

Workshop 4: Building Taxpayer's Trust, Compliance and Public Support for Reform

In many lower-income countries efforts to improve property tax systems through significant investments in technical and technological capacity have not yielded the expected results, in terms of improved revenue performance to finance local governments' core responsibilities and enhance service delivery. It is now widely acknowledged that the primary drivers of successful reform are political in nature, and securing strong public support is crucial. How can governments garner public support for reform? Presentations from the fourth ATI & LoGRI workshop shed light on key challenges when building public support for property taxation, along with strategies to secure public buy-in for reform, exemplified by experiences from Ghana, Malawi, and Sierra Leone.



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Challenges when Building Public Support in Property Taxation

- **Low fiscal capacity to adequately fund public services.** The cities of Shama in Ghana, Freetown in Sierra Leone (before the reform), and Malawi's four City Councils do not mobilise enough revenues, including property taxes, to adequately finance the provision of public services. For example, the district of Shama has an annual budget of 6 million cedis (USD 526,315.79) with only 30% being internally generated. Local revenues in local government in Malawi mainly cover administrative and operational expenses; less than 10% of local revenues is allocated to public service provision. A similar situation of poor fiscal capacity existed in Freetown before the reform.
- **Weak link between revenue mobilisation and service delivery:** Limited funding, inadequate service provision, and a lack of transparency create a disconnect between revenues collected and services delivered, leading to a widespread perception that taxpayers do not receive commensurate benefits for their payments. Additionally, when services are provided, the lack of clear reporting structures and poor transparency on revenue utilisation to fund public services

further amplifies the perception of this weak link between revenue mobilisation and service delivery.

- **Low levels of trust and tax compliance:** A prevailing lack of trust among citizens is primarily driven by perceived mismanagement of revenues, low transparency in revenue management, and limited accountability of political leaders. For example, in Shama District, before the 2017 reform, tax compliance among taxpayers was as low as 20%. The lack of trust is often aggravated by the belief that the taxation system is unfair, particularly concerning property valuation processes where taxpayers receive inadequate information about the basis of their property valuations. Furthermore, the fact that local governments are unable to register frequently all eligible taxpayers owing to challenges with registration systems and that only a small number of payers bear a greater tax burden fosters the perception of inequitable and unfair taxation.

Approaches and Strategies to Secure Public Support for Reform and Sustainability

In recent years, Shama District and the City of Freetown have undertaken property tax reforms focusing on building public support through innovative strategies like citizen engagement and participatory budgeting. Similarly, Malawi's four city councils are exploring ways to garner public backing for reform while enhancing public service delivery as part of a comprehensive property tax reform.

- **Freetown, Sierra Leone:** Freetown's property tax reform aimed at establishing a progressive and equitable property tax system. To do so, the city integrated participatory budgeting as a key component of the reform to increase tax compliance and trust. Participatory budgeting is considered the most ambitious approach to strengthening citizen participation and oversight in public spending decisions. The mayor committed to allocating 20% of property tax revenues to a local participatory budgeting process, and this initiative involved inviting a randomly selected subset of taxpayers from each subdistrict to virtual town hall meetings. During these gatherings, citizens engaged in discussions about potential allocations of revenues among different public services. The initiative enabled public engagement and empowered citizens to influence budget decisions.

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- **Shama, Ghana:** Property tax reform primarily focused on digitalising the property tax administration. To secure public support for the reform, the district collaborated with civil society actors to engage taxpayers and implement communication programs. Tax dialogues were held to raise public awareness and solicit ideas for increased property taxation. Additionally, the district employed strong accountability and transparency mechanisms, holding town hall meetings to facilitate citizen demand for accountability in implementing district development plans and budgets. Citizen participation involved district officers and community members conducting field monitoring of projects, identifying challenges, making recommendations, and ensuring transparency and effective project implementation.
- **Malawi:** Malawi's four City Councils are contemplating introducing revenue earmarking systems to allocate a portion of the revenues mobilised under the new reform to a dedicated fund for public service provision. Revenue earmarking creates a direct link between revenues and specific services, enhancing public support for taxation. However, earmarking has disadvantages that require careful consideration during the design phase. One notable drawback is the potential for increased budget rigidity and inflexibility. When funds are earmarked for specific purposes, it can become challenging for the government to allocate them in response to unforeseen or evolving circumstances. Revenue earmarking can also introduce budget fungibility - when revenues are earmarked, this allocation can be offset by expenditure adjustments elsewhere in the budget. To succeed with this strategy, proper data and budget reporting mechanisms must be made available to allow for tracking progress. Additionally, clear definitions of eligible services for earmarking and robust oversight measures can also ensure compliance with earmarking commitments.

Key Takeaways

1. **Accountability and transparency:** Accountability and transparency are fundamental in securing acceptability of the new system and public support for property tax re-

form. When citizens have confidence that their tax contributions will be utilised efficiently and for the public good, trust potentially increases and, in turn, tax compliance levels.

2. **Strengthening the link between revenues and services:** Strengthening the link between revenues and services is key to the sustainability of the reform. This can be achieved through various strategies, including implementing revenue earmarking for designated services and employing strong oversight mechanisms. Revenue earmarking ensures that specific funds are allocated for particular services, enhancing transparency in public expenditure and responsiveness to citizens' needs. Yet, the best earmarking approaches should be designed by considering countries' specific realities and the benefits and limitations of these approaches.
3. **Citizen engagement and oversight:** Citizen engagement is paramount in fostering trust, oversight, and ownership of spending decisions. Engaging citizens through diverse mechanisms, such as tax dialogues, community engagements, and media awareness campaigns, fosters accountability and transparency. Involving citizens in planning and budgeting processes empowers them to act as direct accountability mechanisms, leading to improved service delivery and revenue collection. As exemplified in Free-town, participatory budgeting empowers citizens to voice their opinions on public spending and promotes positive attitudes toward local government leaders while strengthening oversight.



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