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Policy implementation under stress

Central-local government relations in property tax administration in Tanzania

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Abstract

Purpose – Inter-organisational cooperation in revenue collection has received limited attention in the tax administration literature. Recent experiences from Tanzania offer a unique opportunity to examine opportunities and challenges facing such cooperation between central and local government agencies in a developing country context. The administration of property taxes (PT) in Tanzania has been oscillating between decentralised and centralised collection regimes. This paper aims to examine how inter-organisational cooperation affected implementation of the reforms.

Design/methodology/approach – The study draws on data from a variety of sources of information collected during a series of fieldworks over the past decade. Semi-structured interviews were conducted with a wide range of stakeholders, including senior managers and operational staff of the national and municipal tax administrations. The interviews focused on the background and objectives of the property tax reforms, working relations between the central and local government revenue administrations, technical and administrative challenges and innovations, and changes over time with respect to revenue enhancement and implementation of the reforms. Relevant tax legislation and regulations, budget speeches and reports were reviewed.

Findings – Two lessons of broader relevance for policy implementation and PT administration are highlighted. First, institutional trust matters. Top-down reform processes, ambiguity related to the rationale behind the reforms and lack of consultations on their respective roles and expectations have acted as barriers to constructive working relationships between the local and central government revenue agencies. Second,

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administrative constraints, reflected in poor preparation, outdated property registers and valuation rolls and inadequate incentives for the involved agencies to cooperate hampered the implementation of the reforms.

Originality/value – This paper contributes to the literature on inter-organisational cooperation in revenue collection through a detailed case study of property tax reforms in a developing country context. It also contributes to the literature on policy implementation by identifying political and administrative factors challenging the reform process. In line with this literature, the study shows that policy implementation is not necessarily a coherent process. Instead, it is frequently fragmented and disrupted by changes in policy formulation and access to adequate resources.

Keywords Tanzania, Policy implementation, Tax reform, Tax administration, Property tax, Inter-organisational cooperation

Paper type Research paper

1. Introduction

Inter-organisational cooperation in revenue collection has received limited attention in the literature on tax administration. In contrast, there has been much emphasis on principles for what taxes should be assigned either to the central government or to lower levels of government (Tiebout, 1961; Musgrave, 1983; Ter-Minassian, 1997; Bird and Vaillancourt, 1998; Bahl and Bird, 2008; Smoke, 2014). Assignment of taxes entails control over the tax base, tax rates and collection authority (Oates, 1972, 2005; McLure, 1999). Principles and practices for cooperation between central and local government agencies to administrate taxes have largely been ignored[1].

Recent experiences from Tanzania offer a unique opportunity to explore opportunities and challenges facing inter-organisational cooperation in revenue collection in a developing country context. During the past decade, several major reforms of the property tax (PT) system have been implemented in Tanzania, oscillating between decentralised and centralised administration. This article examines experiences with the implementation of these reforms in three municipalities (MCs) in Dar es Salaam, the country's largest city and commercial capital, Ilala, Kinondoni and Temeke. The analysis focuses on how inter-organisational relations between the tax collection agencies at the municipal and central government levels affected implementation of the PT policies during the period 2008-2017.

The study draws on data from a variety of sources of information collected during a series of fieldworks over the past decade from 2008 until August 2018. Semi-structured interviews were conducted with a wide range of stakeholders, including senior managers and operational staff of the Tanzania Revenue Authority (TRA), revenue officers in the MCs in Dar es Salaam, elected councillors in the MCs, staff of the decentralisation support programme in the Prime Minister's Office – Regional Administration and Local Government (PMO-RALG), representatives of the Association of Local Government Authorities in Tanzania (ALAT), staff of development agencies involved in support to the decentralisation programme, tax consultants and property owners. Based on long-term interaction with officials in the above-mentioned agencies, the interviews focussed on the background and objectives of the PT reforms, working relations between the central and local government revenue administrations, technical and administrative challenges and innovations, and changes over time with respect to revenue enhancement and implementation of the reforms. The interviews were conducted off the record and names of interviewees or any other details that might reveal their identity are therefore circumvented. In addition, we have reviewed relevant tax legislation and regulations, budget speeches, reports and data on PT from the MCs and the TRA, reports commissioned by development agencies, research papers on PT in Tanzania over the past decade and newspaper articles.

The analytical framework for the study is based on the literature on policy implementation (Grindle and Thomas, 1990; Crosby, 1996; O'Toole, 2003, 2004; Winter, 2006). A key argument in this literature is that implementation is often the most crucial aspect of the outcome of a policy process (Grindle and Thomas, 1990: p. 1165). An important component in almost every contemporary framework explaining policy implementation success and failure has to do with inter-organisational relationships (Ferraro, 2008; O'Toole, 2003, 2004). When a central government agency carries out a political decision at the local level, the policy is put into practice in a political context in which municipal administrations operate (Lundin, 2005: p. 6). In this context, tensions might arise since local government agencies are based on separate geographical entities with different priorities than a central government agency (Lundin, 2005). Thus, inter-organisational cooperation and institutional-based trust building are important for the policy's successful implementation (Grindle and Thomas, 1991; Bachmann and Inkpen, 2011; Panday and Jamil, 2011)[2].

We find that the roots of many of the implementation problems experienced in Tanzania are found at the policy formulation stage in the ministry responsible for local governments, reflected in ambiguous objectives, unclear procedures and inadequate means to implement the PT reforms[3]. Two lessons of broader relevance are highlighted. First, inter-organisational trust matters. This requires a mutual understanding by the local and central government tax agencies of the justification of the reform. In Tanzania, top-down driven reform processes, ambiguity related to the rationale behind the reforms, and lack of consultations with respect to roles and expectations, acted as barriers to sound working relationships between the MCs and the TRA. Second, the technical design and implementation schedule of the reform were not adapted to the administrative capacity of the involved agencies. Technical constraints, reflected in outdated property registers and valuation rolls, and inadequate resources created a large degree of distrust between municipal and TRA officials, and obstructed the implementation of the reforms. The fact that a particular agency is assigned the main role in implementation does not necessarily mean that it is prepared for the task or will be an enthusiastic collaborator.

