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**Policy implementation under stress:
Central-local government relations in property tax collection in Tanzania***

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ABSTRACT

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. The paper examines how inter-organisational cooperation influenced implementation of the reforms. Two lessons of broader relevance for policy implementation and PT administration are highlighted. First, institutional trust matters. In Tanzania, top-down reform processes, ambiguity related to the rationale behind the reforms, and lack of consultations on the roles and expectations, have acted as barriers to constructive working relationships between the local and central government revenue agencies. Second, administrative constraints, reflected in poor preparation, outdated property registers and valuation rolls, and inadequate incentives for the involved agencies to cooperate hampered the implementation of the reforms.

Keywords: Institutional trust, tax reform, tax administration, property tax, Tanzania

JEL Classification: H71, O18, R51

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1. Introduction

Inter-organisational cooperation in revenue collection has received limited attention in tax administration literature in developing countries. In contrast, there has been much emphasis on principles for what revenue sources should be assigned to and collected either by the central government or by lower levels of government, respectively (Tiebout 1961; Musgrave 1983; Ter-Minassian 1997; Bird and Vaillancourt 1998; McLure 1999; Smoke 2014). Standard literature on tax assignment states that tax policy and collection should be undertaken by the same authority that is responsible for the tax and is politically answerable to the community paying that tax (Oates 2005). Principles and practices for cooperation between central and local government agencies to administrate taxes have largely been ignored. Recent experiences from Tanzania offer a unique opportunity to examine opportunities and challenges facing inter-organisational cooperation in revenue collection in a developing country context.

Tanzania has implemented several major reforms of the property tax (PT) collection system in recent years. In 2008, a new system for PT collection was introduced in Dar es Salaam, the country's largest city (URT 2007). The reform entailed shifting the responsibility for administration and collection of PT from the municipal councils (MCs) to the national tax administration, the Tanzania Revenue Authority (TRA). The Government expected this measure to increase revenues. In February 2014, the Government announced the return of PT collection to the municipalities. This did not last long. In July 2016, property taxation was again centralised and TRA was assigned full responsibility for administrating the tax in the country (URT 2016a).

An important component in almost every contemporary framework explaining policy implementation success and failure has to do with inter-organisational relationships (Ferraro 2008; Lægreid *et al.* 2015; 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: 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 (*ibid.*). Thus, inter-organisational cooperation and institutional-based trust building are important for the policy's successful implementation

(Bachmann and Inkpen 2011; Panday and Jamil 2011).¹ Public sector cooperation aims to create greater coherence in policy and reduce redundancy and contradictions within and between policies (Peters 1998, cited in Lægreid *et al.* 2014: 5). This paper examines how inter-organisational cooperation influenced implementation of the PT policies in Tanzania with an emphasis on the period 2008-16.

We find that the roots of many of the implementation problems experienced in Tanzania are found at the policy formulation stage, reflected in ambiguous objectives, unclear procedures and inadequate means to implement the property tax reforms. Two lessons of broader relevance are highlighted. First, inter-organisational trust matters. This requires 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 local government municipalities and the national TRA. Second, the technical design and implementation schedule of the reform was 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 analysis is based on a variety of sources of information collected during a series of fieldworks over the last decade until December 2017. Semi-structured interviews were conducted with a wide range of stakeholders, including senior managers and operational staff of the TRA, revenue officers in the municipalities, elected councilors in the municipalities, 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. 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 municipalities and the TRA,

¹ Cooperation has a number of synonyms, such as coordination, collaboration and coherence (Lægreid *et al.* 2014: 4). It can be defined as "the purposeful alignment of tasks and efforts of units or actors in order to achieve a defined goal" (*ibid.*).

reports commissioned by development agencies, research papers on PT in Tanzania over the last decade, and newspaper articles.

The paper is structured as follows: Section 2 briefly reviews the property tax reforms that have taken place in Tanzania during the last decade. Thereafter, in Section 3, follows a discussion of revenue trends in the different collection regimes. Factors impeding inter-agency cooperation and implementation of the reform are examined in Section 4. Finally, Section 5 concludes.

2. Property tax reforms in Tanzania

Property tax 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.² This is because real property is visible, immobile, and a clear indicator of one form of wealth. In principle, PT is difficult to avoid and, if well administered, it can represent a non-distortional and 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 (Goodfellow 2017). In many African countries, revenues from PT account for less than 0.5 per cent of GDP, and in some even far less than this. In comparison, PT in some OECD countries can account for more than 2 per cent of GDP and 80 per cent of local government revenue (Norregaard 2013).³

Weak administration is considered one of the major constraints on PT mobilisation in developing countries (Bahl *et al.* 2010: 9). The literature also points at incomplete and outdated property registers and valuation rolls as major constraints (McCluskey and Franzsen 2003; Smoke 2014). 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 2006; Jibao and Prichard 2016). Regardless of this weak revenue performance, PT reform remains high on the agenda in many developing countries (Franzsen and McCluskey 2017).

