

# FORMATIVE PROCESS RESEARCH ON LOCAL GOVERNMENT REFORM IN TANZANIA

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Odd-Helge Fjeldstad  
Chr. Michelsen Institute

## TRUST IN PUBLIC FINANCE: CITIZENS VIEWS ON TAXATION BY LOCAL AUTHORITIES IN TANZANIA

Part of the problem of raising local government revenues in Tanzania is persistent public resistance to paying, as evidenced by widespread tax evasion and non-payment of fees and charges. In the standard economic model of taxpayer behaviour, the perceived quality of the government does not influence the level of taxes remitted. The basic behavioural assumption is that no one will voluntarily contribute to the government unless the threat of punishment for non-payment makes it sensible to pay.

However, an increasing amount of evidence shows that the rate of contribution to public services is affected by factors such as citizens' trust in others and the trustworthiness of the government. Findings from a recently conducted citizens' survey support this proposition. In particular, three dimensions of trust seem to affect citizens' compliance: (1) trust in the local government to use revenues to provide the expected services; (2) trust in the authorities to establish fair procedures for revenue collection; and (3) trust in fellow citizens to pay their share. The survey was conducted in October 2003 and comprised of 1,260 respondents from Bagamoyo District Council (DC), Ilala Municipal Council (MC), Iringa District Council, Kilosa District Council, Moshi District Council and Mwanza City Council (CC).

### Trust in Service Delivery

The most serious problem hampering revenue collection was the perception that the revenues collected were not spent on public services. Respondents saw few tangible benefits in return for the taxes they paid. Only a few respondents (9%) agreed that most of the revenues collected in the area were used to provide services. In Kilosa DC less than 3% of the respondents agreed, while almost 50% said that revenues collected were not used at all to provide services.

The majority of all respondents (51%) agreed that people should refuse to pay taxes until services improved. In Moshi DC this percentage was as high as 66%. Although most citizens were



unable to assess the exact value of what they received from the government in return for the taxes they had paid, these views reflected a deep distrust of the local authorities' ability and motivation to provide services.

As many as 73% of all the respondents said they would be willing to pay more taxes if public services were improved. However there are significant differences between the six case councils in this respect. The respondents from Iringa DC were least inclined to willingly increase tax payments in exchange for improved services. The respondents from Moshi DC were those most positive towards this hypothetical question. But the response may reflect a situation where poor service delivery results in people legitimising non-payment.

## **Trust in the Procedures for Collection and Allocation of Revenues**

Many respondents considered 'dishonest collectors' to be a major problem (46%), or part of the problem (19%), although there were substantial differences between the case councils in this respect. While 51% of the respondents in Bagamoyo DC agreed that tax collectors were dishonest, the figure for Iringa DC is 33%. When asked why some people pay taxes and fees, nearly half of the respondents (46%) said people pay because they 'want to avoid disturbances'. The way the tax law is enforced and the severity of sanctions appear to have contributed to undermine trust in local authorities and fuelled resistance.

The collection of the development levy often led to conflicts and tensions between collectors and citizens. Since this survey was carried out only a few months after the abolition of the development levy in June 2003, citizens' perceptions of revenue collectors may still reflect their views based on their previous experiences, although 94% of the respondents said they were aware of the abolishment of the levy. If this is the case, we may expect that taxpayer - tax collector relations will improve.

In general, citizens considered misuse of public funds to be major problem, though there were large variations across the councils surveyed. While only 11% of respondents from Iringa DC saw misuse as unavoidable, the corresponding figure for Moshi DC was 41%. Across all councils, the officials and leaders located closest to the respondent were the most trusted. People considered that village/mtaa authorities were likely to better allocate the collected revenues than higher-level authorities.

When asked what actions would reduce the misuse of tax revenue, almost half of the respondents said it would not help to report this to the council officers and police, mostly because 'all civil servants are corrupt and they protect each other'. With respect to actual action taken by citizens, only 4% of all the respondents (in Moshi DC, as few as 1%) said they had reported misuse of tax funds over the last two years. These figures are discouraging given the fact that the government has run extensive anti-corruption campaigns since 1996 and encouraged people to report officials who abuse their position for personal gain. Almost 21% of the respondents said that the reason why so few people take action and report misuse of revenues collected is because they fear repercussions. This suggests that much is still to be done to build trust between local authorities and citizens.

## Trust in Fellow Citizens

The data did not provide clear support to the proposition that social influences affect compliance. We did find some indications that the larger the proportion of the local population observed to be not paying - the lower the perceived risk of being prosecuted. Almost 40% of the respondents say they were aware of many (24%), or some (15%), people in their area who did not pay taxes and charges. Surprisingly, only 29% of the respondents considered taxpayers' unwillingness to pay to be a major problem.