Our article contributes to the literature on inter-organisational cooperation in revenue collection through a detailed case study of PT reforms in a developing country context. Further, it contributes to the literature on policy implementation by identifying political and administrative factors challenging the reform process. In line with this literature, the study shows that policy implementation is not necessarily a coherent process[4]. Instead, it is frequently fragmented and disrupted by changes in policy formulation and access to adequate resources.

The article is structured as follows: Section 2 provides a brief overview of main features of property taxation in developing countries. Section 3 presents the PT reforms that have taken place in Tanzania during the last decade. Factors affecting inter-agency cooperation and implementation of the reforms are examined in Section 4. Finally, Section 5 concludes.

2. Property taxation in developing countries

PT is a tax on ownership, occupation or legal transfer of buildings and land. The most common are annual charges payable by owners of urban residential and commercial buildings. PT is often labelled as the "ideal" local government tax[5]. This is because real property is visible, immobile and a clear indicator of one form of wealth (McCluskey and Williams, 1999). In principle, PT is difficult to avoid and, if well administered, it can represent an efficient fiscal tool. Because it is visible to taxpayers, and in principle linked to improved local services, it holds unique potential to act as a foundation for bargaining between taxpayers and governments over revenue and public spending. Despite the many

efforts to design an effective PT system, property taxation in developing countries is generally underdeveloped (Franzsen and McCluskey, 2017; Haas and Kopanyi, 2018; Goodfellow, 2017; Kelly, 2013). In most African countries, revenues from PT account for less than 0.5 per cent of GDP, and in many even far less than this. In the fiscal year 2015-2016, property taxation in Tanzania contributed the equivalent of only 0.16 per cent of GDP (Ahmad *et al.*, 2017). Of this, more than 60 per cent were collected in Dar es Salaam[6]. In comparison, PT in some OECD countries can account for more than 2 per cent of GDP (Norregaard, 2013).

Weak administration is considered one of the major constraints on PT mobilisation in developing countries (Bahl *et al.*, 2010). The literature points at incomplete and outdated property registers and valuation rolls as major constraints. Another barrier to effective taxation is the resistance it faces from property-owning elites, who can block both policy reform and effective implementation (Bird and Slack, 2007; Jibao and Prichard, 2016). Regardless of this weak revenue performance, PT reform remains high on the policy agenda (Franzsen and McCluskey, 2017). Both analysts and government officials keep searching for the breakthrough reform that will make it more revenue productive.

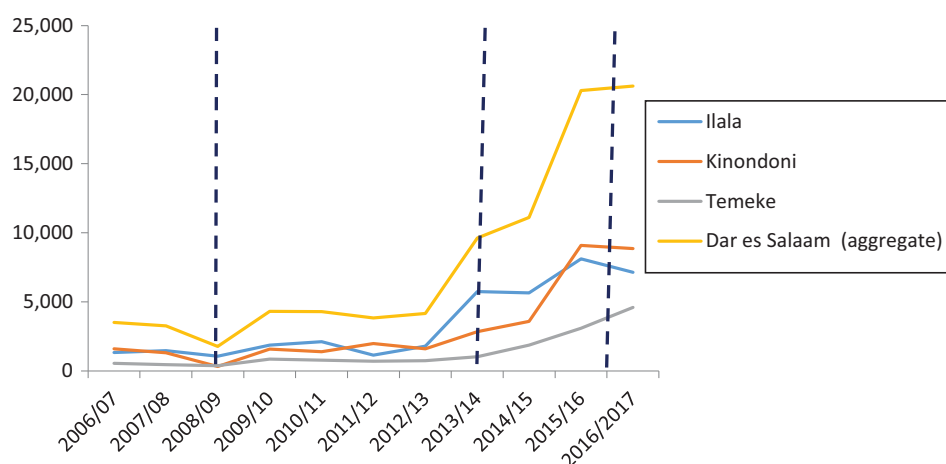
3. Property tax reforms in Tanzania

Tanzania has implemented several major reforms of the PT collection system during the past decade, oscillating between decentralised and centralised regimes. Before 2008, local government authorities were responsible for the administration of PTs, including registration of properties, valuation, rate setting, collection and enforcement. In 2008, a new system for collection and enforcement was introduced in Dar es Salaam, shifting the responsibility from the MCs to the national tax administration, the TRA. In February 2014, the Government announced the return of PT collection responsibility to the MCs with immediate effect. This did not last long. In July 2016, property taxation was again centralised. TRA was assigned full responsibility for administering the tax, including registration of properties, valuation, rate setting, collection and enforcement in 30 MCs (URT 2016a), and from July 2017 for the entire country (URT, 2017).

3.1 Property tax revenues during the different collection regimes

Figure 1 shows the trend in reported PT revenue in each of the three MCs in Dar es Salaam over the period 2006-2017. We have also included the aggregate graph for Dar es Salaam. The vertical dotted lines depict the period of change in PT collection regimes from the local governments to the central government[7].

