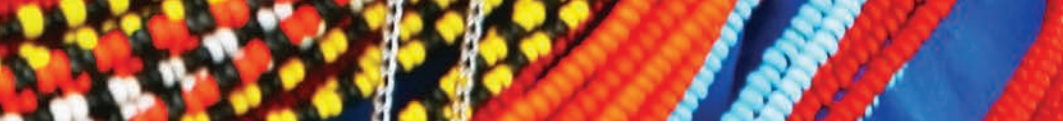
SUCCESS STORY OF FISCAL DECENTRALIZATION – GHANA

Introduction of District Database System in Piloted Districts in the Brong Ahafo Region

Brief country profile

Ghana is a West African country with a population of 24 million (Ghana Statistical Service, 2010 population census provisional results). It is a unitary democratic state bordered by Burkina Faso to the north, Cote D'Ivoire to the west, Togo to the east and the Gulf of Guinea to the south. Efforts to achieve a devolved form of government begun in 1988 and has gone through several phases with the most recent being a review of its Decentralisation Policy in 2010 resulting in a National Decentralization Policy and Action Plan. Ghana's decentralized governance system is presented below:





The Metropolitan, Municipal and District Assemblies (MMDAs) broadly exercise political and administrative authority in the district and are responsible for the overall development of their designated areas. Ghana currently has 170 MMDAs based on their population. The MMDAs are headed by Chief Executives (Mayors) who are appointed by the President. The MMDA, as the highest political authority at the local level, is made up of Assembly members representing the ordinary citizens within their communities, a presiding member responsible for directing deliberations of the Assembly, a district coordinating director who is the secretary to the Assembly and head of the district bureaucracy, and parliamentarians with constituencies within the district. 70% of Assembly members are elected with the remaining 30% appointed by the President. Besides, each MMDA has a team of technical staff/civil servants who run the District administration which include decentralized departments such as Finance, Development Planning and Works.

Given their role as the development authorities within their localities, District Assemblies have numerous functions with unequally matched funding. Internally generated revenues, which should ideally form the backbone of any fiscally devolved economy, only make up 15% of local government revenues. The District Assemblies Common Fund (DACF) which is a constitutionally mandated share (7.5%) of national revenue is also shared amongst the MMDAs based on a formula. The DACF makes up about 70% of local government revenue. The District Development Facility (DDF) which is a performance-based grant-system mainly supported by development partners constitutes another funding source for district development and makes up the remaining 15%. Local Government borrowing, even though discussed is not yet an option for local government funding in Ghana.

Challenges

To achieve a devolved form of decentralisation as prescribed by the constitution of Ghana, the internal revenue generation of local authorities has to be enhanced. The situation in Ghana, as in many other developing countries, has been one of dependency on central government agencies due to a low capacity to generate revenue from own sources. Besides being left with the poorest sections of the community and tax areas as their taxpayers and revenue sources, local governments also lack effective and efficient means of revenue generation and administration.

Among the challenges facing local authorities in Ghana are:

1. Lack of information on the revenue base and revenue sources of District Assemblies
2. Widely untapped potentially high revenue sources (e.g. Property rates)
3. Lack of trained personnel for revenue generation and collection at district level
4. Prevalence of uncommitted or disenchanted revenue collectors and civil servants lacking incentives for revenue collection
5. General lack of education and apathy among tax payers
6. Difficulty in tracking, valuing and collecting property rates



GIZ Engagement

The Support for Decentralization Reforms (SfDR) is a Ghanaian-German bilateral development programme, which was commissioned by the German Federal Ministry for Economic Cooperation and Development (BMZ) to GIZ (then known as GTZ) in 2007, continuing from its predecessor programme, the Local Governance Poverty Reduction Support Programme (LG-PRSP).

The programme objective in the area of fiscal decentralization, in line with the Government of Ghana's national priorities (as stated in the National Decentralization Policy and Action Plan) is to build the capacities of local government authorities (District Assemblies) to enable them raise enough funds internally (IGF) to make them less dependent on central government transfers for their growth and development

One of the key causes of low revenue generation in local authorities (MMDAs) identified in Ghana, is the failure of local authorities to make use of potentially high yielding sources of revenue and the non-existence or inadequate data on such sources. One such potentially good source is property tax which until 2004 had remained largely untapped.

Under LG-PRSP, the District Database System (DDS) was initially piloted in 7 districts in the Brong-Ahafo Region and provided the urgently needed data for planning, budgeting and revenue-generation. The project specifically targeted the District Planning and Coordinating Units (DPCU) made up of core technical staff of the Assemblies mandated with the coordination of the Assembly's planning and implementation functions for capacity support. Officers within this unit received comprehensive training in DDS and constituted a facilitation team drawn from across districts to take the lead in the process. This, no doubt promoted ownership and sustainability. Experiences gained from the piloting of this approach in close collaboration with the Regions and the core staff of their District Assemblies have led to better and sustainable revenue administration.

Following from the excellent result of increased IGF by as much as 400% in some target districts, the Government of Ghana has a new policy on street-naming and property addressing (supported by GIZ) which aims to upscale and improve local revenue generation and administration significantly.

With a new policy which provides a standard database system for improved development planning and revenue-generation in place, other development partners are expected to be a part of the implementation process.

Results and Lessons Learnt

With the successful introduction of the DDS in Tain, one of the seven pilot districts, the Assembly recorded over 300% increase in IGF within the first year and has since seen progressive improvement.



The table below gives a breakdown IGF figures between 2005 and 2009.

Tain District	Item	2005	2006	2007	2008	2009	Total
	Total IGF	-	54,692.88	66,577.23	-	109,858.53	231,128.64
	Property Rate	1,272.50	5,629.10	13,855.30	6,782.85	54,741.51	82,281.26
	%	-	10.29	20.81	-	49.83	35.60

The lessons drawn from Tain District after the successful introduction of DDS to ensure that good results are achieved are manifold but in summary, the key ones include the following:

- Need for committed district political and administrative leadership
- Teamwork among key actors
- Building the capacity of the core staff (DPCU) for reasons of ownership and sustainability;
- The selection of personnel for capacity development - only when done strategically yields the desired results.
- Need for sensitisation and active participation of community in development planning and implementation.
- Need for proper utilisation of IGF - provide better local services to encourage taxpayers to live up to their obligations.

“Strengthening of institutional structures need to focus on training of sub-district personnel, revenue station officers and collectors, teamwork among DPCU and effective monitoring machinery. The role of the RPCU in the establishment of the DDS is key, since they provide support in the area of training, technical backstopping, printing of questionnaires and scanning of questionnaires. In addition, management of data is a crucial element, as training of data entry clerks to independently manage day-to-day operation of the software and backing up of data is key to success of establishing the system”.

