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Mobilizing local resources in developing countries

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SUMMARY

Many developing countries are putting increased pressure on local governments to mobilize resources, especially to meet the recurrent costs of operating and maintaining locally sited capital projects. Local taxes, user charges and voluntary contributions are all possible mechanisms to carry out these efforts. Yet several important issues arise whenever these mobilization instruments are contemplated and evaluated.

Several, often competing, objectives must be considered when evaluating fiscal instruments including the ability of the mechanism to raise revenues, its effect on economic efficiency, its equity implications and its administrative feasibility. After discussing each of these objectives, we show how numerous constraints, including those imposed by the political/legal system, administrative structure, the economy and the culture of the country, must be recognized while searching for a workable set of reforms that will mobilize additional resources without doing great harm to the other objectives. The key to these reforms would seem to be incentives or disincentives inherent in the revenue structure. Without recognizing these incentives or attempting to alter them, resource mobilization efforts are likely to go astray.

INTRODUCTION

The current interest in local government resource mobilization in developing countries is hardly surprising. It stems from several sources: (a) the push to decentralize government decision making, (b) the desire to improve the relative quality of life in secondary cities and rural areas both for its own sake and to slow the rate of migration to the largest cities, and (c) the recognition that local governments might be in a better position than the central government to capture local taxable capacity outside major cities and to determine appropriate local service priorities. With this new concern for local government resource mobilization has come a number of difficult questions. What mechanisms are available for increasing local government revenues in developing countries? How can the substantial administrative barriers be overcome? What standards might be used to judge whether one revenue raising system is more or less suitable than another?

This paper is an attempt to address some of these issues in a context of the current practice in LDCs. Three types of revenue mobilization schemes are considered throughout this paper: taxation, voluntary contributions and user charges. Too often the focus is exclusively on taxation, but in a sense the three are alternatives and all are important in the LDC context. User charges may take the form of direct...
payments by beneficiaries for such services as water, sewers or transportation, or may be seen by the local government as fees raised from locally managed public enterprises such as markets or slaughterhouses. The use of voluntary labour to build a road, construct a school building or repair an irrigation canal is not an uncommon practice in rural areas in developing countries.

In the next section we review several objectives that, ideally, should be met in a revenue scheme. The focus of the third section is on the trade-offs among objectives and on the constraints placed upon resource mobilization proposals at the local government level. The discussion in the fourth section is of the role of incentives in mobilizing more resources through the local public sector.¹

OBJECTIVES OF REVENUE REFORMS

There are several general objectives against which any local revenue scheme might be judged. These include the ability to raise revenues, effects on economic efficiency or neutrality, equity implications and administrative feasibility.

Mobilizing resources

Foremost among the criteria for evaluation is the ability to raise revenues. We are interested here in both the potential for mobilizing sufficient resources at any given point in time and the potential for stable growth with an increasing demand for public services.

The first of these concerns, revenue adequacy, depends on the levels of the rate and base. An overriding difficulty facing most localities in developing countries is the small size of the available revenue base. For example, local governments in rural areas may be able to devise any number of methods of collecting revenue—e.g. charging for a sheep dip, levying a wheel tax on vehicles, charging vendors an entrance fee to the market, charging a berthing fee for boats. Unfortunately, none of these is likely to have a large enough base to produce substantial revenues at low rates of tax. The question, then, is whether high enough rates can be imposed.

The answer, of course, is that the rates applied to a small base cannot be increased without limit. One constraint is legal, i.e. the central government often imposes a strict rate limit on all local government taxes. Moreover, high rates will be more likely to produce excess burdens through reactions in behaviour by taxpayers attempting to avoid the levy (discussed below) and possibly will increase evasion of the tax. Furthermore, any inequities inherent in the levy will be exacerbated by higher rates. This, then, suggests a need for policies designed to broaden the base for resource mobilization—either through redefinition of the base or identification of new revenue sources.

The second criterion, sufficient growth, has to do with the elasticity of the revenue source.² That is, as the resource needs of local governments increase due to

¹ The recent book by Kenneth Davey (1983) addresses many of the same issues as are raised here. He does not, however, consider the role that voluntary efforts may play in resource mobilization and places less emphasis on the importance of incentives.