The figure highlights some notable patterns. First, before the centralisation in 2008/2009, the revenue collection trend is flat at low collection levels for Ilala and Temeke, and declining for Kinondoni[8]. Second, after centralisation in 2008/2009, all three MCs show a slight increase in revenues in the first year. Thereafter, until 2012/2013, PT collection is almost stable for Temeke, but fluctuating in Ilala and Kinondoni. Third, there is an increase in revenue collection for all three MCs during the end of the first centralisation period starting from 2012/2013. Fourth, after decentralisation in 2014 there is a sharp increase in revenue collection for all the MCs, in particular from 2014/2015. Within two years after decentralisation, Temeke MC increased the PT collection from around TZS 1bn in 2013/2014 to more than TZS 3bn in 2015/2016. The corresponding figures for Kinondoni MC are from TZS 2.8bn to more than TZS 9bn, and for Ilala MC from around TZS 5.8bn in 2013/2014 to almost TZS 8.1bn. Data for the fiscal year 2016/2017, i.e. after re-centralisation, show that revenue has declined for Ilala by almost 12 per cent compared to the previous fiscal year,



Source: Compiled by the authors based on data from the municipalities and TRA

Figure 1. Revenues from PTs in the Dar es Salaam MCs, 2006-2017 (in million TZS)

while there is almost no change for Kinondoni. Temeke, on the other hand, saw a substantial increase in revenue – a nominal increase by 49 per cent compared to the previous fiscal year.

Below, we discuss key features of each of the PT administration regimes illustrated in Figure 1.

3.2 Decentralised collection: Pre-2008

PT reform was a central component of the decentralisation process in Tanzania long before 2008 (McCluskey and Franzsen, 2005: 65)[9]. However, there was serious concern among national policymakers about the low levels of PT the MCs managed to collect. At the start of the millennium, PT accounted for 10-30 per cent of the revenues collected by urban councils in Tanzania, equivalent to less than 0.3 per cent of GDP (Fjeldstad *et al.*, 2004)[10]. Some estimates suggest that more than 60 per cent of the potential revenue from PT remained uncollected in this period because of a combination of inefficient collection and outdated property registers (URT, 2007). Yet, PT was one of the major own revenue sources for the MCs after the city service levy and – in some urban councils – business licenses[11].

Outdated property registers and valuation rolls, poor administrative capacity, corruption and political interference in tax collection were seen to be the main obstacles to improving the PT system. Politicians often intervened in tax collection and used their political power to thwart taxes that aimed directly at their holdings (Fjeldstad *et al.*, 2010). Because of this, enforcement of the PT legislation became exceedingly difficult. Citizens also complained about corruption, and that they did not get anything in return from taxes paid. Various measures to address these challenges were attempted without much success, including outsourcing of PT collection to private agents (Fjeldstad *et al.*, 2009).

When the National Assembly debated the 2007/2008 budget proposal for local government authorities (LGAs) in June 2007, under-collection of revenues was one of the major issues about which Parliamentarians expressed concern (URT, 2007, p. 2). In response, the Government decided to institute specific policy measures to address the challenge, one of which was to have the TRA take over the collection of PT in Dar es Salaam. TRA was considered to have the capacity to substantially improve collection. At the same time, TRA could “assist and provide capacity building to the local government authorities so that they can similarly excel in collecting revenues from their own sources”

(ibid. 3). Dar es Salaam was chosen as a test case since it is the largest urban area in Tanzania and “the hub of ratable properties in the country” (URT, 2007, p. 2)[12].

3.3 Centralised collection: 2008-2014

Following the Government policy directive, a committee to establish mechanisms for the implementation of the reform was appointed in July 2007 (URT, 2007). The committee was composed of representatives from the TRA and the Prime Ministers’ Office Regional Administration and Local Government (PMO-RALG). After reviewing the relevant legislation, the committee recommended a set of measures to be put in place before TRA could take over the PT collection on behalf of the three municipal councils in Dar es Salaam, i.e. Ilala, Kinondoni and Temeke[13]. Since the existing laws did not allow TRA to collect PT on behalf of the LGAs and the LGAs to appoint TRA as their agent for that purpose, legislation had to be amended. The proposed amendments were passed by the National Assembly in July 2008[14]. In addition to enhancing revenues, TRA was mandated to do capacity building on revenue collection in the three Dar es Salaam MCs. The mandate was for a period of five years, starting July 1, 2008[15].

TRA’s approach to PT collection rested on modern principles of tax administration, including cash-less collection, ease of payment, and sound reporting and monitoring systems. The cash-less collection system was one of the notable changes introduced by TRA. Previously, PT was collected by municipal revenue officers in cash or by taxpayers depositing payments at the municipal treasury office. This practice enabled embezzlement and corruption (Fjeldstad *et al.*, 2010). TRA, however, required taxpayers to have a Tax Identification Number (TIN), when depositing their tax bills in a specified bank branch[16].

TRA also piggybacked on collection of PT within their existing block management system[17]. The system consisted of existing TRA teams with additional responsibility for PT collection. These teams were assisted by two revenue collectors from the respective MCs. This type of on-the-job training was seen as a mechanism for capacity building of municipal staff, in accordance with TRA’s mandate for the intervention.

The MCs and some foreign donors saw centralisation of PT collection as an attempt by the Government to halt the decentralisation reform that started in 2000. The ambiguous justification for the PT reform contributed to generate distrust between the MCs and TRA (Section 4), and affected both the design and the implementation of the PT reform.

3.4 Re-decentralisation: 2014-2016

In February 2014, the government announced that PT collection should be returned to the MCs. This occurred after extensive lobbying by the MCs, supported by ALAT, but without previous consultations with the TRA. The MCs took effectively over the administration of the PT. In interviews, municipal staff and councillors expressed that they strongly believed that collection by the municipality would be far better than that of TRA[18]. They argued that since the municipality knew it was collecting the money to finance its own budget this would motivate its efforts to meet the revenue target. In the municipal staffs’ opinion, the re-decentralisation of PT administration was “*a perfect move*”.