Kasimu Ashadu – District Finance Officer, Tain District



Annual Internally Generated Revenue Performance/ Property Rate for the Eight Districts with District Database

DISTRICT	ITEM	2005	2006	2007	2008	2009	TOTAL (2005-2009)
Jaman North	Total IGF	44,763.40	62,914.41	98,898.92	135,043.38	177,384.58	519,004.69
	Property Rate	5,255.95	9,167.40	13,566.59	11,054.74	26,927.80	65,972.48
	%	11.74	14.57	13.72	8.19	15.18	12.71
Jaman South	Total IGF		66,830.00	113,400.00	157,452.00	138,552.00	476,234.00
	Property Rate		-	39,322.00	46,344.00	58,529.00	144,195.00
	%	-	-	34.68	29.43	42.24	30.28
Dormaa Municipal	Total IGF	123,925.19	153,523.34	207,703.07	214,881.56	299,378.75	999,411.91
	Property Rate	2,814.65	4,260.70	5,438.27	17,353.60	19,684.70	49,551.92
	%	2.27	2.78	2.62	8.08	6.58	4.96
Dormaa East*	Total IGF	-	-	-	39,747.60	89,252.99	129,000.59
	Property Rate	-	-	-	9,979.79	27,870.60	37,850.39
	%	-	-	-	25.11	31.23	29.34
Wenchi*	Total IGF	70,965.39	82,564.61	-	149,188.19	208,573.47	511,291.66
	Property Rate	9,445.40	8,986.65	-	13,227.95	38,358.61	70,018.61
	%	13.31	10.88	-	8.87	18.39	13.69
Tain	Total IGF	-	54,692.88	66,577.23	-	109,858.53	231,128.64
	Property Rate	1,272.50	5,629.10	13,855.30	6,782.85	54,741.51	82,281.26
	%	-	10.29	20.81	-	49.83	35.60
Asunafo North Municipal	Total IGF	88,974.95	240,490.98	133,593.50	130,829.05	199,355.84	793,244.32
	Property Rate	18,513.89	52,329.39	43,406.60	25,225.31	68,435.99	207,911.18
	%	20.81	21.76	32.49	19.28	34.33	26.21
Asunafo South*	Total IGF	77,989.93	77,487.24	53,778.06	137,110.70	92,738.45	439,104.38
	Property Rate	12,789.29	16,074.40	13,023.20	26,575.55	20,767.55	89,229.99
	%	16.40	20.74	24.22	19.38	22.39	20.32

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REVENUE ENHANCEMENT FOR LOCAL GOVERNMENT IN RWANDA

Brief country profile

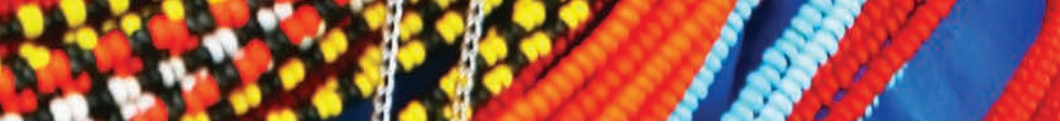
Rwanda is a country in Eastern Africa with a population of approximately 10 million. Rwanda's economy had suffered heavily during the 1994 Genocide, but has since then grown steadily reaching a per capita GDP (PPP) of over 1,000 USD in 2011, compared to approximately 500 USD in 1994.

In the framework of the implementation of the Economic Development and Poverty Reduction Strategy (EDPRS), Decentralization is a key policy of the Government of Rwanda (GoR) since May 2000 when the National Decentralization Policy was adopted. However, decentralization was mainly implemented in its weaker form of deconcentration. Although some considerable efforts to broaden the district's own revenue base have been made, the districts continue to rely on central government transfers which are mostly earmarked. In the financial year 2010/2011 the percentage of own revenue in district budgets were on average around 10 percent with the exception of the capital Kigali City where own revenue has reached up to 45 percent of the total budget.

Challenges

Effective decentralization and local autonomy require appropriate financial resources. The following main challenges have hampered the development of own revenue collection in the districts in Rwanda:

- No clear legal framework regulating local taxes and fees including many conflicting regulations and laws which are causing high administrative burden and high tax compliance costs
- The tax base is extremely narrow and sometimes even unfair not considering the ability to pay of the taxpayers
- Lack of equipment and tools like a computerized system or even transport facilities for revenue officers to follow up taxpayers
- Low individual and organizational capacity of the districts to organize efficient administration of local taxes and fees
- Lack of information for the citizens about their local tax obligations



GIZ Engagement

GIZ is supporting the decentralization process since 2007 with the objective to improve the capacity of the local authorities to develop the country socially and economically with the collaboration of civil society. In Fiscal Decentralization GIZ supports the Fiscal Decentralization Steering Committee (FDSC) which includes Ministry of Finance and Economic Planning (MINECOFIN), Ministry of Local Government (MINALOC), Rwanda Governance Board (RGB), Rwanda Revenue Authority (RRA), Rwandese Association of Local Governments (RALGA). The FDSC is operating under leadership of the Ministry of Finance and Economic Planning (MINECOFIN) and the co-chair is the Ministry of Local Government (MINALOC). GIZ as the only official development partner of the FDSC works in the areas of revenue enhancement, improvement of the earmarked transfer system and capacity development of the districts in Public Financial Management. In the field of Revenue enhancement, the GIZ engagement was focusing on the legal framework, capacity building, computerization and taxpayer sensitization.

Elaboration of a new legal framework for local government revenues

GIZ has supported MINECOFIN in the elaboration of a new tax law for local revenues. After approval by the parliament this law was gazetted on January 16th, 2012. The new law establishes clear and easy rules to handle local taxation in Rwanda for the three main revenue sources of the districts namely Fixed Asset tax (which is the Rwandan name for property tax), Trading License Tax and Rental Income Tax and it will broaden the tax base of local governments significantly. Furthermore, a considerable social component has been integrated into the law which assures that citizens and companies pay taxes according to the “ability to pay” principle. Thus, for example, in the field of property taxation small properties will be exempted while all exemptions for large properties have been abolished. Additionally, the program accompanied the reform of the district fee system. On 9th July 2012, a new presidential order was published which includes all fees and other charges levied by the local governments.

Capacity Building in Revenue Management

High staff turnover and no induction trainings for the district revenue officers have led to poor performance of the districts in revenue management. In order to increase the capacities, the GIZ has in cooperation with the Rwanda Revenue Authority (RRA) developed a training module for district revenue officers. Based on this training module up to now three training sessions have been organized for 90 district revenue officers. A nationwide rollout of this capacity development measure was assured through the cooperation with MINECOFIN who funded the trainings conducted by RRA trainers through the Public Financial Management Reform Basket Fund.

Introduction of a computerized taxpayer's management system in the districts DISTAX

In cooperation with the partner districts, GIZ developed and introduced the computerized tax management system called DISTAX. The implementation took place in all four partner districts in the Eastern Province and was later scaled up to the three districts of the City of Kigali. Furthermore, Distax was introduced by the Belgian Cooperation in one more district in the Northern Province.



The system contributed to significant revenue increases particularly in Kigali City and made tax payment procedures more transparent. Above all, it forced the districts to observe the tax regulations according to the law. However, after the new legal framework is in place the system needs to be replaced. The GIZ program will assist also in this replacement process. But as lesson learnt, GIZ will concentrate in the future more on accompanying the introduction of tax computerization than taking an active role in the development of the new software.

Taxpayer sensitization

In 2010 in the framework of taxpayer education, GIZ in cooperation with the City of Kigali has conducted an awareness campaign for taxpayers. This campaign was considered by the City of Kigali as very successful since revenue during the campaign has doubled in comparison to the year before. For that reason, the same campaign was conducted in collaboration with the Rwandese Association Local Government Authorities (RALGA) in the following year nationwide. The materials developed included TV spots, Radio spots, banners, brochures and posters. Based on the requirements of the new law establishing the sources of revenue and property of decentralized entities and governing their management, another taxpayer sensitization campaign was conducted in March 2012 across the country.