² The term 'elasticity' is usually taken to refer to the percentage increase in revenues associated with each 1 per cent increase in local income.
population growth, increased service demands or inflation, a 'good' revenue source will respond in like manner. For example, if prices for the inputs used by a local government increased, one would want revenues to expand without the need for discretionary or administrative changes in the tax base or rate. The principle here is that the revenue base should be as responsive to inflation or real economic expansion as are spending needs.

Certainty or stability of revenue growth, too, cannot be ignored when evaluating resource-raising instruments. Erratic growth not systematically related to changes in income, population or prices creates considerable uncertainty in budgeting and hinders longer term planning. Although this aspect of revenue growth and adequacy is often ignored, it constitutes a major project for many local bodies and is often traceable to administrative practices which either fail to capture increases in the revenue base or are inconsistent over time, thereby leading to revenue instability.

Tax revenue sources based on the gross receipts of businesses, sales or income are likely to be responsive to inflation or to increases in local economic activity. Property taxes, on the other hand, may not be so elastic, since they depend greatly upon the administrative structure by which the tax base is determined. Much research on the subject indicates a low income elasticity to the property tax (Bahl, 1979).

Still less responsive are the personal taxes used in rural sectors where land tenure considerations preclude taxes on agricultural land. Head taxes, taxes on occupations and licences do not respond to changing conditions or expenditure needs. For example, personal taxes (including poll and graduated personal taxes) have, since 1970, become much less important revenue sources for central governments in most African states (Wozny, 1983).

Contributions, both monetary and in-kind, rarely account for substantial amounts of revenue, and their growth potential is limited. Even in societies where tribal customs favour voluntary communal services, they are not responsive to current circumstances. One might even expect voluntary contributions to fall off as income rises. For example, as wages increase, especially in real terms, fewer and fewer local labourers are willing to donate their services to the local governments because of their higher opportunity costs. This suggests that the income elasticity of this revenue source will be low. In a similar manner, the responsiveness of these revenues to inflation may be low if labourers suffer from a 'monetary illusion' and do not recognize that increased money wages in the face of inflation do not constitute increases in real wages.

User charges and fees offer an opportunity to raise significant amounts of revenue, but generally offer a low potential for growth. Most charges are tied to the number of units of a service consumed, e.g. a gallon of water or a bus ride, and do not respond to income or inflation. Legal rate changes, which are politically unpopular, are required to increase revenues. On the other hand, increased populations may yield greater usage of these services, thereby raising revenues.

Miller (1983) suggests, however, that it is hard to account for voluntarism in local governments in a developing country context. She notes, for example, that in Bangladesh, many local government officials 'donate' their time even though it is never formally accounted for.
Economic efficiency

Resource raising techniques nearly always affect some economic choice. Given the revenue bases available to rural local governments in developing countries, the choices in question may include whether to live in a high taxing or low taxing jurisdiction, whether to improve a building at the risk of property tax increase, whether to support a proposal for a local capital improvement at the risk of paying a benefit charge or whether to volunteer labour to the public sector in return for a public sector benefit. To the extent that local taxes and charges alter choices that otherwise would have been made, they are economically inefficient.

Such inefficiencies may or may not be detrimental in terms of local and national objectives. For example, a business licence may raise the cost of doing business in a community but can be a justifiable charge for the proximity to public services which the business enjoys. On the other hand, some revenue sources may have built-in non-neutralities that are undesirable. The local property tax is an often-cited culprit. Placing a heavier tax burden on the value of improvements (buildings and equipment) than on the value of land discourages investment in improvements. To the extent that investments in these improvements contribute to economic growth, such inefficiencies are undesirable. However, in many LDCs, the problem is mitigated because rates are so low. Furthermore, differential rates on used versus idle land (with the latter taxed more heavily) are also used in some developing countries where land speculation and non-development is a problem.

User charges and fees raise other important efficiency issues. One problem arises when local authorities attempt to recoup full costs with charges for activities which generate benefits to non-users as well as users. For example, a health clinic provides benefits even to those not inoculated against contagious diseases. Efficiency requires charging users only for that portion of the marginal costs of the service that benefits them and covering the remainder of the costs from general revenues. If charges and fees are set too high, under-use of the service will result. On the other hand, too low a price will produce over-use and either lower the effectiveness of the service or fail to provide adequate revenues for maintenance of the activity. Still, user fees provide the opportunity to mobilize resources in a manner that is both reasonably equitable and reasonably efficient, for example when motor licence fees are imposed on users of roads built and maintained from public funds.¹

The efficiency of a voluntary contribution of labour or materials depends on the opportunity costs of the labour or material and the benefits it produces. At certain times of the year in developing countries the opportunity cost of labour is extremely low. During such times use of labour for public projects has little or no opportunity cost other than the value of leisure foregone and perhaps extra food consumption required. Efficiency requires, however, that the individuals who donate labour derive benefits from the project at least equal to the low opportunity costs.

