

The Role of Subnational Domestic Revenue Mobilisation for Public Service Delivery

organised by Norad, ATI & DeLoG

Thursday, 15 April 2021

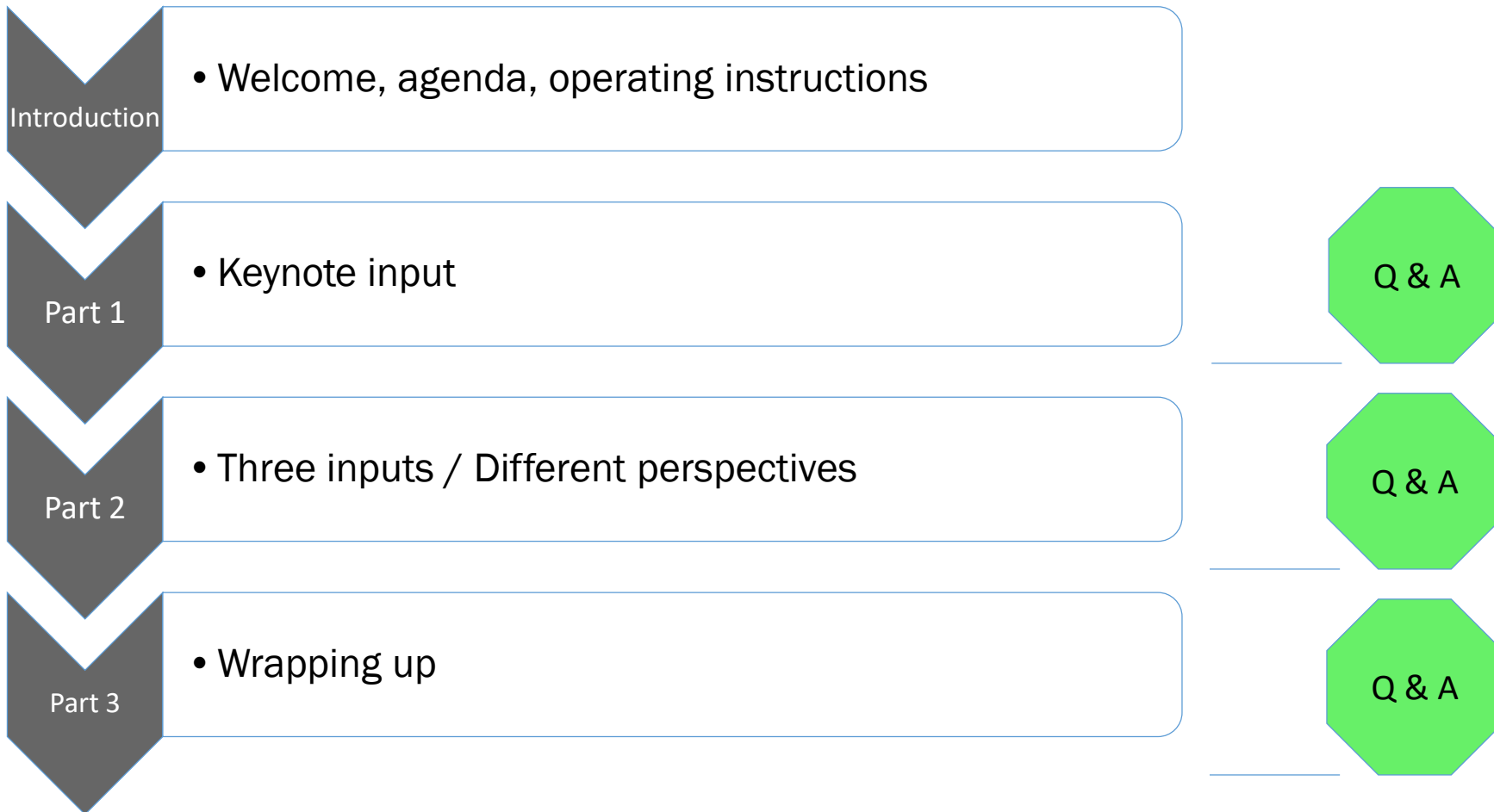


Norad



DECENTRALISATION &
LOCAL GOVERNANCE

Agenda



Timetable

Agenda item	Duration
Opening	5'
Part 1: Keynote input	25'
• incl. questions from the audience	(10')
Part 2: Three different perspectives	25'
• incl. questions from the audience	(10')
Part 3: Wrapping-up	20'
• incl. comments and questions from the audience	(15')
Closing	

Duration of webinar: 75 minutes

Keynote input

What does research say about subnational taxation and its importance for revenue and state building?

Odd-Helge Fjeldstad – Research
Professor at Chr. Michelsen Institute



Why local government taxation is important in a state-building perspective

- Local taxation can play a crucial role in promoting citizen participation, accountability and government legitimacy
- Local taxation has potential to foster positive linkages between taxation, responsiveness and accountability
- Local taxes & levies are generally more visible and broad based:
 - Property tax
 - Business licences
 - Fees and charges
- By taking more tax and expenditure decisions to the local level, fiscal decentralisation can (potentially) strengthen connections between what people pay and what they get in return

Pillars of fiscal decentralization

1) **Clarity of roles and responsibilities** between different levels of government:

- Who taxes what?
- Who provides what services?
- Who is accountable to whom?

