



VNG International approach to local revenue mobilization

For accountable funding of public services



Urbanization: opportunities and challenges

Over the past decades, urbanization has greatly impacted societies and economies all over the world. In lower income and middle income countries urbanization presents opportunities and challenges both to the citizens of cities as for their their policymakers. On the one hand, it can lead to economic growth and improved living standards for urban residents.

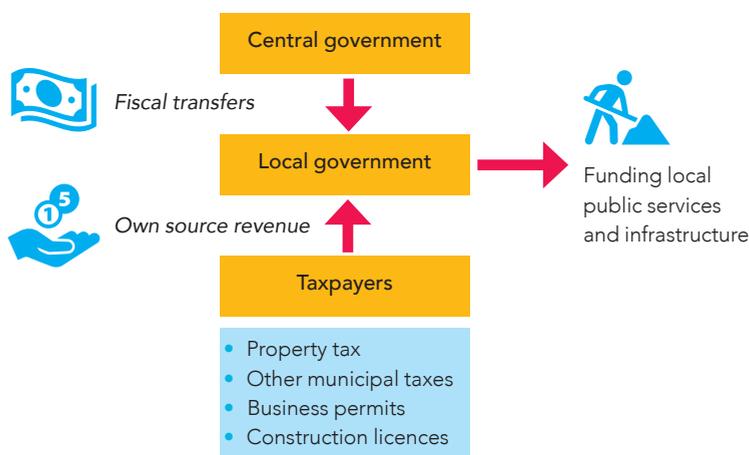
As cities become centers of economic activity, they can attract investment, generate jobs, and increase productivity. This can improve living standards for urban residents and contribute to the overall development of the country.

However, urbanization in lower and middle income countries also presents significant challenges to the governance of cities especially in countries experiencing a combination of rapid population growth and urbanization. One of the most pressing of these challenges is the strain put on local public services and infrastructure. As urban areas grow, their local governments must accommodate increasing numbers of people while continuing to provide basic services such as water, electricity, and sanitation. This requires significant investment, which can be difficult to secure in a context of limited resources. The inadequate infrastructure further strained through urbanization can lead to health and safety hazards, and can hinder economic growth. Additionally, urbanization can exacerbate social inequalities between rural and urban areas and lead to political instability. As cities grow, they often become centers of wealth and power, leading to a concentration of economic and political influence in the hands of a few. This can lead to tensions between different regions and social groups, which results in political unrest.

Despite these challenges, urbanization in the developing world presents significant opportunities for growth and development. By investing in public services, sustainable urban planning, and infrastructure, cities in the developing world can successfully tackle these challenges while harnessing the opportunities, thereby contributing to a more prosperous and equitable future for their citizens.

Public revenue for prosperous cities

Reliable and sufficient funding of local governments is crucial for the provision of public services such as water supply, sanitation, and waste management. By investing in public services, cities can create a more livable and healthy environment for their residents, which can lead to economic benefits such as increased productivity and reduced healthcare costs. For their funding, local governments need a reliable transfer of funds from the central governments (fiscal transfers) as well as a solid own source revenue base. Below the funding structure of local public services is depicted.



These funds can also be used to fund infrastructure projects such as roads, bridges, and public transportation systems. These investments can improve access to markets, increase productivity, and reduce transportation costs for businesses and residents. In addition, they can help to reduce congestion, air pollution, and other negative environmental impacts associated with urbanization. Infrastructure investments can also attract private investment, create jobs, and contribute to economic growth.

Moreover, local governments can use their funds to promote sustainable urban planning and development. This includes investments in green spaces, affordable housing, and public transportation systems, which can help to reduce social inequalities and create a more livable and sustainable urban environment. By promoting sustainable urban planning and development, cities can also attract investment, create jobs, and contribute to economic growth.

VNG International problem analysis

Over the past 10 years, VNG International has developed a systems approach that supports local governments in generating better funding for their public services. The VNG International approach is focused on improving the own source revenue of local governments by supporting the local tax base and revenue collection process. Our approach supports the structure of inter-governmental fiscal transfers and the improvement of fiscal and governmental relations between central and local levels of government. It has been developed and tested in more than 15 countries including countries in sub-Saharan Africa, the Middle East and North Africa, and South-East Asia.

In our view, the challenges for funding of local governments and local public services can be framed in three analytical areas. The first step in our comprehensive systems approach is to conduct an in-depth assessment of these three areas, in order to come to a support plan that can help local governments further in creating the necessary funding for their services.

