

# VNG International<sup>1</sup>

## Local Taxation White Paper

### Why taxes matter

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For many of us it is hard to imagine to have no access to clean water, a home without electricity, or children without disease-preventing vaccines. In many countries it is still a fact of life.

Like them or not, taxes and other domestic revenues pay for the public services we use: schools and hospitals in our communities; roads and bridges that we take to work; and police and sanitation workers who keep our neighbourhoods safe and clean. By helping countries to better mobilize their own resources, we can empower partner countries to take command of the own development."

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Awareness of the importance of domestic resource mobilization is growing. In 2015 40 countries signed the Addis Tax Initiative in which they declared their commitment to enhance the mobilization and effective use of domestic resources and to improve the fairness, transparency, efficiency and effectiveness of their tax systems.

Also parties such as IMF, OECD and Habitat III emphasize the importance of a sound fiscal performance of municipalities as one of the most important factors to broaden participation and stimulate growth of small and medium enterprises (IMF), and as fundamental to manage the global urban future (Habitat III).

### The challenges

At the same time all cited above, mention the many restrictions and constraints that local municipalities are facing to real substantial improvements: lack of appropriate strategies, absence of adequate systems, capacities, legal limitations etcetera. The outcome is that many countries are facing enormous tax gaps. In the African context these gaps can go up to 90% of potential revenues.

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<sup>1</sup> <sup>1</sup> VNG International is the International Cooperation Agency of the Association of Netherlands Municipalities. We support decentralisation processes and facilitate decentralised cooperation. The organization strengthens countries in transition, local governments, their associations, training institutes and decentralisation task forces both in developing countries and in countries in transition.

## Towards solutions

The organisations mentioned above focus on national levels and national taxes. The idea is that by helping countries to better mobilize their own resources, partner countries can be empowered to take command of their own development again. When governments gain the tools and knowledge needed to put their own resources to work, countries can move closer to ending extreme poverty while providing the social services and infrastructure on which vibrant, safe, and healthy societies depend.

To empower **municipalities** VNG International has developed a new modular methodology to support municipalities to take command again, and to improve both their tax collection and service delivery, thereby strengthening civil engagement and government accountability. The approach follows recommendations made by IMF, OECD and Habitat III.

Over the past few years the new approach has been implemented in municipalities in Ghana with impressive improvements in tax management, revenue collection and other improvements.

### Some examples:

The municipality of Kadjebi has doubled their revenues in a year;

Elmina has increased its base for property tax 20 times;

To increase revenues out of market fees Kumasi successfully involved the so called market queens by negotiating with them which improvements they wanted to be in place in exchange for their help to collect revenues.

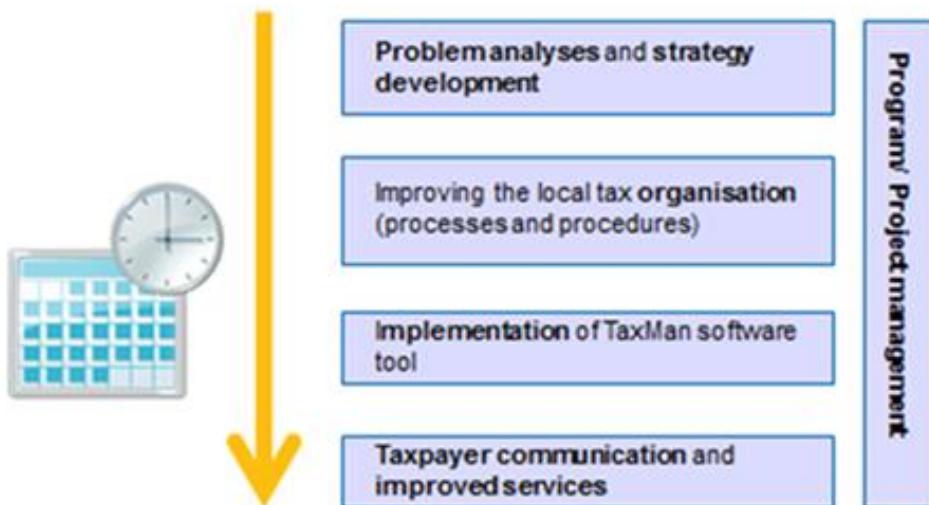
Ghana's big harbour city Tema has been helped to become in control again by helping them to develop a strategy to partially replace expensive third parties which receive up to 30% of revenues collected. The strategy includes the use of the free VNG software to levy and collect local taxes.

Sekondi Takoradi has developed policies on revenue collection and ICT, which are being presented to NALAG (Ghana's association of municipalities) so they can be used for all municipalities.

## The Methodology

- Focuses on improving revenue collection, taxpayer communication, involvement of stakeholders, transparency of local governments and improved services;
- Starts with an analysis of the situation in the country, region and municipality, followed by the development of a strategy on both IGF as improved quality of services. The strategy of the municipality and the stakeholders together describes the necessary improvements for the next years, the costs to realize them and the part of the expenses can be paid out of increased revenues (social contract).
- Supports the municipality in the implementation of new procedures and processes, IT, necessary organizational changes and improved communication with taxpayers;
- Is delivering hands on support with concrete output and outcome, as agreed in advance;
- Is a long term commitment to municipalities with support up to five years after the implementation of the IT solution and the new procedures;
- The output is a fully operational IT solution, operated by qualified staff according to improved procedures, which guarantee increased revenues to invest in improved services (outcome);
- Realizes communication trainings and advise for municipal staff to improve both mass communication as interpersonal communication.
- For sustainability reasons local professional project or program organisation will be set up as well as support throughout the program or project.

## Modular change approach



## Theory of Change