2) **Autonomy:**

- A minimum degree of autonomy for sub-national governments on own revenue generation, expenditures, staffing, etc.

3) **Administrative and technical capacity:**

- Sub-national governments require administrative and technical capacity to effectively carry out their responsibilities

A ‘sound’ revenue system for sub-national governments is an essential pre-condition for sustainable fiscal decentralisation

- Main components of local revenue systems in low income countries:

- ❖ **‘Own revenues’**

- Revenue assignment between national & sub-national levels
- Taxes, levies, various (business) licences and user fees

- ❖ **Transfers from the central gov:** Major revenue sources

- Revenue sharing
- Grants: unconditional; conditional; equalisation

- ❖ **Borrowing:** Mainly large, urban centres

- ❖ **Community Development Funds:** Bypassing local gov. budgets

- ❖ **Social Action Funds and Community Self-Help:** Why then pay tax?

What 'own' revenue sources should be assigned to subnational governments? Principles:

1. The tax base should be relatively immobile in order to permit subnational authorities some freedom in varying rates without losing most of their tax base
2. The tax yield should meet local needs and be relatively stable and predictable over time
3. The tax base and rate should be visible, to ensure accountability
4. The tax should be perceived to be reasonably fair by taxpayers
5. The tax should be relatively easy to administer efficiently and effectively

Build a coherent overall tax system

- Essential to establish a connection between the central and local tax systems
- Allocation of each tax base either to central or to local governments based on transparent and manageable criteria:
 - ‘Mobility’ of the tax base
 - Local gov: Property tax
 - Administrative constraints and access to information
 - Central Gov: Customs duties, excises, VAT, income taxes
- Coordination between the central and local governments
 - To avoid duplication and multi-taxation of the same revenue base
 - Exchange of information
 - Sharing of databases

- Central Gov. relations with Local Gov. should be:
 - Supportive, consistent, predictable, and transparent
- If not, this is likely to imply:
 - Imbalance of revenue and expenditure assignments
 - Underfunding of transfers to local governments
 - Unpredictable financial situation for local governments
 - Inconsistencies between national and sub-national taxes
 - Growing regional inequality

Central government must be able to monitor and evaluate LG finances

- The role of the Min of Finance
 - ‘Financial and Fiscal Commission’
-
- Fiscal data vital to strengthen revenue forecasting and economic and social impact analysis to enhance the quality of policy making at both national and sub-national levels

Challenges facing fiscal decentralisation: Gaps between principles and reality

- Lack of strategic orientation in decentralization and fiscal reform programs
- Perception that there is insufficient ‘political will’ for decentralisation
- Elite capture and corruption
- Poor intragovernmental coordination → policy inconsistencies and resistance
- Capacity issues are critical at both central & subnational levels
- Lack of appropriate and reliable information for good policy design and admin.

- Growing recognition that implementation strategies have received too limited attention:

Too much about what should be done; less about what can be done given the political, institutional, economic and financial constraints

Local government tax design in specific countries: Issues for consideration

- Which options are available for sub-national revenue mobilization?
- How does the choice of local revenue mechanisms (e.g. property taxes, business licenses, city service levies, user fees etc.) affect the distributional equity?
- How, and to what extent, does local tax practices reflect that incomes of taxpayers are typically seasonal, fluctuating, and unpredictable?
- Are there any evidence on the political and administrative constraints facing various revenue instruments and factors impacting on citizens' compliance behavior?

THANK YOU FOR YOUR ATTENTION!

Odd.Fjeldstad@cmi.no



Keynote input

Questions from the audience

National government perspective

What are obstacles and opportunities from national and local governments working closely to enhance subnational public revenues?

Edward Abrokwa – Head Research and Natural Resource Desk, Tax Policy Unit, Ministry of Finance Ghana

Ghana's commitment to increasing DRM



Domestic Revenue Mobilisation in Ghana

“We will take radical policy and institutional reforms towards raising our tax-to-GDP ratio over the medium term from under 13 percent currently to around 20 percent. The focus will be on efficiency and base-broadening rather than imposing new taxes on our people and businesses. This way, we can raise our domestic contribution to our ambitious transformation agenda, in line with the Ghana Beyond Aid vision”

Ken Ofori-Atta (Minister for Finance)



Property taxes in Ghana (1/2)

- Ghana operates a property rate system instead of a property tax system as the rates are not considered as tax revenue.
- Property rates are levied and administered by Municipal and Metropolitan District Assemblies (MMDAs), under the Local Governance Act 2016 (Act 936)
- Rates vary across MMDAs
- The tax base is the improved value of the property
 - This is assessed by the Lands Commission (a *national* agency), not the MMDAs themselves
- Collection varies across MMDAs but is typically paper-based and manual



Property taxes in Ghana (2/2)

- Property taxes are retained by the MMDAs (along with revenue from user charges and local fees/licenses) and used to fund their expenditure
- The MMDAs also receive transfers from the central government through the District Assemblies Common Fund (DACF) to fund their activities.
- Total IGF amounts to around 17% of total MMDA expenditureMMDAs find it difficult to hold contractors accountable because of weak contracts governing the outsourcing arrangements



Challenges in property rate administration

- Field officers required to manually build database
- Registers of properties quickly become out of date
- Dependence on valuation by another Government agency - the Lands Commission
- Minimal use of technology in assessment, billing and collection of property rates
- MMDAs have limited technical capacity to administer property taxes, including inadequate personnel
- Outsourcing of collections create challenges because MMDAs find it difficult to hold contractors accountable because of weak contracts governing the arrangements



Opportunities – centralise administrative responsibilities

- Transfer administrative responsibilities for property rates from MMDAs to the GRA because the Authority:
 - is mandated by law to advise the MMDAs on the assessment and collection of their revenue
 - has the institutional expertise to facilitate efficient assessment, billing and collection of rates
 - Can negotiate outsourcing from a much stronger position than an individual MMDA,
- Introduction of electronic systems to enhance efficiency in collection and enable

.



