

## Enhancing revenues for local authorities in Tanzania

Priya Manwaring

Local governments rely heavily on grants from central government – these form approximately 80 – 90% of total government finances<sup>1</sup>. By contrast, own source revenues regularly fall far below targets for local authorities.

Increased own source revenues can provide local governments with more resources to meet growing demands for local expenditures on healthcare, roads, water and other local government services. Providing these services with locally generated revenues enhances the local government's social contract with its citizens, building a culture of tax compliance as the price paid for a well-functioning local government.

### The importance of improving revenue administration

In many local governments in Tanzania, poor tax administration is a key reason for low own source revenues<sup>2</sup>. Continuing problems include poorly managed revenue databases, varied experiences with outsourcing revenue collection, and limited voluntary taxpayer compliance. In most LGAs, taxpayer records are not linked to other databases and are not comprehensive, with data on tax arrears often not collected. Manual revenue databases are subject to revisions, and lack transparency and consistency of digital databases.

Measures to improve tax revenue administration **can be as important as tax policy to raise revenues**<sup>3</sup>. In Kampala, for example, reforms to revenue administration since 2010 have meant that the Kampala Capital City Authority (KCCA) managed to increase its own-source revenue by more than 100% from SHS41bn to SHS85bn between 2011/12 and 2014/15 fiscal year<sup>4</sup>. This was achieved without any reforms to legislation at the national level. Reforms were made in three key areas:

- 1) **Investments** in staff recruitment, training and digitising and updating databases
- 2) Re-instituting **internal revenue collection** from inefficient and expensive private outsourcing
- 3) Seeing the **taxpayer as a client**, who requires good services, and who is legitimate in demanding these in exchange for tax payment. In practice this required improved communication with taxpayers and measures to enhance ease of tax payment.

The success of these reforms relied on:

- A strong enabling political environment behind reforms, led by a strong Executive Director with a solid understanding of the importance of tax administration
- Adequate resources for cost effective reform. Each of these reforms required significant initial investment that could then be recouped over time.
- Realistic reforms that focused on incremental changes to main revenue sources.

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<sup>1</sup> Boex, "Final Report: Development of a Strategic Framework for the Financing of Local Governments in Tanzania."

<sup>2</sup> Boex, "Final Report: Development of a Strategic Framework for the Financing of Local Governments in Tanzania."

<sup>3</sup> Kopanyi, "Local Revenue Reform of Kampala Capital City Authority."

<sup>4</sup> Ibid.

## Potential for administrative reform in Tanzanian local authorities

Three key areas for short term reform can be drawn from the Kampala experience:

- 1) Investing in systems and staff.** Updating and digitising databases and in technology for administrative processes and payments systems can yield significant revenue gains, but require additional training for staff, as well as adequate monitoring and enforcement capacities. Both digitalisation and staff training require significant initial investments, but these are paid off over time through increased revenues.
- 2) Careful consideration of the costs and benefits of outsourcing tax collection.** Though private tax collection has the potential to improve revenues, it can also lead to high private premiums and a deterioration in the social contract between individual and state. Effective outsourcing requires detailed revenue projections, transparent tendering and systems of accountability to reduce aggressive collection which all come at a cost.
- 3) Treating the taxpayer as a client.** Voluntary compliance in many districts can be addressed by communication, convenience and concrete investments that improve convenience and build trust in fairness of revenue procedures, tax incidence and in adequate service provision.

Crucially, any reforms will require political support at the local and national level, adequate resources and support from national government for initial investments and realistic timelines and goals. Careful cost benefit analysis of investments based on revenue projections are vital to assess whether investments are cost effective in the medium-long run.

## Administration for expenditures can complement reforms

Complementary to revenue administration reforms are reforms to administration of expenditures. By enhancing public financial management of the entire pipeline of investments through clear, transparent and digitised records and aligning revenue projections with projections for costs and revenues of investments, local governments can encourage higher revenues through central government transfers and tax compliance.

## Local government policy to increase revenue sources

In addition to improvements to revenue administration, there are also ways in which local governments can use local policy to increase revenue sources. Some of these policy changes are relatively simple, such as revising rates of taxes, fees and charges in light of inflation and market prices to avoid delated revenues over time. Others may involve combining existing revenue sources into a unified tax source, such as a unified local business tax. Attempts to change national and local legislation to allow local government to collect taxes that are currently not collected such as development impact fees may be particularly effective in raising revenues in ways that are acceptable to taxpayers.