Noticeable in Figure 1 is the major increase in revenue in monetary terms after the re-decentralisation of the PT collection in February 2014. By looking at this trend, one might thus conclude that a decentralised PT administration offers the most promising results. However, this conclusion is premature and not supported by experiences from the Dar es Salaam MCs. If decentralisation was the only reason for the sharp increase in revenue collection after 2014, then we would have expected a higher trend in revenue collection before 2008 when PT collection was also decentralised. However, PT collection was flat and

at low levels before centralisation in 2008/2009 for Ilala and Temeke and declining for Kinondoni. Further, the figure shows that the increase in revenue collection for all the MCs started at the end of the first centralisation period in 2012/2013. This indicates that the sharp increase in 2014 may not be because of decentralisation *per se*, but to a combination of policy and administrative measures at both local and central levels. For example, mass registration and valuation of properties were particularly important after the re-decentralisation in 2014, based on a geographic information system (GIS) platform[19]. In the first year after the introduction of the new system in Dar es Salaam in 2014/2015, more than 270,000 properties had been registered in Kinondoni MC – a huge increase from the 160,000 properties of the old system. In Temeke more than 100,000 additional buildings were registered[20].

Other factors that are specific to the MCs may also have contributed to the increase in reported revenues after re-decentralisation in February 2014. First, the MCs introduced electronic and mobile phone-based money payment systems that simplified tax payment and made it more transparent. Kinondoni MC started to use subward (*mtaa*) leaders to notify property owners and collect the tax. Kinondoni also introduced an incentivised system where 14 per cent of the collected PT was returned to the respective wards. Interviews with treasury staff in the MCs indicated that the motivation to succeed and to collect more than what TRA had managed, was strong after re-decentralisation.

In addition to policy and administrative measures taken by the MCs during the re-decentralisation period (2014-2016), some changes that already started during the centralisation period (2008-2014) may have contributed to the increase in revenues starting from 2012/13. New measures such as investments in new collection methods, including tax payments via banks, were introduced by TRA. The MCs continued the bank payment system that had been introduced by the TRA.

3.5 Re-centralisation: 2016

In June 2016, the Minister of Finance announced (in the Budget Speech for 2016/17) that the administration of PT in the whole country should be transferred from the local government authorities to the TRA (URT 2016a: 21, para 31)[21]. This shift implied that TRA would be responsible for all aspects of PT administration, including registration of properties, valuation, rate setting, collection and enforcement. The Minister emphasised that the “[...] Government is determined to increase and strengthen domestic revenue collection through several measures”. According to the Minister, this decision, effective from 1 July 2016, was based on TRA’s experience in revenue collection and their existing tax collection systems and coverage across the country. Lessons learned from other countries like Ethiopia and Rwanda were also taken into account (ibid., p. 22, para 32). The Minister emphasised that the decision “reflects the Government’s view that local government authorities did not reach the revenue targets because of inefficient PT collection compared to the available potential” (URT 2016a: 12, para 17). Against the background of the improvements in PT collection achieved by the MCs after the re-decentralisation in 2014 (Figure 1), this last statement appears not well substantiated. Following some preparatory arrangements, TRA started collecting PT from 1 October 2016 in 30 municipal councils, and from 1 July 2017 all over the country (URT, 2017).

The return of the PT administration to the TRA took the MCs by surprise. In interviews, municipal staff and representatives from ALAT expressed disappointment and questioned the foundation of the Government’s decision[22]. They argued that the re-centralisation was based neither on an assessment of what the MCs had achieved with respect to revenue enhancement since early 2014, nor on the challenges experienced during the previous period 2008-2014 when TRA collected the PT.

According to the TRA, there was a major drop in revenue collection during the first three-quarters of the fiscal year 2016/2017[23]. The poor collection during this period hardly reflects ineffectiveness from TRA, but rather inadequate time for preparation and capacity building[24]. Also, the transition period for the handover of collection from the MCs to the TRA was very short. The normal deadline for paying PT is the end of the fiscal year, i.e. 30 June. TRA extended the deadline, without penalties imposed, until the end of August 2017[25]. Tax campaigns, using newspapers, TV and public meetings, targeting property owners were also initiated by TRA. These activities contributed to an increase in reported revenues for the last quarter of the fiscal year.

In the next section, we examine challenges of implementing PT reforms in Tanzania during the period 2008-2017, with a particular focus on factors that affected cooperation between the TRA and the MCs.

4. Policy implementation under stress: factors affecting inter-agency cooperation

The success or failure of policy implementation strongly depends on the interaction among agencies involved in the process (Winter, 2006). Effective policy implementation requires that those responsible for implementation have a mutual understanding of the objectives of the policy, their respective roles and what is expected of them. To ensure sound working relations between the actors, it is vital that rules and standard operating procedures are in place that describe what one should do, when to do it and how to do it. A “sound working relationship” in this context means a relationship based on trust and reciprocity, which thereby contributes to reduce the transaction costs (Putnam, 1993). In a developing country context, like Tanzania, resource and capacity constraints are likely to affect the technical design of the reform, and the incentives of the involved agencies to cooperate (Grindle and Thomas, 1990, 1991). Following the conceptual framework of implementation research, this section examines four factors that may have affected the interaction between the MCs and the TRA, with implications for the implementation of the PT reforms discussed above:

- mutual understanding of the objectives;
- mutual understanding of roles and expectations;
- technical design; and
- resources.

4.1 Mutual understanding of objectives

The overarching objective of the reform in 2008 was to enhance revenues from PT, based on an argument by the central government that the MCs were underperforming. The management of the MCs, however, were dismissive of the under-collection argument and said it was a case of “misinformation” to the Prime Minister in the first place[26]. They questioned the rationale behind the reform. Local government politicians, on the other hand, expressed that they saw a need to increase revenues. However, after the implementation of the reform many changed their views on TRA’s capability to achieve the objective. An elected councillor in one of the MCs expressed his frustration as follows:

Even though the council were not involved in making the decision, we did not object to the directives from the Prime Minister’s office because we thought that the revenue would increase, which is a benefit to the council in terms of financing the planned activities. If only we knew that things would turn to be bad like they are now we would have objected[27].