Challenges to centralised administration

- Tension between administrative efficiency and fiscal decentralization efforts
 - Does the GRA option amount to recentralization?
- Dependence on valuation by a Central Government agency other than the MMDAs - the Lands Commission



Current reforms

- Pilot programme on co-operation between GRA and three MMDAs carried out in 2019 (April – June)
- Covered –Taxpayer education, compliance enforcement and debt management, and data exchange
- Resulted in signing of MOU and issue of guidelines for collaboration between MLGRD and all GRA offices across the country.
- IGF local revenue software developed for use by the MMDAs, GRA, Lands Commission and Land Use and Spatial Authority to identify properties and property owners. Used to create a database for efficient revenue collection and planning.



THE END

THANK YOU FOR YOUR ATTENTION



City perspective

What can cities in partner countries learn from the “Transform Freetown” agenda?

Rosetta Wilson – Financial Management Advisor, Mayors Delivery Unit, Freetown





#Transform Freetown

An inclusive and integrated approach to urban development



Freetown experienced rapid urbanization during and post the 11 year civil conflict and now has a population of approximately 1.2m people

Urbanization by the numbers

~2.5x

Population growth in Freetown in the last 25 years; now home to >15% of national population but represents <0.1% landmass

75km²

Built-up area expansion in Freetown in 50 years, equivalent to 50 times the area of Aberdeen³

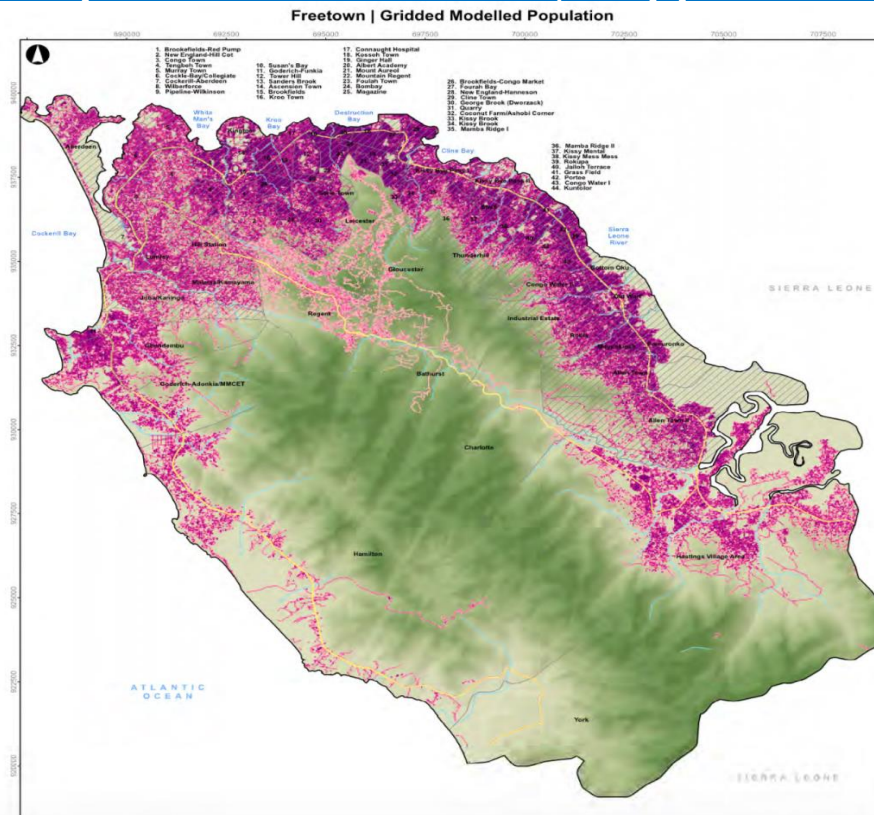
8,450

People per square km; similar to Varanasi, India and **one of the most crowded cities in the world²**

535k

Number of new residents expected in the next decade²

Population of Freetown, mapped¹



1 Map showing modeled population density, from Vol. 2 of Sierra Leone Multi-City Hazard Review and Risk Assessment (2018)

2 Freetown: Options for Growth and Resilience, Urban Sector Review (2017-8)

3 Vol. 2 of Sierra Leone Multi-City Hazard Review and Risk Assessment (2018)



As Freetown has rapidly urbanized, it has faced major challenges that negatively impact on residents



1

Development in dangerous and unplanned locations due to a lack of cheap or available options elsewhere in the city and no government control over development - **74 informal communities**

2

Growing demand for government services as the population increases (e.g., water, sewer, emergency services, waste collection) – **collection of only 21% of solid waste and 6% of liquid waste**

3

Burdens on existing networks like roads, drainage, and water supply - resulting in limited access to healthcare, education and job opportunities for the most vulnerable