Equity

Equity is an overriding concern, especially in developing countries where inequality in the distribution of income and wealth is pronounced. The problem is that equity

¹ Efficient pricing of roads in developing countries is emphasized by Walters (1968). For a discussion of these and other, more general issues regarding user fees see Local Revenue Administration Project (1983).
means different things to different people. One interpretation is that those better able to bear the burden of resource mobilization ought to pay more than those in less fortunate circumstances. In practice, this is sometimes translated into tax policies where those with relatively small property holdings are exempt from the property tax or where progressively higher rates are applied to higher valued properties.  

Although such provisions for vertical equity are desirable in that they seem 'fair', they may give rise to other, undesirable effects. For example, the granting of exemptions for lower income taxpayers may erode the tax base, whereas the use of a progressive rate structure may encourage uneconomic splitting of holdings to avoid the tax. Both actions might encourage the payment of bribes to the property tax administrators to place the property into a lower-valued property classification.

The equity criterion can also be interpreted to mean that those who benefit from particular services should contribute proportionately to the financing of these services. The benefits-received version of equity in taxation is usually associated with special assessments and user charges rather than with general taxation. Betterment levies and special assessments on properties which benefit most from a particular capital investment, e.g. a new water project or an improved road, reflect an attempt to distribute financing according to benefits received (Macon and Manon, 1977; Doebele, Grimes and Linn, 1979).

In a similar manner, user charges based on the cost of providing services can conform to the benefit criterion of equity. In the context of developing countries, however, these methods of resource mobilization are likely to be at variance with ability-to-pay criteria. Yet, in the absence of user charges, highly beneficial services such as water supply and ferry service may not be provided at all, and others, such as wells and irrigation ditches, may deteriorate owing to lack of funds for maintenance and operating expenditures. Thus, the ability-to-pay criterion of equity needs to be applied with appropriate concern that it not totally curtail service provision.

In-kind services raise serious equity questions. Voluntary arrangements may specify equitable labour contributions for projects, and local customs and the influence of local leaders may ensure compliance with these provisions. On the other hand, inequitable distribution of the burdens of in-kind services inevitably leads to the withdrawal of voluntary services. The use of compulsory labour services for local projects in the colonial periods of most developing countries has left a legacy of negative attitudes toward this policy; consequently, relatively little serious consideration is given to proposals for compulsory, in-kind contributions of services in developing countries (outside of China). Still, local responsibility for the construction of buildings with voluntary labour for centrally provided administrative or educational staff is characteristic of many parts of francophone Africa.

**Administrative feasibility**

It is one thing to set down on paper an ideal revenue system, but quite another to implement it successfully. Although the constraints discussed below play a crucial role in determining the administrative feasibility of any revenue source, the general
question that must be asked is whether or not, given these constraints, the resource mobilization system can be carried out in a just manner. For example, if few local businesses keep written records of transactions, a general retail sales tax that exempts 'necessities' (which may look fine on paper in terms of its elasticity, economic efficiency and equity) will in fact be impossible to administer. Likewise, in a village where nearly all of the transactions are made in-kind and most residents are illiterate, there is little likelihood that an equitable income tax can be collected. Even when simpler head or asset taxes are used, the task of maintaining an up-to-date census of population, land or livestock may exceed local administrative capacity. Recommendations for improved tax procedures thus require investigation of such factors as whether or not tax maps have been drawn, the capabilities of the local revenue administration personnel and, whether or not most local properties are privately owned rather than owned by tribes, classes or extended families. This suggests the need for a thorough understanding of the economic, administrative and institutional and cultural constraints associated with the area.