TRA, on the other side, considered the revenue targets set by the MCs' to be unrealistically high and difficult to achieve. TRA further found that the PT exemption regime was quite arbitrary and random.

Although revenue enhancement was stated as the overarching objective of the reform, the centralisation of PT collection was seen by the MCs as an attempt by the Government to halt the decentralisation reform, which started in 2000 (Section 3). The aim of the decentralisation reform was to create more autonomous Local Government Authorities (LGAs) by devolving political, administrative and financial decision-making powers and duties from the central to the local government levels (URT, 1998). Strengthening local governance and financial management were considered essential to achieve this objective (URT 2009a, 2009b). In interviews, World Bank staff made it clear that they perceived the move to transfer PT collection to the TRA to be in conflict with the stated objectives of the decentralisation reform[28]. Consequently, the World Bank stalled further funding of the valuation and assessment of properties in Dar es Salaam. The Bank's position was communicated to both the national government and the MCs. The Bank only resumed its support to the property valuation project after reaching an agreement with the central Government and eliciting assurances that the Government stayed committed to the decentralisation reform.

Ambiguity behind the justification of the PT reform in 2008 and suspicion by some stakeholders that it would undermine the broader decentralisation reform contributed to distrust between the MCs and the TRA from the very start of the initiative. This lack of trust affected negatively both the design and implementation of the reform. The amended laws placed the administrative authority of tax collection with TRA. Policy-related decisions in terms of setting rates or declaring an area rateable and granting exemptions were kept with the LGAs. PT collected by the TRA should be credited into a special local government authority account and remitted to the respective municipality in a manner agreed upon by the parties (URT, 2008: Section 10). TRA should also submit a monthly report to the LGAs on the amount collected. The MCs feared they would lose revenues from the PT until they started receiving regular remittances by the TRA. This is probably also the reason why TRA could not undertake the whole mandate granted by the amended Financial Laws Act of 2008, and was ring-fenced into a relatively smaller mandate. Senior TRA-officials interviewed in 2011, argued that this gap between the legal mandate and the practice under the new arrangement was a result of "political dynamics at play between the Ministry responsible for local governments and the involved municipalities"[29].

It was well received by the MCs that the administration of the PT was returned to the MCs in 2014. An elected councillor in one of the MCs, expressed this as follows:

Re-decentralisation of property tax administration is a perfect move. From the time TRA started to collect property tax revenue deteriorated. I strongly believe that the collection by municipality will be far better than that of TRA. First and foremost is that the municipality knows that it is collecting the money to finance its budget so all efforts will be instituted to meet the target[30].

TRA's reaction to this change was a combination of resignation and frustration. According to a senior TRA officer, "all municipalities are very happy about re-decentralisation of PT collection [in 2014] because right from the start when TRA took over they were disappointed"[31]. He argued that the MCs "have been trying to make tricks so that TRA is perceived inefficient". "For example," he said, "when TRA took over, all municipalities set larger targets to TRA year after year despite the fact that the tax base remained the same." TRA held the view that the disputes with the MCs were because of misunderstandings. A Regional Committee was formed to discuss differences between them and come up with

solutions. Discussions were going on when the Government announced that TRA should return PT collection to the MCs. Although TRA did not receive a formal notice from the Government, the agency stopped collecting PT in January 2014. Remarkably, the top-down reform approach by the Government was repeated when PT collection again was centralised in 2016. According to representatives from ALAT and the MCs in Dar es Salaam, they were neither consulted nor informed by the Government about the decision until it was announced by the Minister of Finance in the Budget Speech in June 2016 (URT 2016a)[32].

4.2 Mutual understanding of roles and expectations

There were teething problems with the PT collection arrangements during the first centralised period 2008-2014. Both the MCs and the TRA staff perceived the other part as being non-cooperative. The municipality officials were apparently not comfortable with the new arrangement. According to TRA officers interviewed, this was reflected in the MCs' hesitation to share information about taxpayers and by setting high budgetary targets for PT collection without consultations with TRA. The MCs felt they had been unfairly treated by the Government's decision to centralise the PT collection. There had been limited prior consultations at the political and bureaucratic levels about the new arrangement. Local councillors also lost a fair amount of rent seeking opportunities, which may have contributed to their resistance.

TRA officers involved in authoring the legal amendments and tax officers who were in charge of implementing the reform, explained in interviews that consultations and communication between the TRA and the MCs were weak while initiating and rolling out the reform[33]. They argued that consultations would have helped create a broader consensus for the reform and thus avoided future disputes. In this case, consultations could have been beneficial for two reasons: First, they could have contributed to broaden the ownership of the reform and ensure its sustainability. Second, they could have alleviated apprehensions by MCs and some foreign donors that the reform was an intentional step taken by the Government to roll back the wider decentralisation initiative. This critique might have been one factor contributing to returning PT collection to the local government authorities in 2014. ALAT and the LGAs also managed to sell in the argument to the Government that TRA was not performing, even though collection started to increase in 2013 (Figure 1).

The absence of real and substantial consultations led to distrust and political "games" that contributed to dilute the implementation of the reform. One lesson that emerges from this experience is that tax policy reforms that require the involvement of different agencies need to be based on inclusive consultation from the very beginning. The alternative is negotiations at some later point or during implementation that might affect the reform in unintended ways and distort the whole intervention.