4

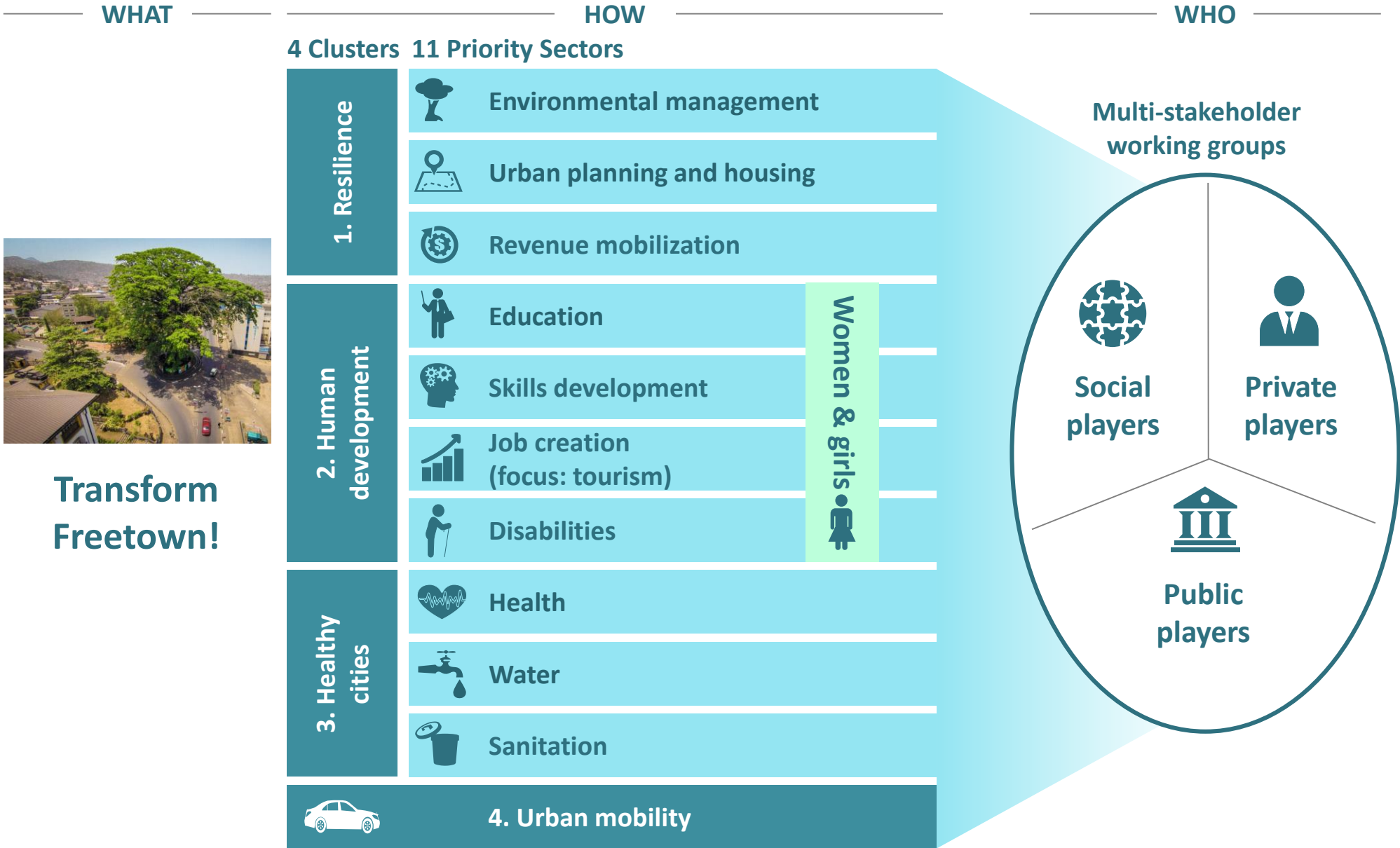
Pressure on the natural environment from human activities like deforestation, waste generation, and encroachment in waterways – **flooding, air pollution & loss of biodiversity key risks**

5

Reduction of natural control measures in the soil which contributes to a destabilization of land and increases hazards for residents – **damage caused by floods costs approximately \$2.5m per annum²**



We aim to address those challenges and Transform Freetown through 11 priority sectors using an inclusive approach, underpinned by innovation and data-driven performance management





From July to September 2018 15,000 residents were engaged in a bottom-up consultation effort to confirm community needs and perceptions of service delivery across the priority sectors

Outcomes of 48 ward validation workshops & 310 zone level focus groups

Sector	Quality of Contact		
	Average	Best	Worst
Education	4.4	8.3	1.3
Health	2.7	6.0	1.0
Water	2.9	7.0	1.0
Solid waste management	2.2	6.7	1.0
Sanitation / liquid waste	2.7	8.0	1.0
Urban planning and housing	2.6	8.3	1.0
Urban mobility	3.1	7.3	1.0
Skills development	1.8	6.3	1.0
Market	2.6	7.0	1.0
Recreation and community centers	2.4	10.0	1.0