Own revenue development of local governments in Rwanda (Exchange rate 1 EUR ± 800 RWF)

Own revenue in RWF	2007	2010/11	Increase in %
GIZ partner districts rural	879,553,008	2,213,130,574	151,62
GIZ partner districts urban (Kigali)	4,870,553,831	12,808,363,444	162,98
GIZ Partner Districts urban+rural	5,750,106,839	15,021,494,018	161,24
Other Districts (mostly rural)	7,641,361,419	13,588,380,244	77,83

Results and Lessons learnt

The overall tendency in the collection of own revenues in the districts is quite positive (see table above). In the seven partner districts including the three districts of Kigali which have been directly supported by GIZ the absolute yearly revenue increase since start of the program in 2007 to the financial year 2010/11 was over 10 million EUR. In percentage this means a 160 per cent revenue increase for all partner districts within four years while the non partner districts increased in the same period their revenue only by roughly 80 percent. Based on the new legal framework consisting of the new local tax law and the revised presidential order on fees the outlook for further increase of local revenue is also very good.

A main lesson learnt from the program perspective is that a holistic approach in the support of revenue enhancement is necessary covering (1) the policy for broadening tax base, (2) the administration for improving the tax coverage and (3) the taxpayer information to increase voluntary compliance. Strong partners in the field of revenue enhancement have been in Rwanda mainly the Ministry of Finance and Economic Planning and the Rwanda Revenue Authority.

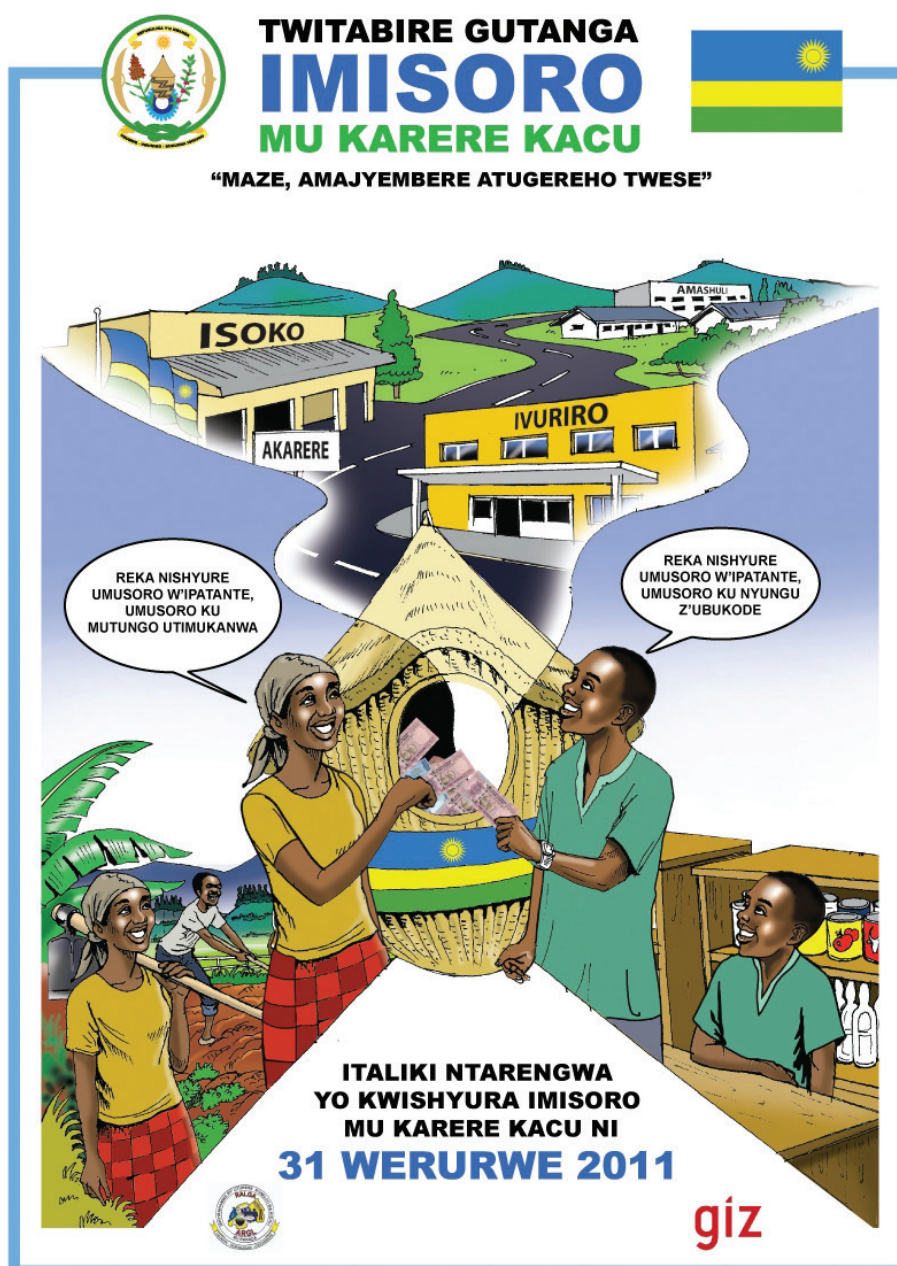
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Poster for taxpayer sensitization campaign in March 2012



Design by Rwanda cartoon Media 078 374 0444



THE INTRODUCTION OF STRATEGIC PLANNING FOR REVENUE ENHANCEMENT IN MALAWI

Brief country profile

Malawi is a southeast African country covering a land area of 118,000 km² (45,560 sq mi) with an estimated population of about 15,000,000 people. It is a unitary state with a new Constitution passed in 1995 as part of the 1994 multi party dispensation that ended more than 30 years of autocratic rule. The system of local governance is provided for in the Constitution and there is a Decentralization Policy (1998) and a Local Government Act (1998) that specifies further the system and functions decentralized to local governments. The Ministry of Local Government and Rural Development (MLGRD), which gets policy direction from the Office of the President and Cabinet, provides leadership of the reform process using the National Decentralization Programme II (2008-2013) and the Malawi Growth and Development Strategy II (2011-2016). To facilitate fiscal decentralization, the Constitution created in section 149 the National Local Government Finance Committee (NLGFC). In respect of financial management, local governments are regulated using the Public Finance Management Act (2003), the Public Audit Act (2003) and Public Procurement Act (2003). The Ministry of Finance provides treasury functions, the Auditor General is responsible for external audits while the Office of the Director of Public Procurement superintends on procurement.

Malawi is divided into 34 local governments which consist of 28 districts, 2 municipalities and 4 cities and these are financed through government grants (80%), locally generated revenue (20%) and donor funds. The reliance on government grants is heaviest on the part of districts (95%) and less in the case of urban local governments (5%) mainly because the cities and municipalities are more endowed with properties and businesses from which property rates, business licenses and market fees are collected while the rural districts rely mainly on market fees. On the other hand the bulk of social services funded through government grants such as education, health, and agriculture are predominant in rural areas. Recurrent transactions constitute over 75% of the government grants while the balance is contributed by the LDF – which has been operational since 2009 and pulls together donor funded projects under a centralized management.



Status of financial management and local revenue mobilization

Local Governments in Malawi are implementing an incomplete decentralization whereby the decentralization of functions, staffing and corresponding funds are yet to be completed; there is still dual administration and reporting at the local government level and at the same time political decentralization has stalled since 2005 following the expiry of term of office of the first crop of elected councillors. Financial management, to a higher degree, has been the most affected with problems ranging from inadequate staffing (vacancy rate of 80% in the finance directorate; no internal auditors in 21 out of the 34 local governments; lack of training opportunities to refresh and continuously develop skills and knowledge), poor performance especially in the early 2000s (marked by declining revenue collection; books of accounts not prepared and therefore not audited for as many as 5 to 6 years although this has been reversed), and lack of pressure exerted onto district officials and incentive for accountability and transparency.