During the decentralised period 2014-2016, there was hardly any interaction between TRA and the LGAs regarding property taxation. The MCs retained their power to register and value properties, and took over collection and enforcement of PT from the TRA, (Section 3). As illustrated in Figure 1, revenue collection during this period dramatically increased. On this background, we may ask why the administration of PT again was centralised in 2016, and this time it included MCs all over the country. What was the rationale behind this decision by the Government? One hypothesis that derives from studies in some other African countries is that this is a way the government can cripple the finances of opposition led MCs (Cameron, 2014; Lambright, 2014; Resnick, 2014). A closer look at the context in Tanzania indicates that this might not be the case. The majority of the MCs in Tanzania are governed by the ruling party. In addition, the Government chose to centralise

PT and not the city service levy, which generates more revenues based on companies' turnover[34]. However, we cannot rule out that the Government seeks to control all LGAs, including those run by the ruling party. According to some observers, the current Government seems intent on controlling all opposition whether from inside the ruling party or from the opposition (Anyimadu, 2016; Paget, 2017). This drive towards centralisation in general, seems to be based on an ideology that this will lead to better development outcomes for the country, even though this contradicts the decentralisation by devolution politics that still exist on paper.

4.3 Technical design

According to the legislation, periodic property evaluations, including registration and valuation of properties, should take place every five years. These assessments are to be conducted by professional assessors. However, before 2008, in spite of the rapid economic and population growth, property assessments had not been undertaken for over a decade (McCluskey *et al.*, 2003; McCluskey and Franzsen, 2005). The legislation provides for continuous assessment through in-house assessors, which was not conducted because of capacity constraints in the MCs. This was compounded with the problem of property use verification (whether residential or commercial) and whether multiple properties existed (high rises in place of older single-story houses). Consequently, tax bills were grossly undervalued. This is reflected in the tax appeal statistics. Although an "appeals" system was in place, the authorities did not receive a single appeal where a property owner disputed an assessment, since they already were very low[35]. Because the collection and enforcement system was so lax, rather than taking the time and effort to appeal, it was easier and more rational for taxpayers not to pay the PT liability.

When TRA took over collection in 2008, the involved TRA officers thought it would be easier to move to a regime of "self-assessment" without contravening any relevant law. According to TRA, this measure could potentially boost PT revenues of the MCs by two to three times. The Attorney General concurred with TRA's interpretation of the law. However, the Ministry responsible for local governments did not allow for this change. TRA also proposed a flat annual rate of TZS 10,000[36] for poor house owners, which again was not approved by the ministry. It appears that the TRA repeatedly tried to get into tax policy and more substantive administrative issues, but was being rebuffed by the Government. The Government seemed determined to make the whole arrangement ring-fenced, limiting TRA to the mechanical tasks of tax collection and enforcement. One notable change introduced by the TRA was that no transactions of tax payment should take place in cash. It was expected that cash free transactions would make corruption a more difficult undertaking since the direct interaction between collectors and taxpayers was removed. This move was also expected to enhance compliance since the payments went straight into the designated account, not benefiting corrupt officials. Combined, these effects were expected to reduce collection costs. The MCs, however, complained about this new cash free system of payment and reported the "inconvenience" that this system was causing to taxpayers from rural areas who "ended up spending more money staying in the city, trying to pay the tax, compared to the amount of the tax itself"[37].

One lesson from implementation research, is that policies are more easily contested when the change they imply are highly visible, for example in terms of costs, either to specific stakeholders or to the public in general (Grindle and Thomas, 1990, 1991; Ferraro, 2008). In this case, the cashless payment system that TRA introduced implied lost rent seeking opportunities for some stakeholders, including local government tax collectors and councillors. Among the arguments used by the MCs for re-decentralisation, was that the

payment system introduced by TRA was inflexible and imposed unnecessary additional costs on taxpayers. Interestingly, after the MCs again had taken over the collection of PT in Dar es Salaam in 2014, they adopted some of the collection and payment schemes introduced by TRA, including payment via banks, which reduced the opportunities for corruption because of less direct interaction between taxpayers and collectors.

4.4 Resources

Policymakers and public managers need a certain amount of resources to enable implementation and eventually address counter reactions against the reform (Ferraro, 2008). Constructive working relations between organisations require that the involved agencies have incentives to collaborate. Resource and capacity constraints are likely to affect the technical design of the reform, and the incentives of the involved agencies to cooperate. Grindle and Thomas (1991) distinguish between 'political resources' and 'bureaucratic resources'. Political resources refer to the support the reform can mobilise from the political leadership. Bureaucratic resources include financial, managerial and technical resources.

Implementation of the Tanzanian PT reforms has been affected by both political and bureaucratic resources, but with different implications at different times. The first centralisation reform in 2008 was supported by the Government, who perceived that TRA had the required capacity to effectively enhance revenues from PT. Yet, the support was half-hearted. TRA did not receive additional resources to accommodate the task of collecting PTs. Further, TRA only got responsibility to collect and enforce taxes on behalf of the MCs, while the MCs remained in control of other administrative aspects of property taxation, such as property registration and valuation. This may reflect that the Government was divided between "centralists" and "decentralists". The unclear signals from the Government on the respective roles and responsibilities of the TRA and the MCs in relation to the PT regime, contributed to the distrust between the MCs and TRA that characterised the period 2008-2014. Although the top-down reform approach was repeated when the PT regime again was centralised in 2016, the Government then was much clearer in the policy formulation and amended legislation, and gave TRA full responsibility for administering the tax.

While the MCs could allocate additional bureaucratic resources in the form of finances and technical support to PT collection during the decentralised period 2014-2016, TRA did not receive any additional resources neither in 2008 nor in 2016. Although the amended law in 2008 stipulated that TRA would be charging the MCs a collection fee to cover its costs, it decided not to do so. There were two reasons for that: First, to avoid conflicts with the MCs that already were questioning the arrangement, TRA decided to wait and eventually start charging until the agency was able to convincingly demonstrate collection effectiveness. Second, it appeared that TRA had not adequately budgeted for the staffing time and resources it needed to allocate to PT collection. Some TRA officers interviewed held the view that since TRA was an agency of the state it was already funded by the Ministry of Finance[38]. They argued that TRA should not "earn money" on a task the agency was mandated by the Government to do, although it implied extra administrative costs for the agency. Furthermore, it was important for TRA's management to maintain the reputation of the organisation as efficient and effective in the national context.