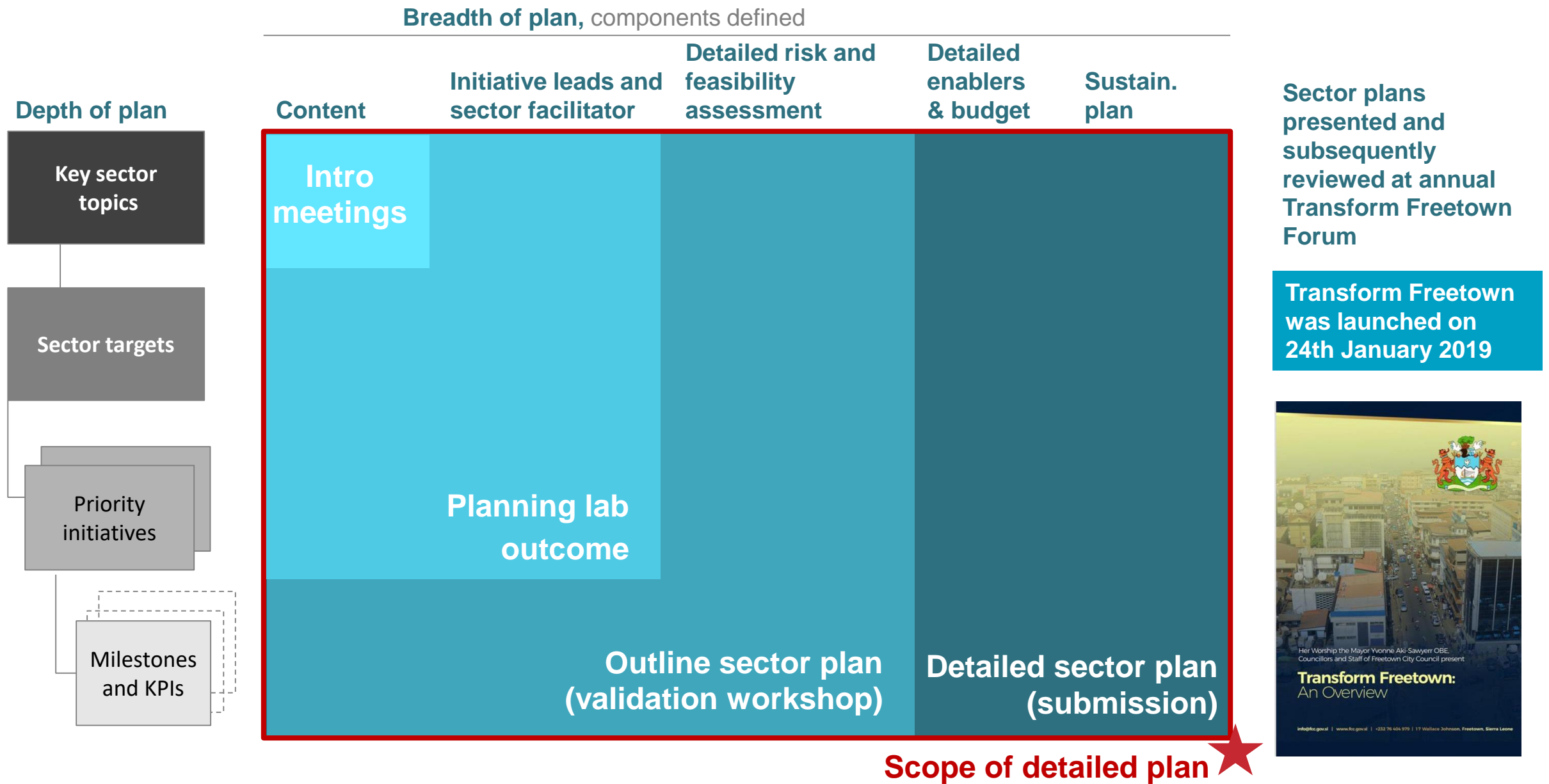


Insights

- **Overall service-average is 2.2**, indicating very poor service level across Freetown
- **Heavy differences between Wards** and sectors
- **99% of sectors were given a rating of 1**, meaning complete lack of service
- **Best-rated sector is education** with a 4.4 overall average and a top-rating of 8.3 in one ward
- **Worst-rated sectors are urban planning and housing** as well as skills development, with an average of 2.1. **Water** only has an average of 2.9.
- 9/11 or 80% of sectors had an average rating of <3















Multi-stakeholder working groups for the 11 priority sectors brought combined technical expertise, experience, research and community knowledge to address the sector challenges





19 targets and **37** initiatives were defined for the **11** priority sectors. Achievement of targets is driven by FCC but initiatives are implemented by multiple stakeholders