First, the local government **mandate and legal framework** of the local government need to be taken into account. Does the legal framework of the country actually support local governments in funding and providing public services? For example, what is the existing structure of fiscal decentralization and is it supportive of the role and responsibilities that local governments need to take according to the national law? In many cases, local governments are burdened with a lot of responsibilities but not equipped to fulfil this mandate due to insufficient and unreliable funding through fiscal transfers and own source revenue. This often goes hand in hand with a lack of clear and uniform national policy. It follows that by law local governments formally have a large role to play, but in practice are kept powerless because of lack of funding. In other words, this area of analysis focuses on whether the central government and legislation play a supporting role in helping local governments fulfill their mandate.

Secondly, in contexts where own source revenue is insufficient and unreliable, citizens and businesses are often reluctant to pay their local taxes because of a lack of transparency and accountability over these tax revenues. The **social contract between local governments and their citizens** is therefore the second area of analysis. On the one hand, the local government and its leadership have an important role to play in this. How is the revenue currently contributing to improved services? And what accountability and transparency

instruments are currently in place to showcase the link between tax contributions and the local government expenditures? Local government leadership in taxation issues is of crucial importance to improving tax revenues, since it requires an open and ambitious attitude in creating a new interactive relationship with their citizens.

On the other hand, for citizens, awareness about taxation matters is important for creating a tax-compliant culture. Do taxpayers know what they need to pay and when? And do they know how they can hold their governments accountable for the tax revenues? The willingness of citizens and businesses to pay local taxes has shown to have large implications for the potential own source revenue for local governments.

Thirdly, the **technical capacities of local governments** need to be taken into account. The capacity to implement the revenue process is a critical factor in collecting the full revenue needed to pay for public services. Furthermore, other levels of government often question whether local governments are in fact 'up to the task' of levying taxes and taking up fiscal autonomy. In the problem analysis, current challenges in the design and implementation of the revenue process are identified. This starts with the database for local taxes such as property tax: how are properties and ownership currently registered and what challenges are encountered there? Does this include non-digital or digital data? Further along in the revenue process it is important to analyze how tax bills are distributed and



Areas of analysis

Mandate

- Legal framework
- Fiscal transfer structure
- Discretionary space local governments

Social contract

- Accountability mechanisms
- Financial transparency
- Tax awareness
- Leadership/citizen interaction

Technical capacities

- Revenue process design
- Data collection and database
- Tax bill calculation and distribution
- Payment collection
- Non-payment

collected? And what are the risks for leakages in this process? In mapping technical challenges for the revenue process, the available IT infrastructure need to be taken into account since this can be a catalyst for future solutions in the tax chain. Finally, a HR-capacity assessment needs to be conducted for the whole revenue process to identify expertise gaps at the level of the local government.

An in-depth analysis of the challenges for funding of local governments is crucial in the development and conceptualization of solutions. VNG International has ample experience in performing this analysis and providing advice on next steps, as well as in the actual design and implementation of improvement projects.

VNG International approach

VNG International can support local governments in improving their financial position with the aim of providing services to their citizens. The three areas of analysis can be used for the improvement of the local revenue process, with tailor made support.

Based on the analysis of challenges regarding the **mandate and legal framework** for local governments, legal support can be provided to improve difficulties and unclarities in the legal framework between levels of government. In case of untimely or inaccurate fiscal transfers for central to local government,



VNG International support to revenue process

Mandate

- Legal support for improving legal framework
- Administrative support for improving timely and accurate fiscal transfers
- Advocacy support for improving position of local governments

Social contract

- Mass communication campaigns for tax awareness
- Stakeholder engagement for priority setting
- Leadership training on citizen interaction