The attitude of local political leaders with respect to payment may also be important, for instance by legitimising non-payment through their own behaviour. 56% of the respondents blamed local government elected leaders fully or partly for poor tax collection in their area.

## How to Improve the System

This survey shows that citizens feel they get little in return for taxes paid. However, the majority of the respondents said that 'they would be willing to pay more taxes if public services were improved'. Hence, from a policy perspective, it is a major challenge to provide better linkages between payment and service delivery.

Taxes, however, may not be the best mechanism to obtain a better relationship between the demand and supply of public services. Better links can be achieved through cost-recovery charging systems. In some countries, including Namibia and South Africa, charges on trading services such as electricity, water, sanitation and solid waste are the major sources of urban and metropolitan revenues. In principle, user charges link the amount paid directly to what a consumer uses.

There are a number of constraints on user charges and other means of cost recovery in Tanzania. These arise from equity considerations, fluctuations in demand, and the relationships between services financed by charges and provided by private sector enterprises as compared to those financed by general tax revenues. Furthermore, local governments may employ user charges as taxes to fund general expenses, and thereby undermine the link between the demand and supply of services. However, there are reasons and scope for innovation, including greater use of mechanisms based on realistic pricing and other cost-recovery methods.

Tanzania has a long tradition of providing basic public services through self-help activities, religious and other locally based organisations, as well as through institutionalised long-term relationships between state agencies and organised groups of citizens (co-production). By providing a more direct link between citizens' contributions and service delivery, such mechanisms have in some cases proved to be an effective and sustainable means of mobilising the resources needed to improve basic services for poor people. Almost 75% of the respondents in our survey said that people should contribute to improved services through self-help activities, though there were large variations across councils. While more than 90% of the respondents in Kilosa DC and Iringa DC were positive towards self-help in improving service delivery, only 56% of the respondents in Ilala MC were in favour of this self-help approach. These differences might reflect that various self-help and similar schemes have had some positive impacts on service

delivery in Iringa (Tanzania Social Action Fund TASAF) and Kilosa (Community Initiative Support Programme CIS), while they have been less prevalent in Ilala.

Also, the rural-urban divide most likely reflects the difficulty in mobilising urban dwellers for community development initiatives; due to the high mobility and turnover of urban residents. But there are also differences across rural councils. For Moshi DC, the support for self-help was lower (69%) than for the other district councils.

The survey results also indicate the misuse of tax revenues by council staff (particularly by revenue collectors) and councillors is a major problem. Furthermore, the public was provided with limited information on revenues collected, financial allocations and how to report corruption. Very few of the respondents had seen any information about local government finances (see Project Brief no. 7). The measures most favoured by citizens to improving the present system were stronger punishment of council staff (83%) and politicians (80%) found guilty of mismanagement, followed by more information to the public on revenues collected (74%) and how the revenues were spent (78%).

Continued and increased support from the central government is required to improve local financial management, including the internal audit functions. Priority should also be given to improve citizens' access to information to enable accountable, transparent and participatory governance

The mechanisms for enforcing compliance also matter. A trust enhancing approach to improving the payment of local taxes and fees might be based on the proposition that citizens are more likely to perceive the local government as reciprocating their trust when they feel they are being treated with respect. Aggressive and demeaning approaches when collecting taxes and fees may actually contribute to increasing taxpayers' resistance to pay. It is therefore imperative to establish mechanisms for improving the relationships between local revenue administrators and citizens; such as: improved billing and accounting systems, establishing convenient and transparent payment facilities, and strengthening the capacity to follow up cases of non-payment.

Citizens should be further encouraged to report misappropriation of revenues and inadequate delivery of services. Prompt action on such complaints may help convince people that the local authority means business. Furthermore, citizens' involvement in identifying problems and setting priorities may promote a greater sense of community involvement. Finally, the co-operation between local government officials, councillors and community leaders in setting common development and management goals could be a crucial trust enhancing device.

For More Information Please Contact

**Research on Poverty Alleviation REPOA**

P.O. Box 33223, Dar es Salaam, Tanzania

157 Mgombani Street, Regent Estate

Telephone: +255 (0)(22) 270 0083 / 277 2556

Mobile: 0741 326 06; Fax: +255 (0)(22) 277 5738

Email: [repoa@repoa.or.tz](mailto:repoa@repoa.or.tz) Website: [www.repoa.or.tz](http://www.repoa.or.tz)