			Target 1	Target 2
1. Resilience	 Environmental management		Increase capacity of 48 wards to recognise risk & identify resilient solutions to prevent & recover from disasters by 2022	Increase vegetation cover in Freetown by 50% by 2022
	 Urban planning and housing		Build >5,000 quality low-cost housing units for Freetown in collaboration with WARD C by 2022	Adopt Zonal Plan & ensure >90% of new buildings & structures constructed abide by regulations by 2020
	 Revenue mobilization		Increase tax revenue fivefold from 7bn Le to 35bn Le by 2020	Increase non-tax revenue threefold from 2bn Le to 6bn by 2020
2. Human development	 Education		Ensure that by 2022, 100% of schools for which FCC has responsibility are covered by a monitoring framework that includes teaching, learning, and safety standards	Ensure that by 2022, 100% of school children in the municipality can take public exams in transparent and credible conditions
	 Skills development		Provide market-driven skills training to at least 20,000 people in Freetown by 2022	Teach functional literacy & numeracy skills to <15,000 adults in Freetown with focus on women by 2022
	 Job creation (focus: tourism)		Facilitate the creation of at least 4000 tourism related jobs in Freetown by 2022	
	 Disabilities		By 2022, create and improve the enabling environment for persons with disabilities in the areas of work, education and social inclusion	
	 Health		Reduce maternal mortality in Freetown by 40% by 2022	Increase public awareness of 6 non-communicable conditions by 40% by 2022
3. Healthy cities	 Water		Ensure 75% of residents in Freetown have access to adequate, safe, affordable and sustainable water by 2022	
	 Sanitation		Ensure that 60% of Freetown’s solid and liquid waste is safely collected, managed and disposed of by 2022	Ensure that 40% of all plastic waste in Freetown is recycled by 2022
 4. Urban mobility			Reduce congestion by at least 50% in five locations by 2022 (Congo Cross, Eastern Police, Lumley/Juba, Wilberforce/Bottom Mango & PMB Junction)	Increase public awareness and understanding of traffic and road safety by at least 50% by 2022



The 19 targets within the Transform Freetown priority sectors are directly linked to achievement of the Sustainable Development Goals

■ Specific relevance to SDGs



■ Sensitive to SDGs

		1 NO POVERTY	2 ZERO HUNGER	3 GOOD HEALTH AND WELL-BEING	4 QUALITY EDUCATION	5 GENDER EQUALITY	6 CLEAN WATER AND SANITATION	7 AFFORDABLE AND CLEAN ENERGY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	13 CLIMATE ACTION	14 LIFE BELOW WATER	15 LIFE ON LAND	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS
1. Resilience	Environmental management																	
	Urban planning and housing																	
	Revenue mobilization																	
2. Human development	Education																	
	Skills development																	
	Job creation (focus: tourism)																	
	Disabilities																	
3. Healthy cities	Health																	
	Water																	
	Sanitation																	
	4. Urban mobility																	

Women & girls














And the Transform Freetown sectors are aligned with the priority clusters of the National Development Plan

 Specific relevance to NDP cluster
  Sensitive to NDP cluster



National Development Plan

		Human Capital Development	Diversifying Economy & Promoting Growth	Infrastructure & Economic Competitiveness	Governance & Accountability for Results	Empowering Women, Children & Persons wt Disabilities	Youth Employment, Sports & Migration	Addressing Vulnerability & Resilience	Plan Implementation
1. Resilience	 Environmental management								
	 Urban planning and housing								
	 Revenue mobilization								
2. Human development	 Education								
	 Skills development								
	 Job creation (focus: tourism)								
	 Disabilities								
Women & girls									
3. Healthy cities	 Health								
	 Water								
	 Sanitation								
 4. Urban mobility									





Increasing revenue through property rate digitization

Geo-mapped the city



FREETOWN CITY COUNCIL

PROPERTY RATE DEMAND NOTICE 2021

To the Owner,
c/o [owner]

You are hereby served this Demand Notice for the payment of the Freetown City Council Property Rates for the year January 2021 to December 2021. This notice is pursuant to the Local Government Act 2004 Part 132 Section 48. Please read this notice carefully. If you believe that there has been an error in the recording of your property, or relevant account information, and would like to comment, you can call +232 78 333 0001 / +232 88 333 000 / +232 34 333 000 for an appointment to go to New City Hall, William Johnson House to lodge an appeal.

Property ID	Parcel	Address	Latitude
Street	Land Area	Plot, Gate ID	Longitude
Property Class	Property Value		
Plot Value Maximum (Le M)	Assessed		
Number of Floors	Rooms		
Your Rateable Surface Area	Overhang		
Surface Area Value (square meter of rateable surface area)	Overhang (value)		
Base Value (Le)	Overhang (value)		
Initial Assessed Value (Le) * 1/4 x [Le]	Overhang (value)		
Total Adjustments (Le)	Overhang (value)		
Assessed Annual Value (Le) * 1/4 x [Le]	Overhang (value)		
Net Rate (Le)	Overhang (value)		
Property Rate Payment	Le (payable)		
Payment Mode	Le (payable)		
Penalty	Le (payable)		
Commission for Age	Le (payable)		
Commission for Disability	Le (payable)		
Property Balance Due	Le (payable)		

FACTS ABOUT FREETOWN'S PROPERTY RATE REFORM

A fundamental change in system for valuing properties to calculate rates. Some property rates increased, some property rates decreased.

Icon	Count	Description	Percentage
House	67,279	Additional properties included in property database in 2020	
House	97,413	Total domestic properties in new database	
House	37,773	Property rate is Le 100,000 (Le 8,333 per month)	38% of Total
House	42,683	Property rate is between Le 100,001 and Le 500,000 (Max Le 41,666 per month)	45% of Total
House	13,836	Property rate is between Le 500,001 and Le 2m (Max Le 166,666 per month)	14% of Total
House	3,121	Property rate is above Le 2m	3% of Total