GIZ's Contribution

Since 2003 GIZ through the Malawi German Programme for the Promotion of Democratic Decentralisation (GIZ-MGPDD) has been one of the key partners to Government in promoting decentralization in all aspects and to the National Local Government Finance Committee in particular in the development of capacities at national and local level for improved financial management. Technical support is provided through two embedded advisors at the National Local Government Finance Committee who also manage and accompany local level interventions. In the remaining part of this factsheet we focus on the introduction of strategic planning for local revenue enhancement which is one of the areas where there has been great success, amongst many others.

The situation before

As a result of the absence of elected councillors, the administrative arms of local governments find themselves under no legitimate pressure for downward accountability on revenue collection and utilization. It has therefore been common that senior management paid little attention to local revenue issues and in some cases did not even understand the revenue management systems in their local governments. Implementation of ad-hoc, one off and isolated activities that were not integrated into routine work programmes of the respective local governments was therefore the order of the day. Organizationally, most local governments have widespread vacancies at various levels in the finance directorates but interestingly they do not fall short of putting individuals to collect revenues at the various revenue sub-offices (revenue collectors, market masters and ticket sellers) with no mechanism for supervision on an ongoing basis. It is therefore not paradoxical that some revenue collectors went on without receiving salaries for months and years.

What was introduced with the support of GIZ-MGPDD

GIZ facilitated the introduction of strategic planning for revenue enhancement. A pilot, learning by doing and escalator approach to feed into the policy framework was followed.

The initial piloting was done between 2005 and 2007 in 5 local governments. The process involved discouraging the development and implementation of standalone and one-off proposals in preference to holistic proposals that reflect systematic analysis of the revenue situation and confirm that the request is a high priority and preferably a quick win to be started with. For example, single activity requests such as to train revenue collectors were subjected to a holistic review and the submitting local governments supported to undertake such a review and turn the proposal into a short term work plan (between 3 months and 1 year).

On the basis of the holistic plans, the five local governments were variously supported to update business licenses and property rates registers, recover debts from property rates defaulters, zone and label streets in rating areas, streamline market operations (demarcating spaces, training market committees), sensitize and promote awareness amongst taxpayers, train revenue collectors, and strengthen supervision and mentoring of the revenue collection process among others.



Workshop Session Showing Problem Analysis on Property Rates by Zomba City



The piloting revealed the widespread lack of knowhow of how to effectively go about the activities in the work plans. In response GIZ between 2008 and 2009 supported through an action research the development of a toolkit for revenue awareness and enhancement– a collection of tested and documented processes and experiences in form of guidelines explaining how to implement 14 activities commonly found in the work plans.

Eventually the orientation towards medium term planning for revenue enhancement was proposed and the procedures tested and documented and made available by GIZ for countrywide use. Specifically GIZ- MGPDD technically supported the NLGFC to design a template for local revenue enhancement strategic plans and piloted the process in 10 local governments.

Results and Lessons Learnt

The initial pilot phase was very successful whereby the local governments made remarkable turnaround, reversed declining trends in revenue collection and the then Municipality of Zomba collected 71% more in 2005/06 compared to the collections of 2004/05 in real terms. This was followed by an increased number of councils applying to GIZ for similar support.

With the introduction of the local revenue enhancement strategic planning, by the end of 2009, at least 7 out of the 10 LGs had gone through the full cycle of developing and implementing the strategic plans and as a result registered significant successes at the end of only 1 year of implementation. Specifically all had increases in revenue collection of more than 30% on average which, as a result of the motivation and training, were able to plough back into various projects such as constructing public facilities in markets, cleaning streets, paying for bursaries for orphans, awarding best tax payers and investing in commercial properties for additional revenues.

As a result of the successes recorded in the GIZ pilot districts, the NLGFC embraced and mainstreamed into its annual work plan support for the development and implementation of local revenue enhancement strategic plans by the rest of the local governments. At the moment, government is considering including the availability of the local revenue enhancement strategic plan as a criterion to be scored to access the urban window of the local development fund (LDF). The underlying idea here is to introduce an incentive arrangement that will encourage local governments to improve local revenue mobilization while they access the local development fund – after all the projects so constructed will have to be maintained hence the role of local revenues.

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FROM PROPERTY RATES TO REVENUE MANAGEMENT FOR LOCAL GOVERNMENTS IN TANZANIA

Brief country profile

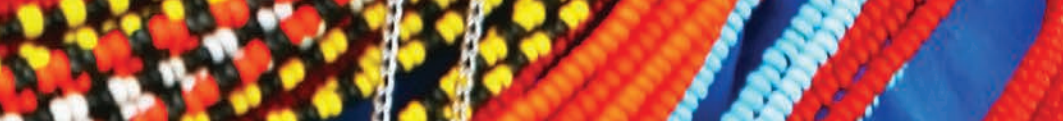
The name Tanzania is a contraction of Tanganyika, the large mainland territory, and Zanzibar, the offshore archipelago. The two former British colonies united in 1964, forming the United Republic of Tanganyika and Zanzibar, which later the same year was renamed the United Republic of Tanzania.

Actually Tanzania has a population of around 43 000 000 and a nominal GDP at 550 USD/capita. Tanzania has 26 regions (deconcentrated levels of government), around 150 districts (decentralized Local Government Authorities) and over 10 000 Villages (decentralized Lower level Local Government Authorities).

In 1996, government offices were transferred from Dar es Salaam to Dodoma, making Dodoma the country's political capital. Up to now only the parliament and Prime Ministers' office PMO-RALG (Regional Administration and Local Government) has relocated to the capital. Dar es Salaam remains the principal commercial city.

Budgetary allocation for the local government reform started in 1997 when the launch of the program was done under the Presidents' Office (PO-RALG and now under the Prime Ministers' office PMO-RALG). The first government policy paper on the reform of the local government was produced in 1998 followed by its implementation set up.

LGA's are responsible for about 20% of total government expenditures. Discretionary spending by LGA's is limited. They generate around 5% of total Local Government Authority revenue.



Challenges

The ongoing Local Government Reform Program (LGRP 2) has translated main challenges into main components:

- **Governance:** To establish broad – based community awareness and participation, aimed at promoting principles of democracy, transparency and accountable government.
- **Restructuring:** To enhance the effectiveness of local government authorities (LGAs) in delivering quality services in a sustainable manner.
- **Finance:** To increase the resources available to LGAs and improve the efficiency in their use.
- **Human Resource Development:** To improve accountability and efficiency of human resource use at Local Government level.
- **Legal Component:** To establish an enabling legislation to support the effective implementation of local government reforms

GIZ Engagement

SULGO complements LGRP2 in three fields: Legal Harmonization, Local Finance and Local Governance and accountability. A fourth component on Human Resource Development is in the offing.

Within the local finance component, GIZ supports in particular local revenue enhancement. In a first stage Property Rates were concerned. GIZ supports the secretariat of the inter-ministerial taskforce on Property Rates. Through the organization of learning events, broad consensus emerged on the need to widen the scope towards developing a comprehensive approach on revenue management for local government. This has both organizational as well as automation aspects (IT applications). SULGO is building upon the success of GIZ support on revenue management within TRA (Tanzania Revenue Authority) between 2000 and 2005.