When PT administration was centralised again in 2016, TRA established a unit within the Domestic Revenue Department responsible for PT collection (URT, 2017: 27, para 39). The unit is severely under-resourced, however, when it comes to staffing and working tools. By May 2017, the legislation regulating TRA's administration of PT was incomplete. Deadlines for PT payment were partly ruled by local government by-laws, which differ

across the country. Property registers have major gaps. According to TRA-staff, between 30 and 50 per cent of the properties in most MCs are not registered[39]. The opportunity to evaluate and draw lessons from the experiences of the previous period of centralised collection was missed. It is likely that the new PT regime would have benefited from being piloted in a handful of LGAs to assess its viability before the nationwide rollout to all MCs and transfer of full-scale duties to the TRA.

5. Concluding remarks and policy implications

In this paper, we have examined experiences with different PT administration regimes in Tanzania during the past decade. We have shown that the roots of many of the implementation problems experienced are found at the policy formulation stage, reflected in ambiguous objectives, unclear procedures and inadequate means to implement the reforms. Two lessons of broader relevance are highlighted. First, institutional trust matters for policy implementation. The study demonstrates that the PT reforms have been highly political processes reflected in distrust and poor cooperation between involved agencies. The top-down driven reform processes, ambiguity related to the rationale behind the reforms, and lack of consultations with respect to roles and expectations have acted as barriers to sound working relationships between the MCs and the TRA. Second, administrative constraints, reflected in poor preparation, outdated property registers and valuation rolls, and inadequate incentives to cooperate hampered the implementation of the reforms.

The study further shows that TRA has been a catalyst for improvements in collection methods at the local level by introducing new digital technologies. TRA has also contributed to reduce the degree to which local elites are able to evade PT. A centralised system may also improve the chances that taxpayers will receive consistent treatment, independent of where in the country they are located (Mikesell, 2007, p. 63). However, in contrast to the municipal staff, TRA has limited knowledge about the local PT base. Inadequate statistical information on the PT base and revenues is a severe constraint. TRA depends on information collected at the local government levels to develop the property registers. This requires support from particularly the ward offices. However, according to officers in TRA's PT Unit, the ward officers have no incentives to cooperate with TRA[40]. In addition, TRA is not well placed to connect PT compliance with improved local services. These observations suggest that creating more constructive working relations between the central government's and the MCs' revenue administrations could be a catalyst for more effective collection of PT.

Improved cooperation, coordination and exchange of information between the involved agencies are likely to be important measures to make the current centralised PT system work. It is not without reason that the Minister of Finance in the Budget Speech, delivered to the Parliament 8 June 2017, said:

I urge all stakeholders, including property owners, council officials, district commissioners and TRA officials to work hand in hand in fulfilling this important task for development of our communities and the nation at large" (URT, 2017: 27, para 40).

In practical terms, measures to improve intra-governmental cooperation could be established by linking the basic revenue administrative components, including maintenance of property registers, billing and enforcement, with other revenue sources such as business permits, house rents, land rents, and user charges, for instance, water and electricity. Effective policy implementation of such measures would require that the involved public agencies develop a mutual understanding of the objectives of the policy and their respective roles. It is therefore vital that legislation and standard operating procedures are in place.

Further, to make the current centralised PT administration system work, the MCs must be given incentives to support and cooperate with the TRA. This would require modalities for how much of the collected revenues should be transferred to the MCs to secure predictable funding of their activities.

Notes

1. [Mikesell 2007](#) provides some examples of cooperative administration where core functions of tax administration, such as taxpayer registration, assessment, collection, enforcement and appeals, for particular taxes are divided among national and sub-national tax authorities according to technical competencies. His article focuses on advantages and disadvantages with central or sub-national tax administration, respectively, based on a review of international experiences.
2. Cooperation has a number of synonyms, such as coordination, collaboration and coherence ([Lægneid et al., 2014](#): 4). It can be defined as “the purposeful alignment of tasks and efforts of units or actors to achieve a defined goal” (*ibid.*).
3. Until end 2015, the ministry responsible for Regional Administration and Local Government (RALG) was part of the Prime Minister’s Office (PMO-RALG). Since 2016 it is in the President’s Office (PO-RALG).
4. See [Crosby \(1996\)](#) for a review of the literature on organisational challenges of implementing policy changes.
5. See [Bahl and Bird \(2008\)](#); [Bahl et al. \(2010\)](#); [Bird and Slack \(2007\)](#); [Kelly \(2000\)](#).
6. Data provided by the TRA’s Research, Policy and Planning Department (10 September 2018). The data do not include other property related taxes collected by the central government revenue administration, such as tax on rental income and property transfer fees.
7. There is no official statistical information at the national level on property tax revenues and other characteristics of the revenue base ([Ahmad et al., 2017](#)). Central government reports rely on information collected at the local government level. Since there is no standardised way to compile and report sub-national revenue data across the country, the comparability and quality of the information suffer. The three municipalities in Dar es Salaam, however, apply similar reporting systems. Since they are better resourced, it is likely that the quality of the Dar es Salaam data is better than for most other LGAs. In Figure 1, we report revenues in nominal terms, similar to the way the data were reported by the MCs until 2016, and thereafter by the TRA.
8. The financial year in Tanzania runs from 1st July to 30th June.
9. The local government reform agenda in Tanzania began in 1996 and was aimed at streamlining central-local government relations within the broader context of public sector reforms with the ultimate goal of improving service delivery. This agenda was translated into a government policy on decentralisation by devolution (D by D) and promulgated in the *Policy Paper on Local Government Reform* in 1998 ([URT 1998](#)). Implementation of the *Local Government Reform Programme* (LGRP) started in 2000.
10. As noted above, in fiscal year 2015-16, PT accounted for the equivalent of 0.16 per cent of GDP. The drop since 2000, is partly related to the rebasing of the national accounts in 2014, where the GDP figure increased by a third, and the aggregate tax-to-GDP ratio dropped substantially from around 18 per cent in 2013/14 ([URT 2014](#)) to 12 per cent in 2014/15 ([URT 2015](#)).
11. The City Service Levy is levied as a fixed percentage on the firm’s turnover (0.1% of turnover for the bank/financial sector, and 0.3% for other sectors). In FY 2014/15, the City Service Levy generated about 26 per cent of the total own revenues in Ilala MC, and property tax about 18 per cent. The corresponding figures for Kinondoni were 38 per cent and 16 per cent respectively, and for Temeke 39 per cent and 6 per cent. In Temeke, the sale of municipal plots were the second