Value based instead of area-based assessments

Value based instead of area-based assessments

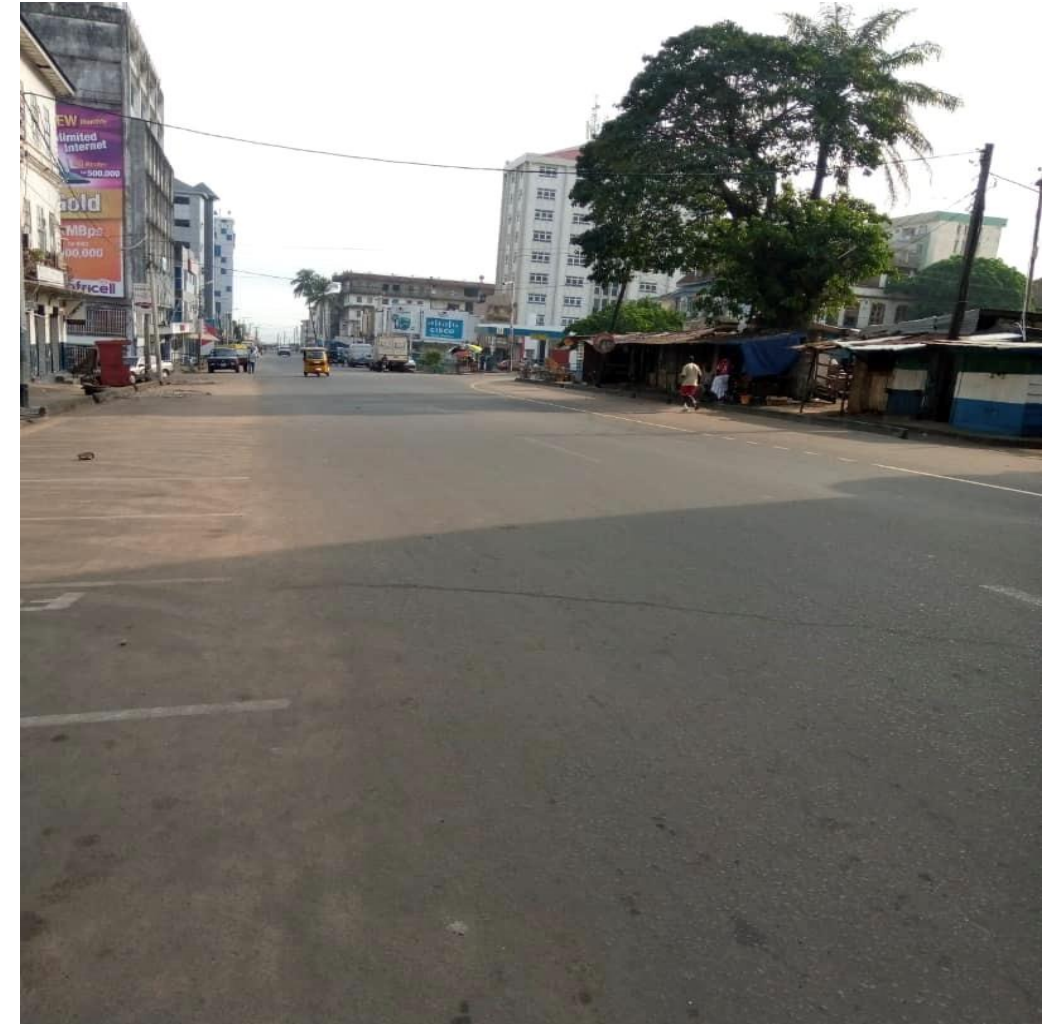
Increased domestic property database from 30k to 97k



Automated payments

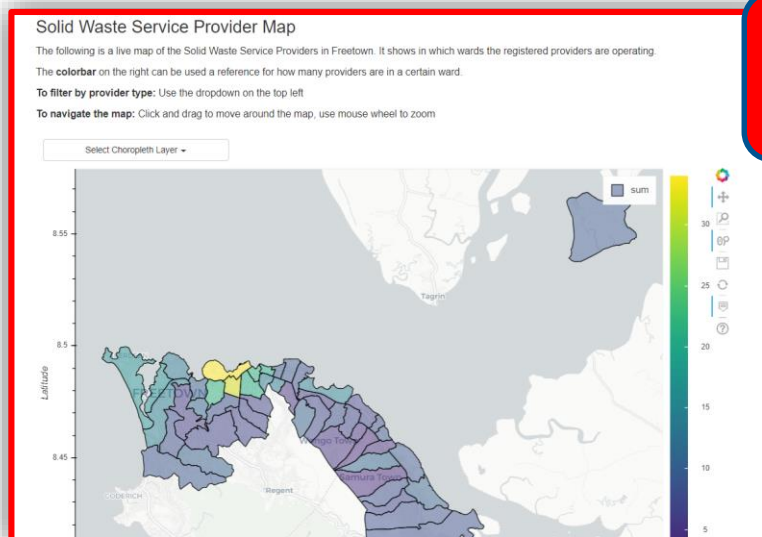


FCC has supported the establishment of 80 waste management micro-enterprises to meet our sanitation targets whilst providing skills and employment for rural migrants





Digital innovations have underpinned waste management strategy, now a growth sector with 90 more waste management micro-enterprises to be supported in 2021 bring employment to over 1200



Sanitation Service Provider Dashboard

Hi Freetonian, thanks for contacting our automated complaint service. Please select what your complaint about?

1. Boisterous noise
2. Dog bite
3. Filled toilet/septic tank
4. Illegal disposal of waste
5. Illegal structure
6. Prohibited use of Public place
7. Poor drainage facility
8. Illegal use of sewage facility
9. Others

We are glad you contacted us! What is your name?