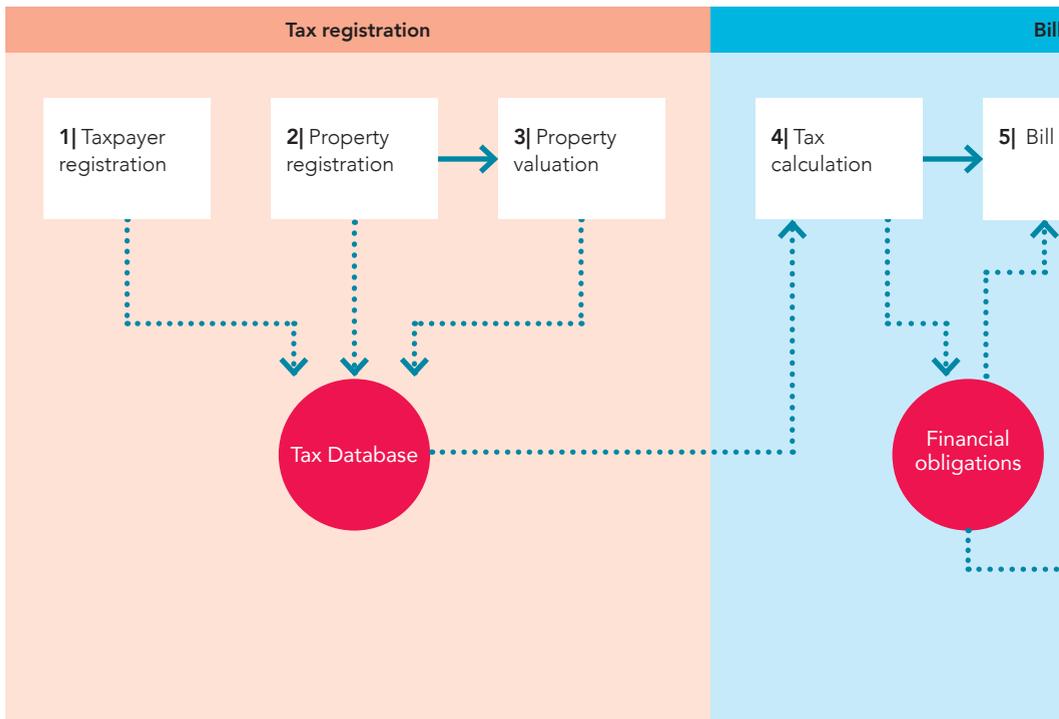
Technical capacities

- Revenue process re-design
- Reference processes, operational guides and manuals, and training materials
- Digital tooling for data collection, bill distribution, payment collection
- Tailoring revenue software

administrative support can be provided to improve the allocation mechanism for fiscal transfers. When the local governments have a solid mandate for specific services but in practice have little funding or own source revenues, advocacy towards the central government can be supported to improve the position of local governments and drive fiscal decentralization reform. This can for example be done through support to the local government association.

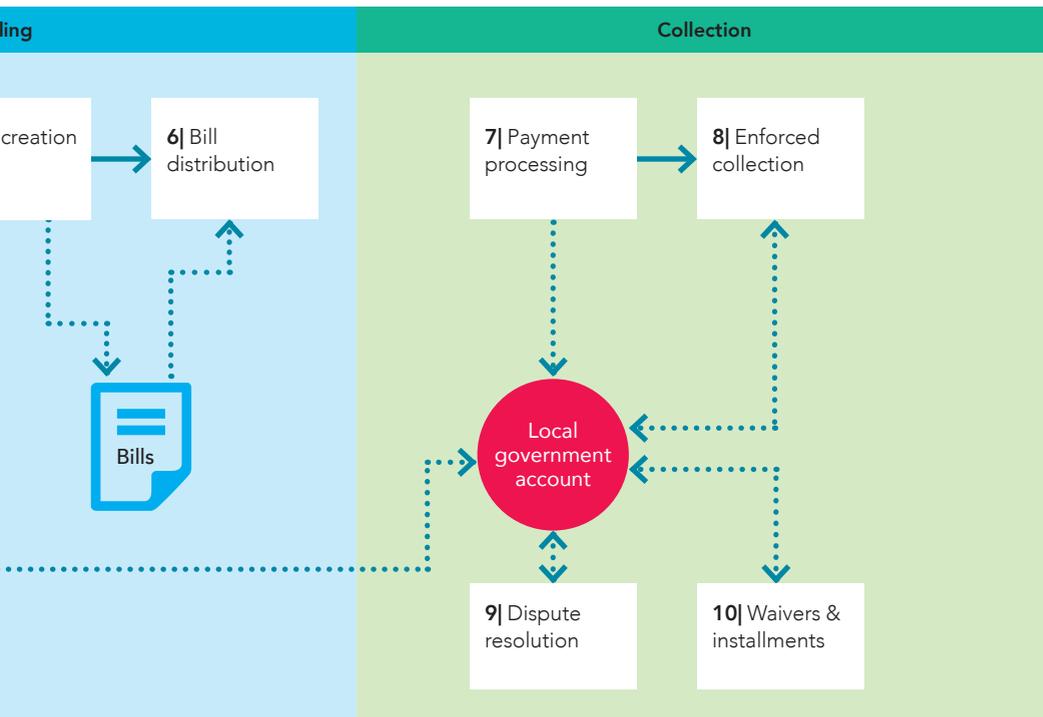
The support to the **social contract between citizens and local governments** is aiming at a renewed interaction and improved trust between the two. A tax compliant culture is impossible to impose, and therefore needs a step by step strategy towards accountable leadership and activated citizens. The support that VNG International can provide ranges from the development and implementation of mass communication campaigns on local taxation, as the stakeholder engagement strategies to support the inclusive decision making on the expenditures of tax revenues. Also, participatory decision making can be supported for priorities in local investments in the municipality. Leadership can be trained on how they can be responsive to citizen needs and how to be transparent about municipal finances. Eventually, the aim is to ensure that revenues are connected to tangible and sustainable services and show how.