Treasurers' office



Local production of ID plates for property rates collection

Results and lessons learnt

The post-implementation review of iTAX at TRA pointed out the importance of coherence between organization and development of IT applications:

- Development of IT applications follows after solid organizational development
- Functional organization of revenue services is to be promoted as compared to organization according to revenue type
- In house capacity building and related in house customizing capacity is critical for sustainability and ownership of automation
- A main challenge is to manage innovation, back-up, continuous training and help desk



Our experience with Property rates development and field testing indicates that:

- Administrative measures to improve collection have a positive impact but are limited due to organizational constraints
- It is inefficient to adopt a strategy to improve upon one source of revenue only and this for several reasons. The tax base can be determined more efficiently if relations to other sources of revenue are established. Secondly, the impact of automation is limited when organization by tax type results in stand-alone applications. This causes compatibility issues. And thirdly, the tax payer will be confronted with an increasing number of local tax bills.
- Organization does matter: functional organization allows for more transparency and enables an administration to manage better. Creating this understanding to our partners is key to success.

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GUIDE FOR COLLECTION OF LOCAL TAX FOR DEVELOPMENT (TDL/LDT) IN BENIN

Brief country profile

Benin is a French-Speaking country located in the Gulf of Guinea in West- Africa. The country covers an area of 112 620 km² and in 2010 the population was estimated at 9.1 million. It had a GDP of FCFA 344 600 per capita in 2009.

The country became committed to the process of decentralisation following the national stakeholder conference in February 1990 and in January 1993 a general one for all territories. It has a single level of decentralisation to local governments of 77 municipalities with financial autonomy. The creation of local governments in 2003 after the first elections marked an active phase of the process because all competences were transferred to the local governments. The decentralisation laws provide for subsequent transfer of resources to the local governments. Four main categories of resources will drive local governments' budgets: Revenues of own local taxes, subsidies and rebates on state taxes, donor funds and borrowing.

Challenges

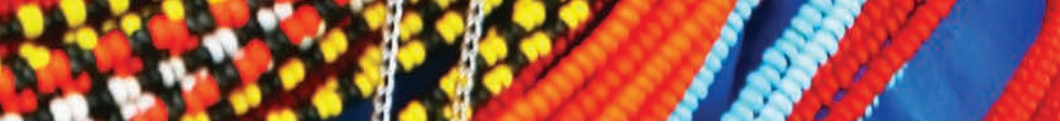
Resources to supply the local governments are not always up to expectations. The Government helps through subsidies. But in 2010, the Central Government, because of its difficulties managed to transfer only about 3.16% of its budget to the local governments. The ratio of local government expenses in total expenditure of the Government general budget was 5.85% in the same year. It is therefore important that local governments emphasize on local resource collection in order to fulfil the mission assigned to them for local development through decentralisation.

GIZ Support

The Benin-German programme to support decentralisation and local government development has been helping central government and local governments in the implementation of the participatory process for local development and the provision of quality services to the population since 2004. Thus, through its fiscal decentralisation component PDDC supports financial capacity building of local governments.

The Local Development Tax (LDT) was established by the legislature in 1999 in Benin to allow high potential rural local governments to mobilise more resources to ensure their independence and cope with developmental tasks entrusted to them.

A study undertaken on the identification of the tax base and on modalities of implementation of the local development tax has revealed that in the worst case of production the LDT will generate an average amount of FCFA 2 242 215 464 per year in all local governments in Benin. This amount increases to FCFA 3 653 127 870 per year in the optimistic scenario. LDT is therefore an important issue for local development.



Implementation of the LDT has proven difficult because of problems related to the determination of the tax base, taxable persons and issues related to census.

GIZ supported the revenue authorities of Benin in undertaking a study to enhance the mode of operation of the LDT and the introduction of new provisions in the Finance Act 2010 to amend the Act as to make the new tax applicable. The programme equally supported the drafting of the collection guide of the LDT. Sensitisation on the guide was undertaken and tax authorities, other donors and GIZ itself trained the users.

Results and lessons learnt

In the first year of implementation of the training on the guide quantitative results were still mixed compared to expectations. Due to a delay in the implementation of the legislation in 2010 and 2011, about 5 out of the 77 local governments collected FCFA 230 006 362 LDT in 2010. More than 10% of the average expected in a pessimistic scenario.

This guide has been successful firstly because it meets the expectations of local governments and secondly the process which led to its development involved key stakeholders such as the government, the local governments and other donors.

This support was critical in that the local tax legislation had not been adapted to the cyclical realities of high potential rural local governments. And tax administration had experienced huge technical difficulties to operationalize the LDT for 11 years.

Today, councillors are more than willing to implement the LDT. The PDDC stirred this willingness through sensitisations organised in proximity and through training of tax collectors.

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REVENUE ENHANCEMENT IN COUNCILS IN SOUTHERN PROVINCE OF ZAMBIA

Brief Country Profile

The Republic of Zambia is a unitary state located in Southern Africa. It is a former British colony which got its independence in October 1964. Zambia is a landlocked country and has eight neighbors i.e. Zimbabwe, Namibia and Botswana to the South, Angola to the West, Mozambique, Malawi to the east and south east and Democratic Republic of Congo and Tanzania to the North. At the last census in 2010 the population of Zambia stood at 13,046,508 with about 39% of the population living in urban areas. The Country has an area of about 752,600 km². It is divided into 10 provinces and 82 districts (of which 4 are cities and 14 municipalities).

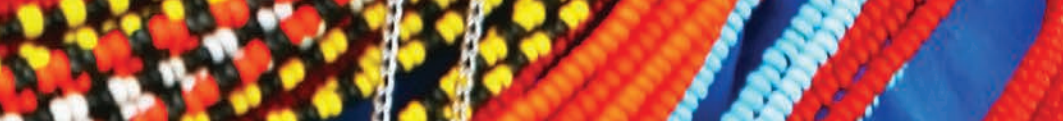
The National Decentralisation Policy (launched in 2004) of the Zambian government aims at empowering residents to participate in decision making as well as in the development of their respective districts. The Decentralisation Implementation Plan (2009) lays out devolution as the type of decentralisation to be pursued. However, local councils in their current state do not all have sufficient capacity to handle the additional responsibilities envisaged under the decentralization policy. The limited capacity of the councils has been government's concern and has contributed to the delay in the implementation of the decentralisation policy in Zambia.

Challenges

One area of concern in building the capacity of councils is in the area of local revenue mobilization to meet the ever-increasing demand from local communities for public services. Residents are demanding better and more effective service delivery which councils are failing to deliver due in part to inefficient local revenue collection capacity.

Among the challenges encountered in revenue collection were the following:

- Outdated property tax legislation and valuation rolls
- Lack of reliable data on the revenue base at council level
- Untrained revenue collectors at council level
- Lack of transparency of council budgets and affairs and thus lack of understanding and confidence among rate payers



GIZ contribution

The German Development Cooperation through GIZ under the Support to Decentralization Implementation Programme (SDI) and now Decentralisation for Development Programme (D4D) has been assisting the Zambian Government to improve the framework conditions for decentralisation in general and for local revenue enhancement in particular and to build capacity of local councils in this area.

At the national level GIZ advised the introduction of an allocation formula for central government grants to local governments as well as the reform of the property tax and simplification and update of property valuation. At sub-national level GIZ has supported councils to increase their revenue collection capacity through training of revenue collectors and developing of guidelines and manuals.


In addition councils are supported through the provincial administration with the help of Geographic Information Systems (GIS) to develop cadastres to keep their data on properties up to date and have realistic revenue projections. Although capacity building has mainly focused on three councils in Southern Province, the remaining councils benefit from the knowledge and experience gained by the trained councils through a mentoring process and the dissemination of tested instruments.

