



Programmatic Change approach for Local taxation and Services

REVENUE MANAGEMENT EFFICIENCY

KEY CHALLENGES

- ⦿ High costs of obtaining reliable data that can serve as a basis for Tax and Revenue calculation.
- ⦿ Handwriting bills is a cumbersome and time-consuming process.
- ⦿ Budget forecasting and revenue collection are weak.
- ⦿ Inability to develop robust monitoring and tracking systems to cross-check how much the private operators collect.
- ⦿ Delays by private operators in reporting revenues collected as well as delays in payments of commission to private operators.
- ⦿ Lack of transparency in the revenue collection processes.
- ⦿ The collection system is heavily cash based and therefore is fraught with a lot of leakages. Since most collections are not computerized, it is extremely difficult to have an effective tracking system to check leakages.

The problem of untapped revenues is a major problem for many cities around the world, as it prevents them to provide basic services to an increasing number of citizens. The problem is acknowledged by all of the major institutions like IMF, OECD, the World Bank, and the countries that joined the Addis Ababa Tax Agreement and they all strongly emphasize the importance to strengthen the capacities of nations and cities to strengthen revenue collection.

THE KEY SOLUTION

An effective Tax system is a core function of an effective state. Beyond its obvious role in generating revenue needed for providing essential public services and public goods, it is generally agreed that a well-designed and properly administered tax system contributes far more broadly than its contribution of revenue alone (IMF program document “Securing revenue for development”, 2011). It is one of the foundations needed to buttress sustainable economic growth:

- ⦿ It helps formalize the economy by broadening participation and reducing tax evasion.
- ⦿ It encourages growth of the small and medium business sector that is an engine for employment and growth in many developing economies.
- ⦿ It is part of a social contract that underpins social cohesion and helps shape political governance.
- ⦿ Over time, raising the tax-to-GDP ratio together with sustainable economic growth provide the path for developing countries to eliminate aid dependency.

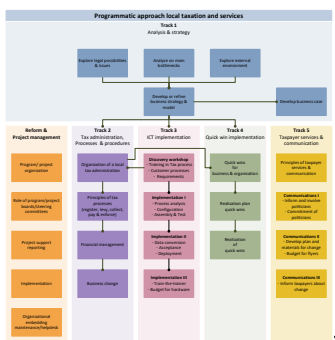
OVERVIEW

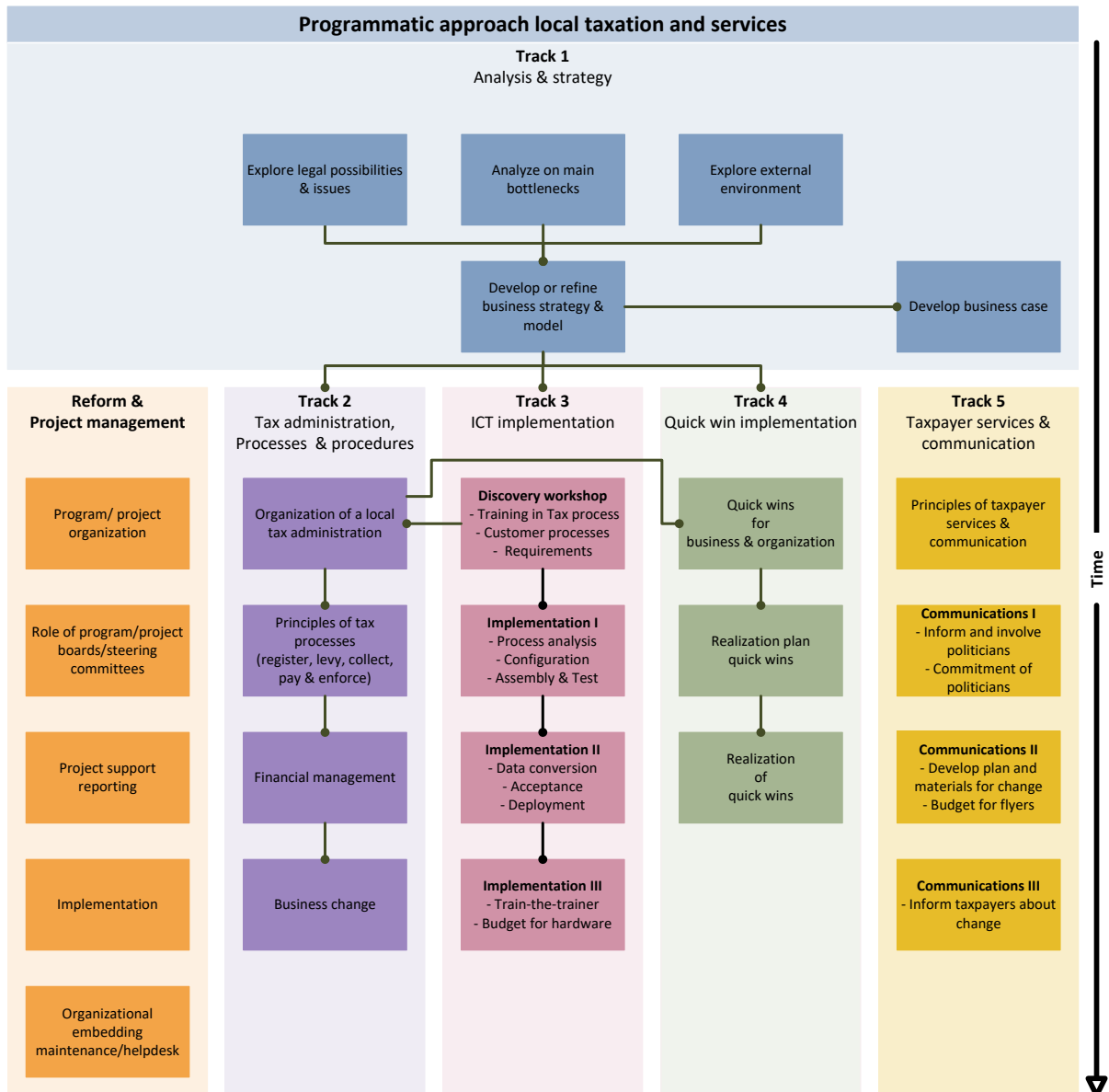
Our programmatic change approach is very much in line with the IMF recommendations for successful tax reforms and focusses on helping local governments to solve issues in both revenue collection as in improving services.