largest own revenue source in 2014/15, contributing about 18 per cent of total own revenues. The referred data were provided to the authors by the municipalities.

12. To our knowledge, this was one of the first attempts to move from a decentralised to a centralised property tax regime in Africa. In 2015, Rwanda introduced a similar system where the national Rwanda Revenue Authority (RRA) took over the collection of property taxes in the country (Goodfellow 2017). Revenues collected by the RRA are transmitted back to local governments (Kopanyi and Murray 2016: 7).
13. In 2015, Temeke MC was split into Temeke and Kigamboni municipalities, and Kinondoni MC into Kinondoni and Ubungu municipalities. The revenue data, however, still refer to the three original municipalities.
14. Promulgated as “The Financial Laws (Miscellaneous Amendments) Act No. 9 of 2008” (URT 2008).
15. The Minister responsible for the LGAs could extend this period for a specified and limited time. The Minister could terminate the mandate when the local government authority had developed the required capacity to collect PT.
16. While the TRA has not been able to link the TIN number to the property registers, all payments must be linked to the TIN number. The banks that collect on behalf of TRA must remit the full amount of tax collected to the Bank of Tanzania. Banks are paid a commission at the end of each month, which depends on the number of transactions made through the bank, regardless of the value of the transaction. Recently, TRA has also introduced a simplified option of payment via mobile phones.
17. The Block Management System (BMS) consists of areas of trading concentrations that are mapped up in small territories/segments, defined on the basis of geographical or administrative set up, or a combination of a few streets to form a block (TRA 2011). One block is supposed to be a one-stop shop except when it is a very complicated audit. Thus, each BMS is mandated to operate all the tax functions of registering, assessing, collecting and accounting for revenue collected.
18. Interviews in Ilala, Kinondoni and Temeke MCs, Dar Salaam, 15 and 16 October 2014.
19. In Tanzania, Arusha City Council was the first LGA to change from a manually administered own-source revenue system to a modern Local Government Revenue Collection Information System (LGRCIS) integrated with a GIS platform (Lall *et al.*, 2017). The new system was later implemented in other municipalities allowing the local governments to use satellite data to identify taxpayers’ properties. It included an electronic invoicing system that notified and tracked payments.
20. Information from municipal treasury officers in Kinondoni and Temeke MCs, 19 January 2017.
21. Three acts were amended to empower TRA to be the main collector of the property tax in the country: The Urban Authority (Rating) Act, Cap. 289 (URT 2016b); the Local Government Finance Act, Cap. 290 (URT 2016c); and the Tanzania Revenue Authority Act, Cap. 399 (URT 2016d), directed TRA to start collecting property tax in 30 municipal councils in Tanzania Mainland. Responsibility for collecting property tax for the rest of the LGAs should remain within the mandate of the respective authorities.
22. Interviews in Dar es Salaam, 18 and 20 October 2016.
23. Information received from the Property Tax Unit, Domestic Revenue Department, TRA-HQ, Dar es Salaam, 9 May 2017.
24. Interviews with managers in the Research, Policy and Planning Department and officers in the Property Tax Unit, Domestic Revenue Department, TRA-HQ, Dar es Salaam, 20 January 2017.
25. Interview with TRA officers in Mtwara, 28 September 2017.

26. Interviews with municipal treasury officers in Ilala and Temeke MCs, 27 January 2011, and finance officer in Dar es Salaam City Council, 28 January 2011.
27. Interview, Temeke MC, 24 January 2011.
28. Interview with senior advisor, World Bank office, Dar es Salaam, 28 January 2011.
29. Interview, Domestic Tax Department, TRA-HQ, Dar es Salaam, 2 February 2011.
30. Interview, Dar es Salaam, 15 October 2014.
31. Interview with senior manager, Domestic Revenue Department, TRA-HQ, Dar es Salaam, 21 October 2014.
32. Interviews in Dar es Salaam, 31 May and 1 June 2016.
33. Interviews in TRA-HQ, Dar es Salaam, 2 February 2011.
34. See note 10 above.
35. Interview with senior manager, Domestic Revenue Department, TRA-HQ. Dar es Salaam 2 February 2011.
36. Then equivalent to about USD 5.5.
37. Interviews with (i) Kinondoni municipal staff (3 February 2011 and 1 October 2014); (ii) elected councillor, Temeke MC (24 January 2011); (iii) Temeke municipal staff (15 October 2014); (iv) Ilala municipal staff (8 October 2014).
38. Interview, TRA Domestic Revenue Department, Dar es Salaam, 2 February 2011.
39. Interview, Property Tax Unit, Domestic Revenue Department, TRA, Dar es Salaam, 9 May 2017.
40. Interview, Dar es Salaam, 31 August 2018.

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