² See Bahl and Bird (2008); Bahl *et al.* (2010); Bird and Slack (2007); Kelly (2000, 2013), McCluskey *et al.* (2003); Norregaard (2013); Smoke (2014).

³ These figures do not include other property related taxes collected by the central government revenue administration, such as tax on rental income and property transfer fees.

Both analysts and government officials keep searching for the breakthrough reform that will make it more revenue productive.

Tanzania has implemented several major reforms of the PT collection system in recent years. In 2008, a new system for PT collection was introduced in Dar es Salaam, the country's largest city. The reform entailed shifting the responsibility for administration and collection of PT from the MCs to the national tax administration, the TRA. The Government expected this measure to increase the revenues collected. In February 2014, the Government announced the return of PT collection back to the municipalities with immediate effect. Thereafter, in July 2016, property taxation was again centralised and TRA was assigned full responsibility for administering the tax in 30 municipalities, and from July 2017 for the entire country. Below, key features of each of these collection regimes are presented.

Decentralised collection: Pre-2008

Property tax reform was a central component of the of decentralisation process in Tanzania long before 2008 (McCluskey and Franzsen 2005: 65). However, there was serious concern among national policy makers about the low levels of PT the municipalities 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).⁴ Some estimates suggest that more than 60 per cent of the potential revenue from PT remained uncollected in this period (URT 2007).

Poor administrative capacity, corruption and political interference in tax enforcement 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; Fjeldstad 2015). 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, including outsourcing of PT collection to private agents, were attempted without much success (Fjeldstad and Katera 2017; Fjeldstad *et al.* 2009).

⁴ In fiscal year 2015-16, property taxation contributed only about 0.16 per cent of GDP (Ahmad *et al.* 2017). 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).

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: 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 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" (ibid.).⁵

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.⁶ Since the existing laws did not allow TRA to collect property tax 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 2008.⁷ In addition to enhance revenues, TRA was mandated to do capacity building on revenue collection in the three Dar es Salaam municipalities. The mandate was for a period of five years, starting 1 July 2008.⁸

PT collection was initiated by TRA under the newly mandated arrangement from July 2008. TRA's approach rested on modern principles of tax administration, including cash-less

⁵ 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).

⁶ 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.

⁷ Promulgated as "The Financial Laws (Miscellaneous Amendments) Act No. 9 of 2008" (URT 2008).

⁸ 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.

collection system, ease of payment, well-trained tax staff with ample cross-checks, as well as 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.

TRA also piggybacked on collection of PT within their existing block management system.⁹ The system consisted of existing TRA teams with additional responsibility for PT collection. These teams were assisted by two revenue collectors from the respective municipalities. 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 municipalities 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 distrust between the municipalities and TRA (see section 4), and affected both the design and the implementation of the property tax reform.

Re-decentralisation: 2014 – 2016

In February 2014, the Government announced that PT collection should be returned to the municipalities. This occurred after massive lobbying by the municipalities, supported by ALAT, but without previous consultations with the TRA. In interviews, municipal staff expressed that they strongly believed that collection by the municipality would be far better than that of TRA.¹⁰ 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 property tax administration was "*a perfect move*".

⁹ 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; Fjeldstad and Heggstad 2012). 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.

¹⁰ Interviews with municipal officers in Dar Salaam, October 2014.

Re-centralisation: 2016 -

In June 2016, the Minister of Finance announced (in the Budget Speech for 2016/17) that the administration and collection of PT in the whole country should be transferred from the local government authorities to the TRA (URT 2016a: 21, para 31).¹¹ 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 on 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 due to inefficient PT collection compared to the available potential*" (URT 2016a: 12, para 17). Against the background of the major improvements in PT collection achieved by the MCs after the re-decentralisation in 2014 (Figure 1), this last statement seems imprecise. Following some preparatory arrangements, TRA started collecting PT from 1st October 2016 in 30 municipal councils, and from 1st July 2017 all over the country.

The return of the PT administration to the TRA took the municipalities by surprise. In interviews, municipal staff and representatives from ALAT expressed disappointment and questioned the foundation of the Government's decision.¹² They argued that the re-centralisation was based neither on an assessment of what the municipalities 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.