The approach is highly participatory and starts by jointly analyzing the legal framework, identifying bottlenecks and specific local opportunities.

It seeks to develop a long-term shared strategy, founded on a business case indicating costs and benefits. It comprehends a change program that covering organizational change and IT.

The approach is designed around 5 Tracks constituting a complete revenue reform program for local taxes.





LIMITING FACTORS FOR REVENUE MOBILIZATION AND COLLECTION

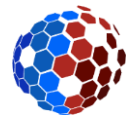
- ⊙ Inadequate data on revenue sources leading to ad-hoc approach to revenue collection.
- ⊙ Weak costing practices in Municipalities.
- ⊙ Manual delivery of rates, notices and bills for license and fees by local revenue collectors to individual property owners.
- ⊙ Negligible usage of street names and property addresses to locate revenue points.

- ⊙ Track 1 – Analysis and strategy
- ⊙ Track 2 – Organization, processes, and procedures.
- ⊙ Track 3 – Implementation of AGM’s taxMan solution.
- ⊙ Track 4 – Implementation of Quick Wins
- ⊙ Track 5 – Taxpayer services and communication.
- ⊙ Reform and Program management (is a given)

TRACK 1 – ANALYSIS AND STRATEGY

One of the first steps that in a business change approach is to analyze (diagnose) existing problems and to develop the appropriate strategy. The diagnosis is in itself an important exercise, as one must identify the administration's key problems and define its key goals, as well as the different alternatives for achieving these goals. Even in countries that already have an effective tax administration, in order to maintain a high level of effectiveness given constant changes in the economy, the tax system, and the taxpayer community, tax administrators need to review periodically the strategy that is being followed.





LIMITING FACTORS FOR REVENUE MOBILIZATION AND COLLECTION (continued)

- ⦿ Use of manual systems for recording revenue receipts results in revenue leakages.
- ⦿ The use of cash payments, limited supervision and monitoring of revenue collectors at the municipality level leads to leakages; there is connivance between revenue collectors and cashiers and misappropriation of funds.
- ⦿ High default rates in payment of property rates and other charges due to lack of effective sanctioning and enforcement.
- ⦿ Dual role of mobilization and accounting of revenues by Finance Officers in the Municipalities is a structural and functional misnomer in terms of financial accountability and prudence.

CAPACITY CONSTRAINTS FACING MUNICIPALITIES

- ⦿ Lack of expertise in spatial planning, geographic information system (GIS), Valuation and revenue forecasting, among others.
- ⦿ Infrastructural and technological inadequacies which include the non-existence of robust database on rate payers, as well as appropriate software to facilitate effective revenue management such as revenue forecasting and scenarios generation.
- ⦿ Absence of a billing and collection software to provide basis of tracking collections on an on-going basis.
- ⦿ Low capacity of revenue collectors. Most of the Municipality's own collectors and commission collectors are old, less educated, and sometimes cannot read and write which makes them inefficient.

TRACK 2 – ORGANIZATION, PROCESSES, AND PROCEDURES

This Track is about supporting the municipalities in organizational changes necessary for a successful local tax administration.