Training of Revenue Collectors

In the past, training of council staff has generally been restricted mainly to managerial staff and ignoring those in the lower ranks. Yet it is this group of staff who are most frequently involved in the actual operations of the councils. Revenue collectors, for example, though engaged in revenue collection are not adequately knowledgeable on the legislation from which they derive powers to collect various revenues. As a result they are not able to defend the council or themselves when challenged by the clients resulting in either the delay or loss of revenue.



Participants in the revenue collectors' training from councils in Southern Province



To overcome the above dilemma, GIZ has conducted training of revenue collectors in revenue mobilization and management. The first training of revenue collectors was conducted in August 2008 while the most recent was in September 2011. In both cases, all eleven councils of Southern Province were represented by not less than three staff involved in revenue collection. Furthermore, the participants were encouraged and supported in conducting in-house training of their colleagues who were not privileged to attend the trainings organized by GIZ.

The topics covered in the training included the following:

- Legal framework: The participants were enlightened on the legal basis as well as on the various statutes from which they derive powers to collect council revenue. Being adequately knowledgeable in this regard enhances revenue collection efficiency.
- Budgetary controls: Revenue collectors need to appreciate that they are an integral part of their council's budgetary process as they are the ones who are closely in contact with the community as well as monitor the economic development of the district. Their input to updating the revenue database, identification of the new sources of revenue, etc. contributes to realistic budgeting of revenue.
- Transparency and accountability in revenue collection: The revenue collectors need to collect and account for every Kwacha that they collect on behalf of the council. To win confidence of the tax payers, councils need to not only involve stakeholders in the budget process and its implementation but also to be transparent in the way they utilize their resources.
- Public Relations: This relates to the way revenue collectors conduct themselves as they endeavour to uphold the positive image of the council and convince tax payers to meet their tax obligations. They need to maintain good public relations in order to be effective in revenue collection.
- Mitigating the Impact of HIV/AIDS on revenue collection: HIV/AIDS has undoubtedly had a negative impact on the operation of councils. When staff are either affected by or infected with HIV/AIDS, the operations of the council get affected in many ways. This could be manifested in form of high sickness rates, frequent absenteeism, low output, lack of concentration, etc. Revenue collectors are vulnerable in this regard as they sometimes spend more time away from station collecting revenues.

Results and Lessons learnt

After the training the trained councils such as Sinazongwe District Council report approximately 100% collection of budgeted revenues while the average local government manages to collect approximately 70%.



While the training of collectors contributes to increased revenues it is just one factor. It was learnt that the legislative framework for revenue collection, the administration of a revenue database, the public image of the council among rate payers and the economic development in the district play equally important roles in ensuring the council collects sufficient revenue to provide services.

Councils Own Revenue Collection Trends (in million Zambian Kwacha)

COUNCIL	2008	2009	2010	2011
Kalomo District Council	976.015	1.553.382	1.536.583	1.569.905
Sinazongwe District Council	1.968.710	2.017.280	1.772.704	1.982.695
Mazabuka District Council	4.308.900	4.807.411	5.896.050	6.398.159

GIZ through SDI and its new programme Decentralisation for Development (D4D) continues to support the Zambian government to build capacity of the local councils so that they are prepared to receive additional responsibilities that will be transferred in line with the decentralisation policy.

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BUILDING LOCAL COUNCIL CAPACITY FOR LOCAL TAX RECOVERY IN CAMEROON

Brief Country Profile

Situated in Central Africa, Cameroon has a population of approximately 20 million inhabitants. The country is subdivided into 10 Regions and 58 Divisions all governed by nominated government officials. Divisions are organized under sub divisions administered by the “Sous Préfet “ also nominated by government. On the other hand, about 360 local governments exist and are managed by elected councils. It is important to note that the geographical area of a subdivision under the “sous préfet” in a many cases corresponds to that of council area under the mayor). To implement development policies, the government is also organized in sector ministries with delegations at regional, divisional and sometimes sub divisional levels. The activities of these sector ministries at local level are coordinated and supervised by “Governors”, “Préfets” and “Sous Préfets”. A Growth and Employment Strategy Paper has also been adopted since 2010 to guide government and other stakeholders’ development actions. After slow down in the economy between 2003 and 2010, GDP gained greater momentum in 2011 with growth rate reaching 4.1%². In its 1996 Constitution, Cameroon like many other Sub Saharan African Countries introduced decentralization as part of its democratic reform recognizing two levels of government (local councils and regions³). Following this constitutional provision, some efforts have been made to institutionalize decentralization and to effectively devolve some powers to local councils. The Ministry of Territorial Administration and Decentralization plays a key role and its Divisional Service administered by the ‘Préfet’ (Senior Divisional Officer) acts as supervisory authority on local councils. In addition, to shape and monitor the decentralization reform, the government of Cameroon has created many institutions notably the national decentralization council and the interministerial committee in charge of local services.

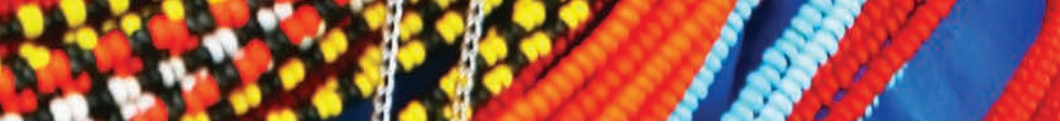
Challenges

Effective decentralization and local autonomy require a balanced intergovernmental fiscal framework. The following main challenges amongst others have been underlined as impediments for local revenue mobilization in Cameroon:

- 1) Constant reforms on the regulatory and legal framework on local finance. Financial autonomy announced by some laws but others reinforce the role played by state institutions notably the tax administration and state treasury in the mobilization, centralization and distribution of some important revenue sources for local governments; This has increased the risk of local councils not having a proper mastery of their resources and accounts (when to expect what).

2. http://siteresources.worldbank.org/INTCAMEROON/Resources/CMR_Economic_update.January.2012.pdf

3. *Regions as decentralized entities are not operational so far.*



- 2) Important number of stakeholders that intervene in local tax mobilization and the challenge to build alliances for effective tax recovery and performance (taxation department, some sector ministries, forces of law and order, local governments);
- 3) Inefficient functioning of divisional committees for local finance. These committees aim at promoting dialogue between local taxation stakeholders involved local tax recovery, monitors tax performance, propose capacity building for actors involved;
- 4) Insufficient personnel in services in charge of tax recovery at local councils and on the other hand technical staff of local councils lack the capacity of developing and implementing efficient strategies for the administration of local taxes;
- 5) Narrow tax base and weak orientation by local councils towards local economic development;
- 6) Lack of infrastructure and tools like a computerized system for local revenue management (very few local councils have put in place a computerized system and these systems are regularize by government);
- 7) Local councils have limited accessibility to updated data on local tax recovery especially they have very little or no access to the central tax software managed by the taxation department at different levels.
- 8) Insufficient dialogue between local councils and private sector for example, lack of information about their local tax obligations, insufficient communication on services rendered by the local council to the population)
- 9) Limited information flow from the central government to councils concerning the legal basis of local taxes.