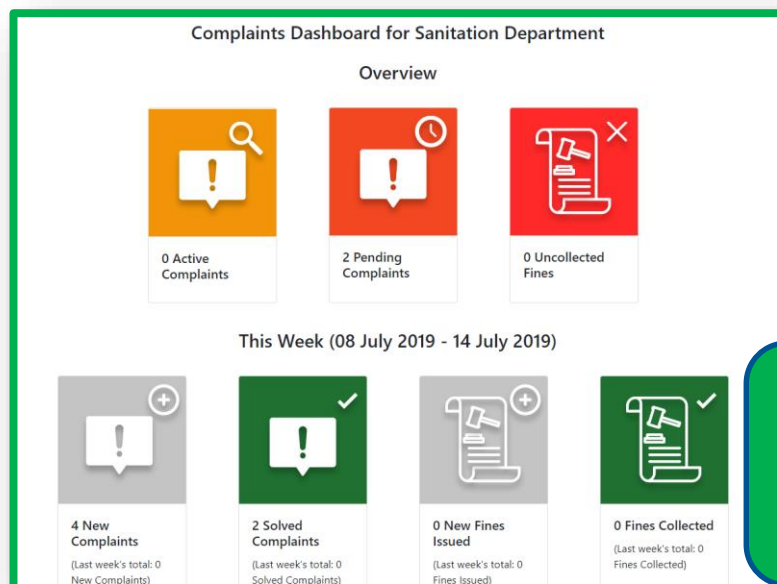
David Conteh

Thanks David Conteh! Which area do you live in?

1. East
2. West
3. Central

+ [Camera icon] Text message SMS

Complaints Dashboard and SMS reporting system



Find Me In Freetown – Ward and Waste Collector information for Citizens

Use my Location

Show all wards

You're in Ward 442

Find out more about ward 442

View Waste Collectors in ward 442

Map Satellite

Cleanest Zone...

Cleanliness (50%)

*** Are streets, public areas and sidewalks free of rubbish and clean?**

- ☐ Mostly not: 0 marks
- ☐ Mostly not: 1 mark
- ☐ Some: 2 marks
- ☐ Some: 3 marks
- ☐ Some: 4 marks
- ☒ Many: 5 marks
- ☐ Many: 6 marks
- ☐ Many: 7 marks
- ☐ Most: 8 marks
- ☐ Most: 9 marks
- ☐ Most: 10 marks

Cleanest Zone Competition – Digital Data Collection using Smartphones

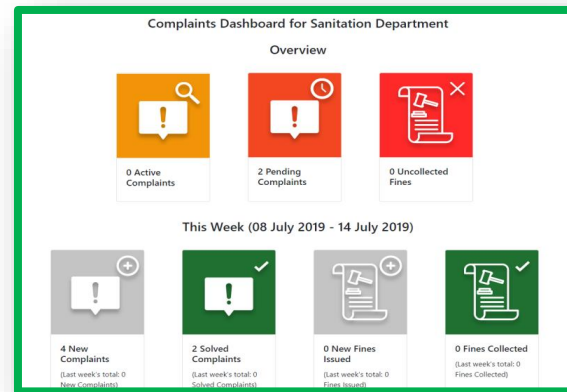


Lessons learnt from the Transform Freetown Agenda

- Broad stakeholder engagement.
- Commitment to change management.
- Use of innovation and technology

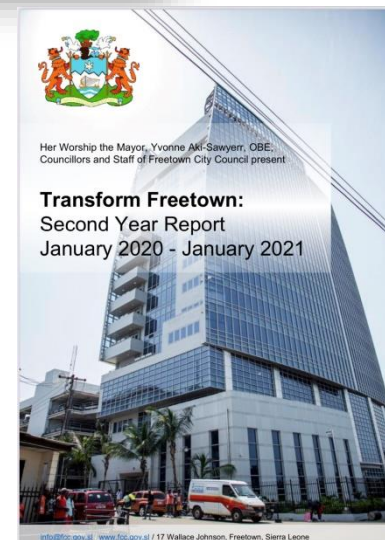
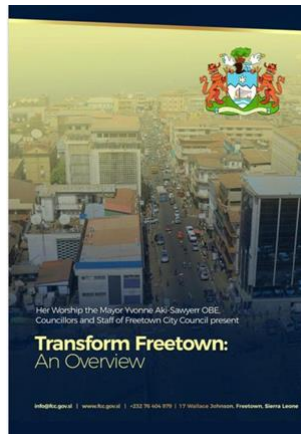


Automated payments



Complaints Dashboard and SMS reporting system

- Demonstrate delivery.





FCC is committed to working with all Freetonians, collaborating with external partners, reporting transparently and leap frogging with technology



Development partner perspective

What are the opportunities and challenges of shifting DRM cooperation from the national to the subnational level?

Toril-Iren Pedersen – Policy Director,
Tax for Development, Norad



Perspectives of national governments, cities and development partners

Questions from the audience

Wrapping up the different perspectives

Dmitry Pozhidaev – Local Government
Finance Advisor, UN Capital
Development Fund (UNCDF)



Open discussion

Comments and questions from the audience

Closing of webinar

Thank you for participating

For questions and to stay in touch:

Link to the Evaluation



<https://survey.in-line-consult.de/index.php?sid=86728&lang=en>



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