Technical capacity support



The support to the **technical capacity of local governments** includes the redesign of the revenue process where needed based on the process analysis. The redesigned process can be reflected in new reference processes, with accompanying guides and operational manuals on how to implement the process. For the different steps in the revenue process, tailor made support can be provided. Below an example of the local taxation process is depicted. To support this redesigned process, VNG international has developed a number of tools that can be used for data collection on properties (location, ownership, characteristics). This information can be collected by municipal staff through mobile devices and uploaded automatically into the municipal IT systems. Also for bill creation, bill distribution and payment collection support is provided through the training of staff and the deployment of tooling and software. For example, an e-billing system can be designed to avoid manual payments. Similarly, revenue software can be tailored and deployed for the municipal revenue department that automates the different steps in the revenue process. Based on the HR-assessment of the analysis phase, capacity strengthening packages can be delivered to municipal staff.

to the revenue process

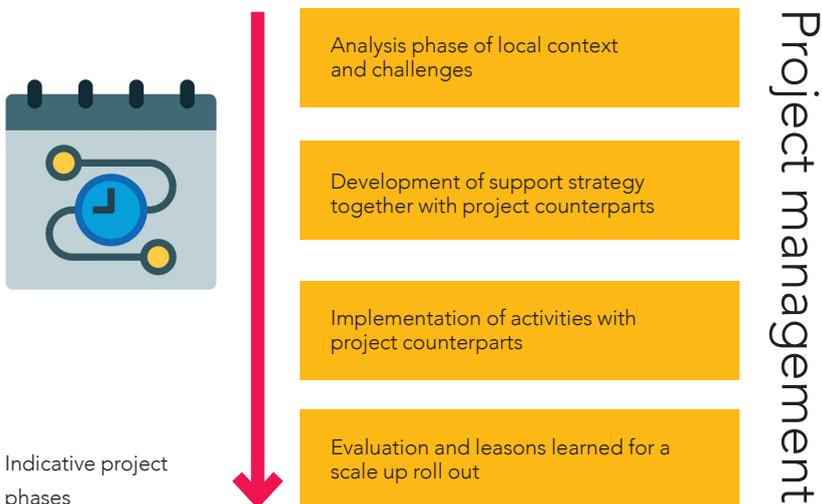


Potential project design

The support of VNG International in local revenue mobilization is always **demand driven** and based on the **local context**. VNG International can advise donors and partner countries in the phase of project design with scoping and analysis of the current situation, to come to a tailor made process that is fit for the existing challenges.

The VNG International projects normally have a number of key characteristics, that are based on our rich experience of project implementation around the world. The projects always entail an **analysis phase** based on the areas of work including **mandate, social contract** and **technical capacities**. This analysis is conducted by the international expert team together with local experts that includes the strengths, weaknesses, challenges and opportunities for the subnational finance ecosystem.

Based on this a **project strategy** is designed and the project approach is specified, including the support necessary to work towards a **'best fit'** of improvement measures to the local revenue process. This includes support to the areas of mandate, social contract and technical capacities of the local governments and potentially also the ministry of finance. Further to that, the projects often have one or several **pilot components**, where the designed interventions are tested and verified before scale up to other regions or municipalities. These pilots have a small feedback loop towards the project management and supervisory bodies, such as a central institution or steering committee. This way, the project process can be **monitored continuously** and adjusted where necessary.



The role of the pilots is to learn from practical experience of the implementation of interventions, that are scalable for a wider **roll out in the country**. Therefore, the project not only results in improved revenue collection and accountability in the participating pilot local governments, but also in the opportunity to have a further implementation of locally tested methods in other areas.

VNG International functions as a **knowledge hub** and **project implementation partner**, whereas local authorities are always the decision maker for strategic decisions and responsible partner for the monitoring and assessment of the project progress and results. Our team of international experts works closely together with local expertise to ensure the project knowledge is locally rooted and therefore optimally sustainable. The projects carry out a form of **continuous handover**, preferably to a dedicated local counterpart that assigned by the government. This way, the projects aim to assure a **sustainable ownership** over the project deliverables at the side of the project counterparts.

Please contact us for more information on our services and products, and to start up collaboration.