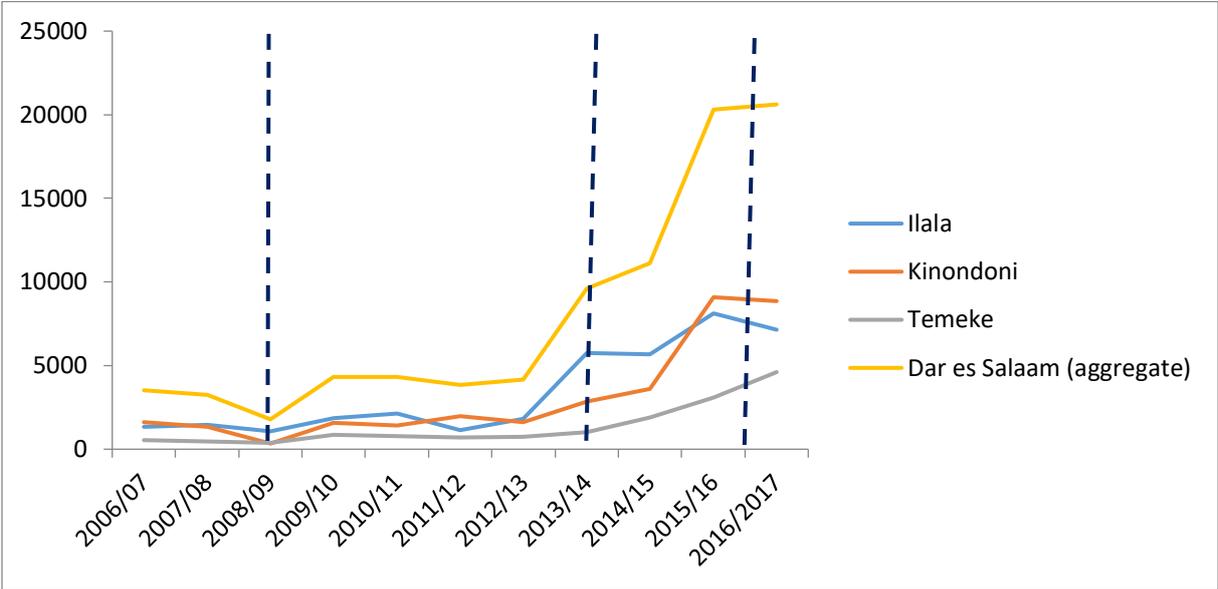
3. Revenue trends during the different collection regimes

Figure 1 shows the revenue collection performance during the different regimes by drawing the trend in PT revenues in each of the three municipalities in Dar es Salaam in million shillings. In addition, we have included the aggregate graph for Dar es Salaam. The vertical dotted lines depicts the period of change in PT collection regimes from local governments to central government.

¹¹ 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.

¹² Interviews in Dar es Salaam, 18 and 20 October 2016.

Figure 1: Revenues from property taxes in Dar es Salaam municipalities, 2005-17 (in million TZS)



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

The figure highlights some remarkable patterns. First, before the centralisation in 2008/09, the revenue collection trend is flat at low collection levels for Ilala and Temeke, and declining for Kinondoni.¹³ Second, after centralisation in 2008/09, all three municipalities show a slight increase in revenues in the first year. Thereafter, until 2012/13, PT collection is almost stable for Temeke, but fluctuating in Ilala and Kinondoni. Third, there is an increase in revenue collection for all three municipalities during the end of the first centralisation period starting from 2012/13. Fourth, after decentralisation in 2014 there is a sharp increase in revenue collection for all the municipalities, in particular from 2014/15. Within two years after decentralisation, Temeke MC increased the PT collection from around TZS 1 billion in 2013/14 to more than TZS 3 billion in 2015/16. The corresponding figures for Kinondoni MC are from TZS 2.8 billion to more than TZS 9 billion, and for Ilala MC from around TZS 5.8 billion in 2013/14 to almost TZS 8.1 billion. Data for the fiscal year 2016/17 after the re-centralisation shows that revenue has declined for Ilala by almost 12 per cent compared to the previous fiscal year, while there is almost no change for Kinondoni. Temeke, on the other hand, saw a

¹³ The financial year in Tanzania runs from 1st July to 30th June.

substantial increase in revenue – a nominal increase by 49 per cent compared to the previous fiscal year.