**CONSTRAINTS**

Any resource mobilization effort will be made within an institutional frame. An understanding of these institutions and the constraints that they pose is a necessary first step in any reform effort aimed at increased mobilization. Here we note legal/political constraints, constraints imposed by the administrative structure, economic constraints and technological or cultural constraints. The lesson is that, although one should search for an optimal resource mobilization package, no more than an acceptable second or third best solution may be possible.\(^4\)

**Legal/political constraints**

Although some alteration of the statutory basis of particular revenue sources is usually necessary to improve the revenue structure, a complete overhaul of the existing legal framework is unrealistic and probably even undesirable. Such changes are less likely to be carried out than are improvements in administration or in provisions of existing revenue sources.

The trick is in recognizing which constraints can be bent and which cannot and in knowing whether institutional reforms are necessary or whether roughly comparable results might be had from less drastic changes. Two common issues come quickly to mind. The first has to do with the assignment of functions—the division of taxing powers and expenditure responsibility among levels of government. Some taxes are specifically reserved for higher level of governments whereas others are made available for local government financing. Whether this division is by Constitution or long-standing custom, it presents a very rigid constraint in most countries. To be sure, there have been gradual changes in the assignment of financing and spending responsibilities, but these are 'harder' reforms than modifications of presently available tax bases.

\(^4\) A more general, and more pessimistic, view of the problems associated with budget-related reforms is given by Selwyn (1982).
The revenue assignment issue is a particularly troublesome one. As Davey (1983) notes, central governments tend to reserve for themselves the most elastic and productive revenue instruments. Although this can be justified in some instances, e.g. on grounds of administrative convenience or due to inefficiencies or inequities which would result if each locality imposed its own levy, in other cases it can be done primarily to gain political favour. For example, the abolition of the community tax in Nigerian states in 1980 may have been as much a political ploy as a legitimate policy to improve the local revenue structure. It certainly did little to support the 1976 local government reform's goal of community autonomy.

The political system and the degree of patronage embedded within that system constitutes another serious constraint. Altering these political arrangements is unlikely. Thus, if the Ministry of Local Government has statutory responsibility over all local financial affairs, it is unrealistic to expect that a programme carried out by a rival ministry will be gracefully endorsed by both ministries, even if the programme has potentially large local revenue implications. The ministry in charge of the programme, unless it is likely to gain additional power or political 'points' through a successful administration of this programme, is likely to approach it enthusiastically whereas the Ministry of Local Government may see it as an infringement upon its own authority and may even impede its successful completion. For example, a property tax administration reform programme initiated through the Ministry of Local Government in the Philippines was constrained from the outset because local assessors and treasurers were in fact employees of the Ministry of Finance (Holland, Wasylenko and Bahl, 1980). Another example of this problem is the use of food-for-work programmes in Bangladesh as a grant for rural works activities. The explicit relief objectives of the Ministry of Food, where food-for-work programmes are administered, may run contrary to the development objectives of the Rural Works Programme which is administered by the Ministry of Local Government.

Administrative structure

Closely related to the above is the structural organization of administration within the developing country. If, for example, local revenue officials are directly tied to the higher levels of government, programmes that are primarily initiated and carried out at the local level may be unsuccessful. This lack of success may not be due to any inherent weakness in the programme, but because it is not in the best long-term interest of the local revenue officer to conform to the proposed local reform. In the same manner, if different departments within a local government must co-operate in order for a local revenue source to be successfully administered, joint inputs of higher officials are required. Yet such co-operation is much more difficult to achieve than in the case where their own success is directly tied to such co-operation.

There are formal administrative arrangements for handling potential conflicts among field offices of central ministries through designation of the representative of one ministry, usually the Ministry of the Interior, to supervise and co-ordinate the regional activities of other ministries. As the above illustrations demonstrate, such

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1 This policy was, of course, less difficult to implement given the large increase in Nigeria's oil revenues during that same period.
arrangements are often insufficient to reconcile the varying goals, motives and incentives of representatives of different central agencies. Although one should not rule out any attempt to alter the administrative structure, the severity of administrative constraints must be recognized. It is essential to recognize these constraints and to work within them rather than to propose a total reorganization of the structure when focusing on improved resource mobilization techniques.

Economic constraints
Local governments are not isolated entities. They exist within a larger economy and, whereas their own resource constraints may preclude particular 'solutions' to resource mobilization problems, it also must be recognized that broader macroeconomic considerations may also arise (especially where the governmental structure is a unitary one). Currently, many developing countries are experiencing foreign exchange and inflationary difficulties. To ignore entirely these constraints may lead to a set of recommendations that, within the broader context, are entirely unrealistic. For example, although a significant increase in grants to localities may seem justified, it may be an impossible short-term objective if the central government is already facing budgetary deficits. Also, programmes aimed at services relevant to increased local agricultural production for export require exchange rate policies which do not so overvalue local currencies as to price such exports out of world markets.