GIZ Engagement

Capacity Building for Divisional committees for local finance

Through the Divisional committees for local finance, PADDL- GIZ aimed at building transparent and inclusive relationship between the different stakeholders involved in tax collection. The Divisional committees for local finance are required by law to hold meetings every three months to evaluate performance of local tax recovery, promote dialogue between the actors etc. This committee is presided by the “Préfet” (Senior Divisional Officer) and involve Mayors, Taxation department, sector ministries like Fisheries and Animal Husbandry, Forces of Law and Order etc. Even though the law makes requirement for this relationship between stakeholders, on the field they still find some challenges developing synergies, having the required tools to function and work closely with each other. Efforts were made by the GIZ in three regions, to analyse the current functioning of some of the committees and to support the elaboration of action plans which had a high orientation towards promoting transparent dialogue between stakeholders. Another important aspect of the process was to build the capacities of stakeholders on generating especially quantitative data on local taxation every three month as basis for decision making during meetings. Activities involved a participatory diagnostic study to identify the strengths and weaknesses of the committees functioning and impact on tax recovery.

Practically it involved reviews on:

- Preparation of committee meetings, (who defines meeting agenda, how are all the stakeholders involved this preparatory process?)
- Meeting reports
- Level of preparation of each stakeholder in the process
- Stakeholder expectations and existing capacities
- Follow up system of resolutions and recommendations and reporting
- Existing tools and action plans
- Administrative accounts
- Monthly revenue documents elaborated by the municipal treasurers



Local Tax recovery Stakeholders during training and committee meetings

Technical Assistance also involved developing specific tools and frameworks to enhance the proper functioning of the committees and the collection of quantitative and qualitative data on local tax performance. Stakeholders were technically assisted to use these tools and templates to develop contributions before meetings. During meetings each local council presented a paper on the performance (quantitative and qualitative) of tax recovery and this information has been a very important basis for effective decision making to improve tax recovery. Stakeholders also during meeting sessions carry out comparative analysis of revenue collection between different periods to evaluate progress made. GIZ has also facilitated the documentation of these pilot experiences in three regions and its introduction (upscaling) to the national committee for local finance and will help to shape the future work of divisional local finance committees in other regions.



The table below is a tool used by local councils to Evaluate of revenue collection

	Nature	Budget Estimate	Quarterly Objective	Revenues Recovered for the quarter	Recovery Rates	Outstanding Revenues	Observations (difficulties ect.)
	Fiscal Revenues Additional council tax, Local Tax						
710	Fiscal Revenues						
710-100	Global Tax						
710-101	Business Licence						

Building Local Councils Capacities on local finance through the Taxation Department

Through the division committees for local finance, a research was carried out on current activities realised by the taxation department to build the capacities of local council on revenue enhancement. This study revealed the lack of technical knowhow amongst a majority of local revenue collectors, laxity amongst taxation officials to support local councils in revenue collection, poor communication between the taxation department and local councils, poor data collection and record management at the level of local councils on performance, absence of adequate tools and updated tax payers records at the level of local councils to enable the proper mastery of tax base etc.

GIZ designed a programme that targeted the taxation department. The focus was to develop the capacity of the taxation department to respond to the needs of the local council on local tax and better communication of statistics. The initial piloting was done between 2010 and 2012 in two regions.

Support was given to some taxation centres to develop training modules for local council revenue collectors. Issues like the different local taxes, role and responsibilities of actors (who collects what when how etc), what strategies to master the tax base, management for results... were at the centre of training. Training sessions were then held in these areas and at the end of training, each local council developed an action plan towards improving tax mobilization. These action plans are being followed up by the Divisional committees for local finance. At the end of this exercise GIZ is working in partnership with the taxation department to develop a specific guide for the taxation department on building local government capacity on local taxation.

Results and lessons learnt

- Quantitative and qualitative data are made public in Divisional local finance committee meetings and has improved decision making to better local tax recovery;
- Improved dialogue and increased consultations between local councils and taxation department defining tax recovery objectives and strategies (for example joint action plans established);



- Important documentation has been generated by the process;
- Through capacity building workshops and direct technical assistance on local tax mobilization, local councils involved have been empowered on local tax issues and some have designed strategies to better follow up of local taxes collected directly by their services and those centralized by the taxation department and distributed by the national treasury.
- The development of a variety of tools and guides to enhance local tax recovery and transparent relationship between local tax stakeholders;
- The need to manage continuous reforms on the roles and responsibilities of actors in local tax and ensure capacity building;
- Measures taken to improve revenue collection also face organizational constraints.
- Upscaling and use of PADDL-GIZ field experiences and pilots as basis for technical advice at the national level on local finance.
- The need to manage continuous reforms on the roles and responsibilities of actors in local tax and ensure capacity building;
- A systematic generation and publication of tax statistics as basis for transparent relation between stakeholders is still a challenge;
- Measures taken to improve revenue collection also face organizational constraints in local councils especially, the level of training of local council staff, the sustainability of innovative tools IT in local tax management at the level of local councils.
- The need to introduce and sustain innovative tools on local financial management like IT.

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REVENUE ENHANCEMENT: EXPERIENCE FROM BURUNDI

Brief Country Profile

Burundi – also known as the “Heart of Africa” - is bordered by Rwanda to the north, Tanzania to the south and east, and to the west by the Democratic Republic of Congo. This area is commonly known as the Great Lakes Region.

With a surface of 27,834 km², Burundi is one of the most densely populated countries. Burundi's population is estimated at 8,053,574 inhabitants with an average density of 310 inhabitants per km². Burundi's economy mainly focuses on the agricultural sector. According to the second Burundian Poverty Reduction Strategy Paper (PRSP II), agriculture and livestock contribute between 40% and 60% to the current GDP.

The strong wave of decentralisation processes on the African continent has not spared Burundi. The small Republic has already demonstrated its political will to promote the culture of good governance in municipal organization and management.

Since April 2005, the municipalities of Burundi are governed by a law that establishes their organizational and financial autonomy. They are now respected as fully decentralised entities. According to this status, municipalities must take more responsibility towards the population, since the central government delegates most of its obligations to the communities.

This new dynamic demands the transfer of human and financial resources from national level to the municipalities for a better functioning. However, this kind of support remains the biggest challenge of the decentralisation process.

The municipalities must therefore organize and develop instruments to strengthen their technical capacity and financial resources to maintain their devolved autonomy.



Challenges

Given that municipalities in Burundi are decentralised entities that enjoy organizational and financial autonomy, they must be able to rely on their own resources in order to meet their manifold obligations. It is therefore of utmost importance to mobilize all necessary efforts and deploy the full potential for municipal revenue enhancement.

However, municipal tax revenue often remains limited and transfers of financial resources from the central state to the municipalities do not yet exist. Difficulties in tax mobilization and the lack of locally generated revenue lead to the fact that most municipalities are not even able to cover their basic expenses for functioning and personnel.

In most cases, the municipalities do not have the means to ensure and maximize their tax recovery. In addition they are often not able to monitor and manage the amount of taxable objects as well as the number of taxpayers.

Regarding municipal tax mobilization, the following problems are to be highlighted:

- The lack of monitoring and management of communal tax potential. Despite the list of taxable items as well as unit prices given by the (revised) law on municipal taxation, municipalities do not automatically update these lists. Therefore, a large part of tax potential stays unexploited.
- The behavior of collection agents. Often, complicity between official tax collecting agents and taxpayers as well as the diversion of collected taxes by these agents is observed. As a result, taxpayers are reluctant to fulfill their obligation.
- Mismanagement of municipal finances. Due to mismanagement and the lack of transparency in the use and administration of taxes lead to revolt and resistance of the population to pay these fees.
- Law on municipal taxation obsolete. On the one hand, municipal tax rates fixed by the national law are not reflecting reality anymore due to the heavy devaluation on the Burundian currency; on the other hand taxable objects need to be updated since - after more than a decade - new products are registered. Despite several attempts, the law on municipal taxation has yet not been revised successfully.