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 municipalities. If decentralisation was the only reason for the sharp increase in revenue collection after 2014, then we would have seen a higher trend in revenue collection before 2008 when PT collection was also decentralised. However, Figure 1 shows that PT collection was flat and at low levels before centralisation in 2008/09 for Ilala and Temeke and declining for Kinondoni. Further, the figure shows that the increase in revenue collection for all the municipalities started at the end of the first centralisation period in 2012/13. This indicates that the sharp increase in 2014 may not be due to 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 was particularly important after the re-decentralisation in 2014, based on a geographic information system (GIS) platform.¹⁴ In the first year after the introduction of the new system in Dar es Salaam in 2014/15, 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.¹⁵

Other factors that are specific to the municipalities may also have played a role. 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 municipalities suggest that the motivation to succeed and to collect more than what TRA had managed, was very strong after the re-decentralisation in February 2014.

¹⁴ 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

¹⁵ Interviews with municipal officers in Kinondoni and Temeke MCs, 19 January 2017

In addition to policy and administrative measures taken by the municipalities during the re-decentralisation period (2014-16), some changes that already started during the centralisation period (2008-14) may have contributed to the increase in revenues starting from 2012/13. New measures such as investments in infrastructure and new collection methods, such as tax payments via banks, were introduced by TRA during the centralisation period. The municipalities continued the bank payment system that was introduced by the TRA.

According to the TRA, there was a major drop in revenue collection during the first three quarters of the fiscal year 2016/17.¹⁶ The poor collection during this period hardly reflects ineffectiveness from TRA, but rather inadequate time for preparation and capacity building.¹⁷ Also, the transition period for the handover of collection from the municipalities 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 2017.¹⁸ Massive campaigns, using newspapers, TV and public meetings, targeting property owners were also initiated by TRA. These activities contributed to an increase in revenue collection during the last quarter of the fiscal year.

The following section examines implementation challenges facing the property tax reforms during the period 2008-16, with a particular focus on factors hampering cooperation between the TRA and the municipalities.

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 a sound working relationship 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

¹⁶ Interview with TRA-officers, Domestic Revenue Department, Dar es Salaam, 9 May 2017.

¹⁷ Interview with managers of TRA's Research, Policy and Planning Department, Dar es Salaam, 20 January 2017; and interview with TRA-officers, Property Tax Unit, Domestic Revenue Department, Dar es Salaam, 9 May 2017.

¹⁸ Interview with TRA officers in Mtwara, 28 September 2017.

reform, and the incentives of the involved agencies to cooperate (Grindle and Thomas 1990, 1991). Following the conceptual framework from implementation research, this section examines four factors that may have influenced the interaction between the municipalities and the TRA, with implication for the implementation of the PT reforms since 2008: (1) mutual understanding of objectives; (2) mutual understanding of roles and expectations; (3) technical design, and (4) 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 municipalities were underperforming. The management of the municipalities, however, were dismissive of the under-collection argument and said it was a case of ‘misinformation’ to the Prime Minister in the first place.¹⁹ 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 councilor in one of the municipalities 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."*²⁰ 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 municipalities and some donors as an attempt by the Government to halt the decentralisation reform, which started in 2000. 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

¹⁹ Interviews with the municipalities' treasury officers, February 2011.

²⁰ Interview, 24 June 2011.

collection to the TRA to be in conflict with the stated objectives of the decentralisation reform.²¹ 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 municipalities. 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 municipalities and the TRA from the very start of the initiative. This lack of trust affected negatively both the design and implementation of the tax administrative reform. However, the amended laws placed the administrative authority of tax collection with TRA. Policy-related decisions in terms of setting rates or declaring an area ratable 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 (ibid). The municipalities 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"*.²²

It was well received by the municipalities that the administration of PT was returned to the municipalities in 2014. An elected councilor in one of the municipalities, 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."*²³

²¹ Interview with advisor, World Bank office, Dar es Salaam, February 2011.

²³ Interview, Dar es Salaam, 15 October 2014.

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"*.²⁴ He argued that the municipalities *"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 municipalities were due to 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 municipalities. 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 municipalities 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).²⁵

4.2 Mutual understanding of roles and expectations

There were teething problems with the PT collection arrangements during the first centralised period 2008-14 (Figure 1). Both the municipalities 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 municipalities' hesitance to share information about taxpayers and by setting high budgetary targets for PT collection without consultations with TRA. The municipalities 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

²⁴ Interview with senior manager, Domestic Revenue Department, TRA-HQ, Dar es Salaam, 21 October 2014.

²⁵ Interviews in Dar es Salaam, 31 May and 1 June 2016.

between the TRA and the municipalities were weak while initiating and rolling out the reform.²⁶ They argued that consultations might have helped create a broader consensus for the reform and thus avoided future disputes. In this particular case, consultations could have been beneficial for two reasons: First, they could have contributed to broaden ownership of the reform and ensure its sustainability. Second, they could have alleviated apprehensions by municipalities 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, in spite of the fact that 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 design in unintended ways and distort the whole intervention.