Technological, cultural and institutional constraints
Efforts to improve local revenue mobilization must also recognize the current environment in which the local government operates. To advise computerized annual reassessment of property values in an environment in which computers are nearly non-existent is, of course, totally unrealistic. Likewise, if many transactions are carried out on a barter or in-kind basis, the use of monetary resource mobilization tools is inappropriate.

When devising a new set of practices or policies, one must keep in mind the institutions that exist currently and their limited capacity. To recommend increased use of credit financing for development projects when the national credit market is almost totally undeveloped is as unrealistic as recommending the imposition of a sales tax where transactions are nearly all of the barter variety.

Cultural considerations also play a role in the determination of feasible policy options. For example, within the context of an Islamic society, certain taxes and debt financing may be limited by religious doctrine (Shemesh, 1969; Karsten, 1982, pp. 108-142). Similarly, resource mobilization techniques that are carry-overs from colonial times may be viewed with sufficient suspicion to preclude their inclusion in a menu of taxes, fees or voluntary contributions.

INCENTIVES AS THE KEY TO RESOURCE MOBILIZATION

Given these objectives and constraints, we would argue that the provision of incentives and disincentives is a key to improving local government resource
mobilization. These incentives may be focused on different actors—taxpayers, administrators and local government decision-makers.

**Compliance incentives**

The incentives associated with taxpayer behaviour can be tied to penalties for not paying, the benefits of complying, and the cost of compliance. These incentives may be instituted in a variety of ways including revenue structure revisions, changes in collection procedures and moral suasion applied by community leaders.

**Benefits of paying**

Increased revenue mobilization in developing countries may be as much a job of 'selling' as it is of direct administration, i.e. the taxpayer may be more willing to pay if he believes the taxes will be spent on something useful to him. The potential purchaser of a glass of beer does so because he sees it as yielding personal benefits. In the same manner, the potentially complying taxpayer may be much more likely to co-operate if there are perceived benefits associated with such action. The transfer of tax receipts to the central government treasury is generally perceived as yielding no benefits to local residents, but rather as supporting the salaries of government bureaucrats, including the military, and to some extent those who have left the countryside for the capital. Thus, to enhance voluntary tax compliance, taxpayers must be convinced that a significant portion of their taxes will be retained locally and that these revenues will be used for projects and services which they value.

Where there is not a high degree of tax compliance, campaigns designed to illustrate the benefits to the potential taxpayer may be a necessary first step in the process. This may be done in a number of ways. One of these is a simple passing of information, i.e. holding village meetings to tell taxpayers what their tax money will buy. A second possibility is to permit the village area to retain a percentage of the amount collected, e.g. barangay (neighbourhood) units in the Philippines receive a 10 per cent share of property taxes collected in the barangay. A third possibility, where traditional leaders still have a role in tax collection, is to compensate the village chief with a percentage of taxes collected from residents of his village. This is, for example, the case in Senegal where the village chiefs receive 7 per cent of the 'rural tax' (Wozny, 1983).

The previous arguments are also applicable in the case of voluntary contributions. Moral suasion by community leaders is probably necessary to evoke response in this revenue source. Taxpayer compliance and contributions may even be linked, for example, when a community leader donates a parcel of land to the local government but completion of the facility requires the generation of sufficient local revenues.

**Penalties**

Although the 'carrot' may work in some situations, the 'stick' can also be an effective means of stimulating taxpayer compliance. Necessary conditions for

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*This is why compliance incentives are less important in the case of user charges. With fees attached to a publicly-provided service the payer is getting a direct benefit in return for his payment.*
imposing a cost on non-compliers are the existence of legal remedies and an effective
enforcement programme. By their very nature, voluntary contributions lack this
feature and thus are not amenable to this compliance technique.

The penalties themselves must be severe enough to be binding. One thinks
immediately of cash penalties equivalent to interest charges on unpaid amounts, but
many times these charges are too low, i.e. the rate of return to owners of capital in
LDCs may be so high that it would be profitable to be delinquent in paying taxes.
Other penalties can be more severe—the legal system may provide that the property
be sold at auction to recover back taxes, or that personal property be confiscated.