Topics that will be covered in this Track are organization of a local tax administration, basic principles, and functions of a tax administration such as registrations (persons, land, property), levying, billing and collection, enforcement. The Track also elaborates theories of business change and financial management.

TRACK 3 – IMPLEMENTATION OF AGM'S PRODUCT SUITE

When introducing its change approach in different municipalities we were faced with the same problems as mentioned before, such as: cash and paper-based collection systems, inadequate data on revenue sources, use of manual systems, absence of billing and collection software; inadequate or missing administrative procedures.

We also discovered that on the ICT market, IT solutions, developed for municipalities, are also missing. Tax solutions build for central tax administrations are sometimes available but far too expensive and complex for municipal implementations and use.

For this reason, All Government Matters (AGM) developed its own suite of applications for municipalities based on:

- ⦿ A good understanding of local tax processes;
- ⦿ Covering all processes;
- ⦿ Based on the principle of 'fit for purpose';
- ⦿ Running in the cloud, but also available on standalone pc's, and local networks;
- ⦿ Build with open-source software (the product itself is not open-source);
- ⦿ Import function of data from other databases such as properties and valuations;
- ⦿ Export function of the financials to other ERP systems (Oracle, SAP, etc.)

TRACK 4 – IMPLEMENTATION OF QUICK WINS

Identification of Quick wins for the business and organization result in a crisp plan for realization and implementation.

All interventions are assessed based on feasibility, interdependencies, and the proper sequence. In addition, all interventions will be assessed based on all supporting aspects (i.e., the contributions needed on legal, personnel, communication, information/IT, organization, and financial impact).

The interventions will be differentiated in terms of 'quick wins', medium-term solutions, and long-term solutions.

A quick win for us is an improvement that is visible, has immediate benefit and can be delivered quickly. The best quick wins are easy to implement, inexpensive, have a narrow and focused scope, and can be fully implemented within 60-90 days. Quick wins propel everyone in a forward direction and provide steppingstones for further progress.

TRACK 5 – TAXPAYER SERVICES AND COMMUNICATION

To significantly improve the effectiveness of tax administration, the local government must be politically committed to the reform. Explicit support of the tax administration reform effort and the tax administration's management from the municipalities to government officials and its politicians is of fundamental importance to every tax administrations reform.

The political commitment should be visible to the public and expressed in various ways, for example, by the rapid approval of improved processes, by the active support towards their own voters, and by public information and public relations campaigns informing taxpayers of the new procedures, as well as the improved services to be paid out of the increased revenues.





CAPACITY CONSTRAINTS FACING MUNICIPALITIES (continued)

- ⦿ Inadequate logistics which makes revenue mobilization and collection difficult.
- ⦿ Methods of revenue collection and accounting are also rudimentary and unreliable.
- ⦿ Leadership commitment and political interference hinder IGF mobilization and collection.
- ⦿ Poor adherence to financial management regulations, which is of great concern and needs to be streamlined.

KEY BENEFITS

- ⦿ Complete and integrated approach to drive change.
- ⦿ Quick wins that help motivate beneficiaries to take the next step.
- ⦿ Significant personal growth of people involved and touched.
- ⦿ Return of trust in Local Government.
- ⦿ Cost effective projects with a tangible and measurable return on investment.

To do so, we organize workshops for municipality members to get their commitment on the strategy to improve local taxation. The workshop also covers issues such as leadership, good governance and ownership, involvement in the improvement process and taxpayer communication.

Also, we organize practical workshops on taxpayer communication for the staff of the municipality and assist them to draft a communication plan, to select the best communication measures and to develop communication materials (paper based, audio, internet etc.).

REFORM AND PROGRAM MANAGEMENT

Reform and project management are included in the methodology and encompass project organization, management, setting up and participate in Project Boards and Steering committees, adequate and timely reporting amongst other typical project tasks.

CONCLUSIONS

Although the problem is complex because of the multiple aspects and has a huge impact on basic service delivery, it is possible to improve the situation. It is our experience that successful solutions contain at least the following elements:

- ⦿ The political will to become a trustworthy, accountable, and service oriented local government.
- ⦿ Citizens are willing and stimulated to be part of an open, participatory, and inclusive approach to deliver basic services.
- ⦿ Improvement of communication and social skills to interact with citizens and treat them as customers.
- ⦿ Implementation of easy to use and easy to maintain software that minimizes risks of fraud and corruption.
- ⦿ Capacity building and assistance to manage projects and put local governments in the driver's seat of their own future.

Cities in many countries need technical and financial support to make these improvements happen and methodologies, like this one, help. These types of projects are not the most expensive ones, but they do have a surprisingly great return on investment.

CONTACT US

For more information about our *Programmatic Change approach for Local taxation and services*, please send an email to info@allgovmatters.com

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