During the decentralised period 2014-16, there were hardly any interaction between TRA and the LGAs regarding property taxation. The municipalities took over the whole administration of PT, including registration and valuation of properties, as well as tax collection and enforcement (see 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 municipalities all over the country. What was the rationale behind this decision by the Government? One argument that derives from studies in some other African countries is that this is a way the government can cripple the finances of opposition led municipalities (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 municipalities 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

²⁶ Interviews in Dar es Salaam, February 2011

companies' turnover.²⁷ However, we cannot rule out that 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 exists 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.²⁸ The legislation provides for continuous assessment through in-house assessors, which was not conducted due to capacity constraints in the municipalities. 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.²⁹

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 municipalities 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 10,000³⁰ for poor homeowners, which again was not approved by the ministry. It appears that the TRA repeatedly tried to get into tax policy and more substantive

²⁷ The City Service Levy is a major local revenue source in urban councils in Tanzania. It is levied as a fixed percentage on the firm's turnover (0.1 per cent of turnover for the bank/financial sector, and 0.3 per cent for the other sectors).

²⁸ With a population increase of 4.39 per cent per year, Dar es Salaam is the fastest growing city in Africa and among the ten fastest in the world. By 2030, the population is expected to surpass 10 million people (UN-Habitat 2014).

²⁹ Interview with senior manager in the Domestic Revenue Department, TRA. Dar es Salaam 2 February 2011.

³⁰ Then equivalent to about USD 5.5.

administrative issues, but was being rebuffed by the Government. This is surprising since the legal amendments of 2008 gave TRA the mandate for property assessment, valuation, and collection. The Government, however, seemed to be determined to make the whole arrangement ring-fenced, limiting TRA to the mechanical task of tax collection alone. One notable change introduced by the TRA was that no transactions of tax payment should take place in cash. The municipalities, 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'.³¹

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

4.4 Resources

Policy makers 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 requires 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.

³¹ Interviews with: (i) Kinondoni municipal staff (3 February 2011 and 1 October 2014); (ii) elected councillor, Temeke Municipality (24 June 2011); (iii) Temeke municipal staff (15 October 2014); (iv) Ilala municipal staff (8 October 2014).

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 taxes on behalf of the municipalities, 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 municipalities and TRA that characterised the period 2008-14. It also legitimised the lobbying by the MCs to regain control of PT administration, which materialised in 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 2014-16, 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 municipalities a collection fee to cover its costs, it decided not to do so. There were two reasons for that: First, TRA decided not to charge for the costs to avoid conflicts with the municipalities 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.³² 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 relatively efficient and effective in the national context.

³² Interview, TRA Domestic Revenue Department, Dar es Salaam, Feb 2011.

When PT administration was centralised again in 2016, TRA established a unit within the Domestic Revenue Department responsible for property tax collection (URT 2017: 27(para 39)). The unit is severely under-resourced 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 are 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 municipalities are not registered.³³ 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 municipalities and transfer of full-scale duties to the TRA.

5. Concluding remarks and policy implications

In this paper we have examined experiences with the different property tax collection regimes in Tanzania during the last 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 municipalities and the Tanzania Revenue Authority. 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. However, in contrast to the municipal staff, TRA has limited knowledge about the local PT base. Inadequate statistical information on the property tax base and revenues is a severe constraint (Ahmad *et al.* 2017: 10). TRA must rely on information collected at the local government levels. In addition, TRA is not well placed

³³ Interviews, Domestic Revenue Department, TRA, Dar es Salaam, 9 May 2017.

to connect PT compliance with improved local services. These observations suggest that creating more constructive working relations between the central government and the municipalities might be a catalyst for more effective collection of property tax.

Improved cooperation, coordination and exchange of information between the involved agencies are likely to be important measures to make the current centralised property tax system work. It is not without reason that the Minister of Finance in the Budget Speech, delivered to the Parliament 8th June 2017, "*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 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 centralised PT collection system work, the municipalities must be given incentives to support and cooperate with the national tax administration. This requires modalities for when and how much of the collected revenues will be transferred to the municipalities to secure predictable funding of their activities.

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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. The paper examines how inter-organisational cooperation influenced implementation of the reforms. Two lessons of broader relevance for policy implementation and PT administration are highlighted. First, institutional trust matters. In Tanzania, top-down reform processes, ambiguity related to the rationale behind the reforms, and lack of consultations on the roles and expectations, have acted as barriers to constructive working relationships between the local and central government revenue agencies. Second, 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.

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