There is a direct relationship between the severity of the penalty and the hesitance
of the government to enforce the penalty. The sanctions are especially difficult to
enforce in rural areas where the ‘neighbourhood’ includes the administrators. For
example, where a legal system provides that the tax-delinquent property be sold at
auction, a potential response is for no one to be willing to bid on the parcel.
Moreover, the taking of property is so drastic a step that it is opposed (perhaps
feared) by local politicians and administrators—to a point where very little use is
made of this penalty. On the other hand, there may be an advantage of the area
being small in size and population. If compliers recognize the ‘free rider’ problem
associated with non-compliers, they may put pressure on their non-taxpaying
neighbours. In such cases, techniques such as publishing or making public the list of
non-compliers may provide sufficient ‘costs’ to pressure the non-payer into action.

Other extra-legal incentives involve the tying of particular privileges to payment
of taxes. In some countries, properties on which there are taxes delinquent cannot be
sold until such delinquencies are cleared. This approach could be extended to require
that any transaction with the local government (or possibly even higher levels of
government) would not be possible until proof of payment on past-due taxes is
shown. For example, a local permit to transact retail or wholesale business may be
made contingent upon proof of payment of all local taxes. Few rural local
governments have carried the incentive approach this far.

In Upper Volta and other West African countries it is not uncommon for the
names of delinquent village taxpayers to be required to remain on display at the local
administrative centre until taxes are paid. Relatives, shamed by this display,
generally pay the amounts owing in a short time. Another example is the
requirement that tax receipts be shown in order to obtain travel permits, register a
birth or marriage, or enroll a child in primary school (Local Revenue

But to carry out these policies successfully will require a degree of interagency and
even intergovernmental co-operation not always found in governmental institutions.

Compliance costs

The technology, institutions and possibly even culture in developing countries often
require that financial transactions be carried out on a face-to-face basis. With no
checking accounts or comparable financial instruments, and relatively little self-
assessment, taxpayers are faced with the time and travel cost of paying taxes. If
these costs can be lowered without greatly burdening the local government, overall
rates of tax collection may improve.

A number of remedies have been applied. Programmes that take tax collectors ‘to
the people' rather than requiring the people to come to the tax collector, are especially effective in rural areas. The allowance of discounts for those who pay taxes on time is also a potentially powerful incentive.

**Structural reforms**

One major impediment to improved collection may lie with the structure of the tax. People are more willing to pay taxes when they feel that they are being taxed fairly (relative to their neighbours), when they understand how the tax is levied and when the tax rate structure does not provide especially attractive gains from underreporting. Any number of reforms have been instituted to deal with such structural problems. The following are examples of the kinds of specific issues which arise:

(a) Assessment biases in favour of higher income property taxpayers may discourage other taxpayers from complying. Inconsistent assessments among similarly situated taxpayers may produce the same result.

(b) High property transfer tax rates will induce sellers of property to understate transaction values (Alm, 1983).

(c) Progressive business tax rates will provide an inducement for owners to understate the base (e.g. gross sales) in order to reduce tax liability (Bahl and Schroeder, 1983).

(d) Property taxes levied on the total value of all holdings may induce property owners to split or sub-divide their property, or undertake other subterfuge to reduce tax liabilities (Greytak, 1982).

These kinds of problems have led to many reforms of local tax systems. The general direction of this reform is towards simplification, flat rate structures and more standardization in assessment practices.

**Administrative incentives**

The role of the administrator in local taxation is crucial. Administrators as well as taxpayers respond to incentives or disincentives in the system. It follows that successful administration also requires the construction of a 'proper' set of incentives.

**Pecuniary incentives**

Where there is little likelihood of pecuniary gain from 'successful' administrative performance, effectiveness is likely to suffer. Yet, there may be few built-in pecuniary incentives for doing a good job. Under a unitary governmental structure, salary structures are generally determined by central civil service regulations with the successful local financial manager compensated no differently from the less successful manager. Although the negative incentive of dismissal potentially exists, it may not be used often enough to be an effective management tool.