Ghana Tax for Development

Objective

Redesign and implementation of the property tax process

Where

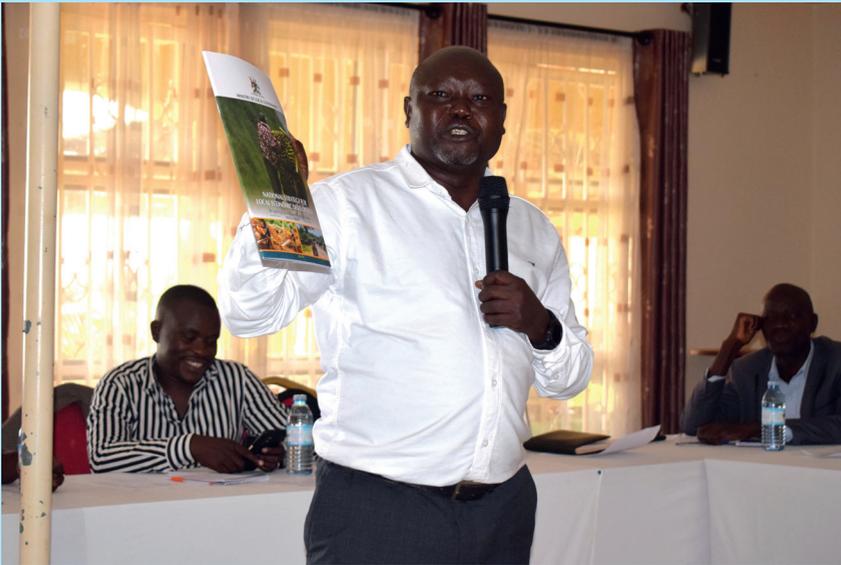
32 Ghanaian MMDAs

When

2018-2023

Description

This five year project was implemented in 32 Ghanaian MMDAs with the objective to redesign and implement the property tax process. For this, activities were developed in the area of social contract such as leadership training and the development of mass communication campaigns for increasing tax awareness. Also in the field of technical capacities of the participating local governments, a new process of property data collection, valuation, bill distribution and payment collection was designed and supported with IT tooling and revenue software. The project deployed six permanent staff and a pool of international experts, and was funded by the Embassy of the Netherlands in Accra



Sustainable Development through Improved Local Governance: Own Source Revenue

Objective

Supporting local governments in increasing revenue for improved public services

Where

Uganda, Mozambique and the Palestinian Territories

When

2022-2026

Description

The SDLG programme forms a partnership between VNG International and the Dutch ministry of foreign affairs. Under the OSR component three projects are funded to support local governments in the areas of Mandate, Social Contract and Technical capacities. The aim is to improve the local revenue process by increasing its transparency and efficiency, and allocate the increased revenues to services for citizens. The programme supports a.o. the development of communication campaigns, leadership training for interaction with citizens, development of IT tooling and software, training materials and manuals for the revenue process.



Property Data Management by Palestinian municipalities

Objective

Improving service delivery and own source revenue by Palestinian municipalities

Where

West Bank in Palestine Territories

When

From 2018-2022 and 2023-2026

Description

The project aims to enhance the property data management capacities of Palestinian municipalities. Municipal staff collects data on property locations, ownership and characteristics with mobile devices that is automatically uploaded to a general ledger system at the municipality. This new database forms the basis for improvement strategies for municipal services in the field of solid waste, water and local economic development strategies. Also, the newly collected data contributes to the tax base for property tax, educational tax, and municipal fees. This funding is used for improved services for the municipality. The project is piloted in two municipalities and works closely together with the Ministry of Local Government to scale up the developed deliverables to other Palestinian municipalities. It is funded by the Dutch ministry of Foreign affairs through the SDLG partnership.



Financing Sustainable Urban Development in Uzbekistan

Objective

Advising on financing urban development and fiscal decentralization in Uzbekistan

Where

3 Uzbek municipalities

When

2022-2023

Description

Uzbekistan is a highly centralized country with little financial autonomy at the city level. The limited autonomy results in challenges for city administration that want to invest in their urban development. This project aims to foster the debate on fiscal decentralization by conducting a research on municipal finance in Khiva, Djizzak and Havast. The research is used for a training to central and local government employees in Tashkent, and results in a knowledge product that is published by the Asian Development Bank at the end of 2023.

Building Better Futures

by strengthening democratic local government

VNG International is a leading organisation in strengthening democratic local government in developing and transitional countries. Local governments play a key role in the provision of basic services such as water, waste management, health care and housing. They have profound impact on areas like safety, food security, rule of law, and women's rights. Our projects contribute sustainably to better futures for people, communities and countries.

Contact us for more information

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