GIZ Engagement

In order to strengthen local governance and support the municipalities in improving their administrative practices and in increasing their local revenues, GIZ provides technical advice to the Burundian municipalities through the Program "Support to Decentralisation and Poverty Reduction (ADLP).

Regarding the local revenue enhancement, the principal objective of ADLP is to assist the municipalities in the valuation of their local tax potential (taxable items and taxpayers) and in increasing the local tax revenue.

Referring to the law on municipal taxation, GIZ has therefore technically and financially supported the development of a proper municipal revenue mobilization strategy.

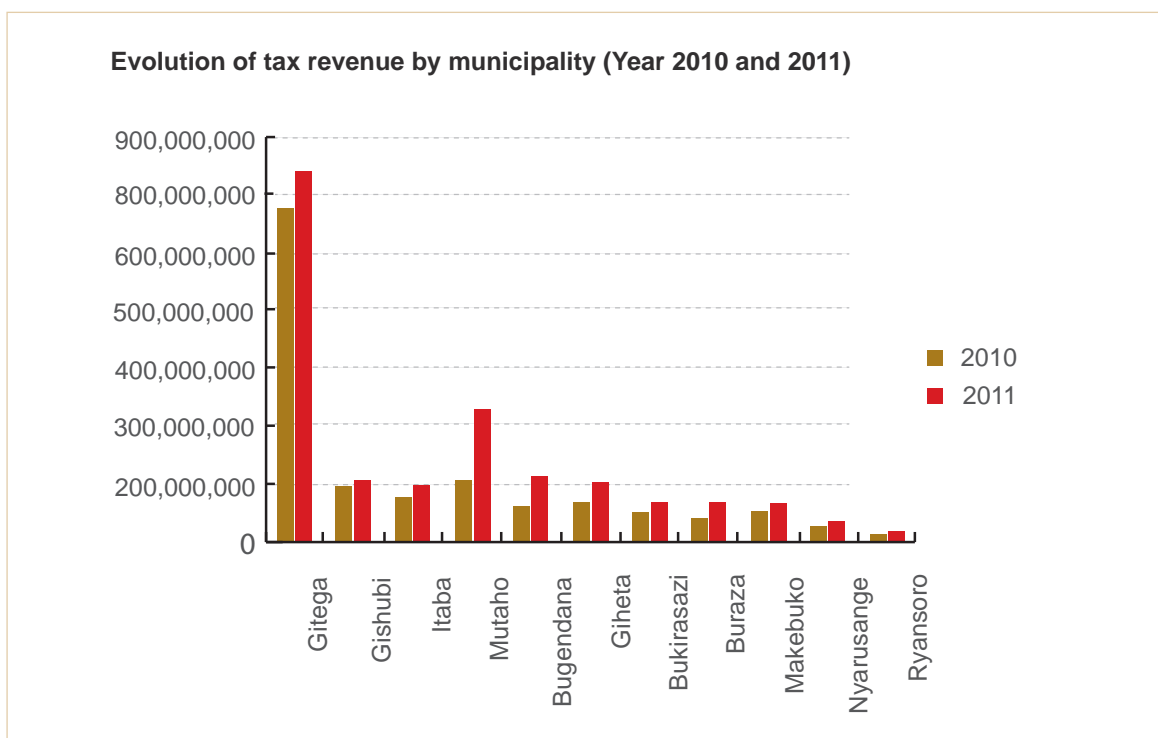
This strategy focused explicitly on the development of technical and organizational capacities at the local level regarding revenue mobilization and a responsible management of communal resources. Through this strategy the municipalities have adopted a new and more effective approach to municipal revenue collection.

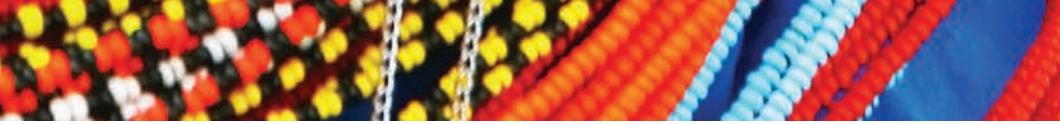
New approach: new practices

Against this background, municipalities have committed themselves to adopt a new behavior in tax recovery. Amongst others, they have agreed to develop - in a participatory manner - a list of all taxable objects and taxpayers available on every "hill" or ward (= subdivision of the municipality). By creating a ward committee that promotes and monitors the tax recovery and a system of rotating collecting agents, they were able to separate the role of the chief of the ward and the collectors. Furthermore, they agreed on regularly monitoring the activities in the field. All this is being accompanied by a sensitizing program for local taxpayers in order to enhance their awareness regarding the importance of local tax collection and their contribution to it as well as the legal tax schedule.

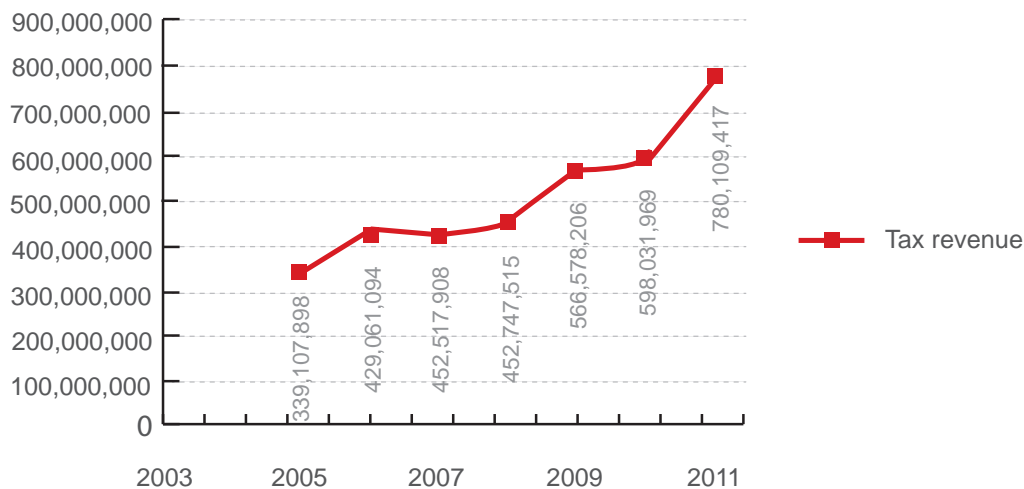
Results, observed change and lessons learned

With this strategy and its positive results, the majority of municipalities (9 out of 11 in the pilot province of Gitega) succeeded in regularly paying their salaries. Some of them could even increase the wages of the municipal staff or give monetary incentives with regards to the performance of the collecting agents.





Evolution of municipal tax revenue: province of Gitega



Furthermore, the new approach and the consequently achieved revenue enhancement helped the municipalities to regularize contributions to the National Social Security Institute and the Public Mutual Insurance for municipal staff (some municipalities still do not understand the importance of such social institutions and are discouraged by the paperwork).

Last but not least, with the help of the revenue enhancement strategy, the municipalities are currently able to execute the implementation of community projects more often than before.

By evaluating the development of the municipal tax revenue over the last years, we note that the described strategy has been considered as one of the success criteria for municipal revenue enhancement. This constitutes a good base for ADLP to scale up this experience.

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Notes



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