Where local government managers and administrators are employees of local authorities, compensation is likely to be low in comparison with similar positions in
the private sector and in the central government. This explains the shortage of qualified personnel for such local staff as assessors, collectors, treasurers and accountants in the local government sector and suggest that the training of local staffs may be deficient. This raises another reason for poor revenue administration performance and, although it suggests the need for training local government workers, it must also be recognized that newly-trained employees may still be attracted by higher paying jobs in other sectors. In fact, the creation of autonomous bodies for transport and water supply, partly to get around salary limitations, is a response to this constraint.

**Power and advancement**

Closely related to pecuniary incentives is simply power or advancement to more influential positions. If these moves can somehow be related to performance, they can also encourage improved performance.

Where a local financial manager feels that there is no likelihood that improved performance will result in a 'better' position, or if poor performance is unlikely to result in demotion, there is little reason to expect improvements in performance. For example, if a tax collector feels that employment will continue whether or not delinquent taxes are actually collected, there is little reason to expect this individual to put forth much effort in carrying out the assigned duties. On the other hand, if there is a likelihood that the successful collector will become a strong candidate for a supervisory position, he may be more willing to carry out assigned duties enthusiastically.

**Return to risk**

A related factor is the expected return associated with entering into a risky situation. By nature, financial managers are conservative. Although this is not necessarily a disadvantage, given the public nature of the job, innovations and ventures having potentially larger payoffs can be stifled by this attitude. For example, analysis may suggest that a new or expanded public market would be an efficient use of a locality's scarce resources. But this may require a large capital investment and the incurring of long-term debt. If the local fiscal manager is unlikely to be rewarded should the venture be successful but can be punished if the debt is not paid off on time, it is unlikely that the project will be pursued. Only if the manager can expect that a successful market will increase the likelihood of advancement to a better paying and/or more responsible position will he be a strong proponent for the venture.

**Governmental incentives**

There are particular incentives associated with public sector decision-making that are not necessarily in the best long-term interest of development efforts nor of effective use of locally mobilized resources. These incentives tend to favour more visible, shorter term projects over projects which can have longer term returns both as regards growth and additional resource mobilization. Intergovernmental aid provides an especially effective method of inserting incentives for greater resource
mobilization into the system and can be carried out in a sufficiently selective manner to alter the previously-mentioned expenditure biases.

**Expenditure incentives**

In democratic political systems, elections occur frequently. As a result, political and administrative decision-makers may prefer to undertake short-term projects with immediate returns rather than long-term projects that may not be completed during the present elected or appointed term. Such myopia is difficult to overcome; nevertheless, techniques used by politicians everywhere such as erecting signs reminding passers-by of the mayor's name or the construction of prominently observable cornerstones may partially overcome the short-term bias. Closely related to the preference of short-term payoff projects is the incentive to support 'visible' projects, such as new municipal buildings, rather than infrastructure development projects such as road repairs or water main improvements. Again, this bias is difficult to overcome, although skillful politicians and officials may be able to devise schemes to remind constituents that their 'tax money is at work here'. These constraints are important and development is unlikely to proceed unless they can be overcome.

These biases may be even more difficult to overcome when the project is aimed primarily at improving resource mobilization efforts in the long-run. For example, tax mapping for property tax purposes is seen as a desirable project but its payoffs will be in the future. Convincing citizens of the desirability of tax mapping may require a broad educational programme focusing on the fact that tax mapping may increase the taxable base thereby reducing the relative burden on already-taxed parcels. To encourage local policy makers to enter into such a project may require that low interest loans or categorical matching grants be provided. Here the expectation is that the locality will be better off over the longer term but that the payoffs will be rapid enough so that currently elected officials can use these benefits in their own re-election pursuits. Finally, local administrators of the property tax system may have to be convinced that the existence of tax maps will make their jobs easier to carry out, and that such efforts can indicate that they are 'successful' tax administrators, and lead to advancement through a hierarchical personnel system.

In any case, to convince a locality to choose a project that is not going to yield observable payoffs tomorrow is likely to require a concerted effort on all fronts if it is to be endorsed and actively pursued by all of the relevant actors.

Foreign-donor financed capital projects raise another sort of issue. Seldom are these donors willing to undertake responsibility for the recurrent costs associated with the projects. Therefore, central government officials must decide whether or not to accept donors' offers of such capital facilities. Although these officials are reluctant to reject such offers, there may be no obvious means available to cover the future recurrent operating and maintenance costs. In highly centralized unitary states local government officials generally are representatives of the central ministry.

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* In fact, even where non-democratic regimes are in power, an often necessary condition to maintenance of that power is a reasonably satisfied citizenry.

** The problem is not restricted to developing countries. For a discussion of the U.S. infrastructure problem, see Paterson et al. (forthcoming).
and, therefore, do not seriously oppose the projects whereas locally-elected officials, if there are any, have no influence over the matter. Thus, excess construction of long-range capital projects is a common feature of development strategies, but localities are probably better served by reducing resources invested in capital projects and using them instead to maintain and operate existing capital (Heller, 1979; Club du Sahel, 1980).

**Intergovernmental aid**

It is well recognized that intergovernmental aid arrangements may alter local governmental behaviour of authorities with some degree of fiscal autonomy. The local government’s response to transfers is likely to depend upon the form of such aid and, as well, may depend upon local preferences. Still it can provide a powerful weapon in achieving greater resource mobilization.

Grants may elicit several responses from local governments. They may continue to spend as much or more than would have been spent in the absence of such aid. When local resource mobilization expands in response to the transfer, the aid is termed **stimulative**. On the other hand, local governments may cut back on locally-raised revenues and **substitute** the intergovernmental aid. Which response is more likely is an especially crucial question when the stated objective of a higher level of government is to stimulate local government activity. When the aid is substitutive the system is actually acting contrary to its stated goals. Thus, to the extent that a local government decreases its local tax raising efforts, for example by being less concerned with tax delinquency or lowering its tax rates, it has responded perversely to the intergovernmental aid system. One method by which such reactions can be discouraged is by specifically including tax effort or matching requirements in the aid distribution formula. In such cases those localities putting forth a greater effort (relative to their own taxable capacity, however measured) are rewarded directly for their efforts.

Intergovernmental aid may take the form of general purpose block grants which can be used at the discretion of the locality, or as specific project or categorical grants. Block grants have the positive efficiency effect of allowing the local government to decide what is in its best interest. In this sense, a system of block grants is preferable to a system of categorical or project-specific grants. On the other hand, if a primary consideration in the intergovernmental grant system is to promote development projects, the use of block grants may not yield the desired objectives.

Categorical grants, on the other hand, have the ability to direct funds to specific projects. The incentive associated with such categorical grants can be equated to a lowering of the ‘price’ associated with this particular category of spending. A lowering of the local price of a project has two, potentially conflicting, results. On the one hand, the lowered price encourages greater effort toward that class of projects and lesser effort towards alternatives. On the other hand, the grant may still encourage local governments to reduce taxes, i.e. they may shift their spending

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11 Local public services data which show the low level of operational costs, particularly on materials and supplies, in relation to capital spending by foreign donors in Upper Volta are presented in Local Revenue Administration Project (1983, pp. 93–96).
emphasis from A to B but they may view the influx of central assistance as substitutive for what may have been higher local taxes. Requiring that local governments share in the costs of these projects, for example, on a one-to-four or one-to-three basis can help to avoid decreased resource mobilization efforts. Under these conditions, it is in the locality's own best interest to continue raising revenues which, in addition, ensures that the locality has a stake in the overall success of the project.

In unitary forms of political organization central provision of resources to localities takes another form. The assignment of employees of various of the national functional ministries along with budgets for material and investments to regional authorities constitutes an important resource without an accompanying transfer of revenues. Thus, for example engineers may be assigned to localities by the Public Works Ministry and teachers by the Ministry of Education along with funds for certain operational expenses. The criteria which determine the overall numbers of such personnel and their regional distribution operate similarly to grant formulae. The presence of these personnel probably has some influence on the amounts of local revenues collected and on the locally controlled expenditures, but their effect is far less than grants-in-aid since the functions they perform are those assigned to the central government and usually involve little or no expenditure from local sources.

CONCLUSION

Achieving increased revenue raising goals through a system that simultaneously pursues revenue sufficiency and elasticity, economic efficiency, equity and administrability is difficult. First, these goals often conflict such that there will be trade-offs encountered in the active pursuit of each. As important, however, are the numerous constraints that are encountered in evaluating or building a revenue structure. Still, it seems that the principal question to be asked when attempting such evaluation is the extent to which incentives or disincentives are inherent in that structure and how these influence the attainment of the objects. Unless the incentives to taxpayers, administrators and politicians are considered, it is unlikely that any set of proposed reforms or alterations in the revenue structure are likely to be successful.

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REFERENCES
