"Building local capacity to raise and manage own revenue sources in West Africa"

and

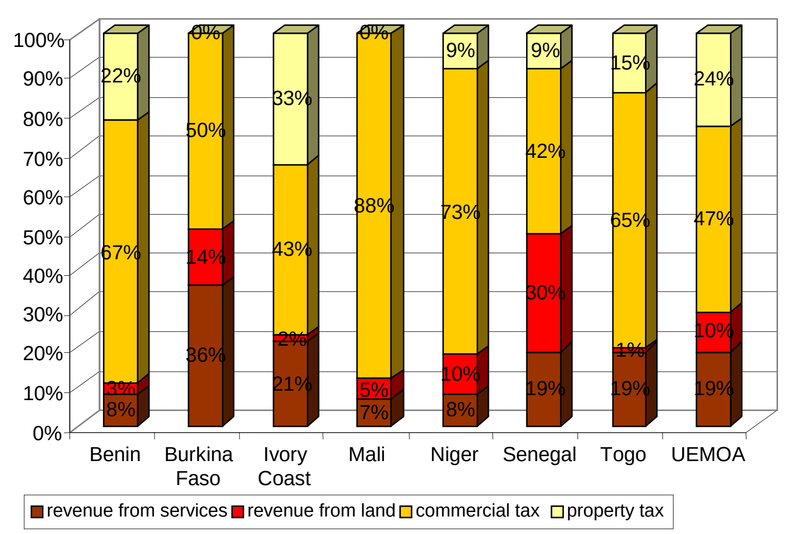
"Linking formal and informal systems and providers: Cotonou, Benin"[1]

[1] These excerpts are taken from *Municipal Finance: Conditions and Trends*, a background paper for the UN Habitat 2005 Global Report on Human Settlements written by professionals of the Institute for International Urban Development at their former home at the Center for Urban Development Studies, Harvard University Graduate School of Design. Sections of the paper were included as Chapter 3 of the 2005 Global Report entitled *Financing Urban Shelter*. The full background paper will be published by UN-Habitat as a monograph entitled "Financing Urban Development: Recent Global Trends" to be released in 2006.

Building local capacity to raise and manage own revenue sources in West Africa

In sharp contrast to the situation prevailing among emerging economies in East Asia and East Africa, municipalities in the West African Economic and Monetary Union (UEMOA) have to rely on locally collected revenue that ranges from 45% (Côte d'Ivoire) to 85% (Niger) of municipal budgets. The two principal revenue sources are the commercial tax (47%) and the property tax (24%). Other sources are charges for public services (19%) and revenues derived from leasing public lands (see Table 3.7). In the case of the commercial and property taxes, national legislation and not local government determine the assessment rate, and the central administration is responsible for their collection. The central administration is therefore responsible for the preparation and periodic update of tax rolls, the sending out of tax bills and the enforcement of collection. This system was instituted as a result of a lack of local capacity, particularly in smaller municipalities, but tends to lag behind changing conditions, often resulting in under taxation in municipalities experiencing rapid economic development or spatial expansion as cadastral records rarely keep up with new development.

Table 3.7 STRUCTURE OF MUNICIPAL OWN REVENUE IN WEST AFRICAN COUNTRIES,1998



Source: PDM, 2003

The commercial tax is theoretically levied on all economic activities and assesses separately the rental value of fixed capital (premises and equipment) and the value of output. The fixed capital assessment rate varies considerably from country to country: from 6% to 12% in Senegal and 2% and 6% in Togo; 5% for the premises, 6% for heavy machinery and 10% for other equipment in Benin; and a uniform rate of 10% in Burkina Faso, Mali and Niger with some modulations of the rate in certain cases.

Various criteria are used to assess the output value: volume of sales in Senegal, Togo and Burkina Faso; volume of sales, location of the activity and the value of imports in Benin; nature and location of the activity and sales volume in Côte d'Ivoire; and nature and location in Mali. Even though this tax is based on purely local economic activities, some national governments retain part of the yield: 64% in Côte d'Ivoire and 50% in Togo. In Mali, 40% in redistributed to the regions and to rural areas.

All UEMOA countries assess a property tax based on the calculated rental value of improvements. Only three countries – Benin, Côte d'Ivoire and Senegal – tax undeveloped land. Various formulas are used to calculate the taxable value of improvements and most countries exempt from taxation a fixed percentage of the value of residential property. The tax rate can vary according to location (Benin), the building type (Côte d'Ivoire), or the level of comfort of a residence (Burkina Faso). Senegal, Niger and Togo use a uniform rate. Property owners are generally responsible for paying the tax although some countries tax the holder of a usufruct (Benin, Niger and Senegal) or, alternatively, the occupant (Niger) or beneficiary (Senegal). As is the case for the commercial tax, some national governments retain a share of the property tax yield: 10% in Benin, 40% in Niger, 50% in Togo and 72% in Côte d'Ivoire.

A recent evaluation of local revenues by the Partenariat pour le Développement Municipal[i] points out a number of weaknesses in local taxation practices that impede the ability of local governments to undertake necessary public investments:

- The complexity of a system that is based on a multitude of taxes, often difficult to collect, and that places the burden on a limited number of activities.
- The inability of local governments to set their own tax rate, thereby retarding their initiative to undertake improvements.
- Inadequate or obsolete information on taxable activities that allows a significant proportion of the population to escape local taxes.

As a result, local governments still rely heavily on transfers from the central government. This lack of financial autonomy has impeded their ability to assume full self-governance and define appropriate and largely self-financed development strategies[ii].

Linking formal and informal systems and providers: Cotonou, Benin[iii]

Of special interest to poorer countries are solutions based on partnerships between municipalities, NGO's and CBOs. In these countries, integrating poorer communities into the city fabric and giving the poor access to basic services is hampered by the spread of chaotic urbanization; the mounting densities in the central zones; the obsolescence of existing conventional systems; and the lack of resources to maintain and upgrade existing systems.

To improve living conditions in the underserviced communities, systems and networks using different technologies and serving different population groups and geographic areas must be somehow interlinked. Solid waste management is one of the services most affected by the need to merge traditional solutions with modern technologies.

In West African cities potable water supply is also an issue that can benefit from this approach. Cotonou (Benin) award winning programs demonstrate the importance of linking formal and informal service providers.

In Cotonou, the institution of a solid waste management program was conceived as an environmental initiative. The service is run by an NGO that employs local youths to collect waste. Subscribers pay monthly fees for the service. Two committees composed of community residents formulate plans and define the responsibilities of each partner, and monitor the operation of the service with technical support from the NGO. The municipality assumes the responsibility of transporting waste from dumping stations to the disposal sites. It operates conforming environmentally sound practices.

The NGO is promoting recycling activities by community groups, mostly women, using ecologically sound practices including biological treatment of polluted run off water and composting of organic wastes to reduce the number of dumpsites from 30 to 5. Bilateral aid (GTZ-MEHU) provided start up funds for the program in 1995. In the first 5 years of operation, 80% of the population subscribed to the service. Collection rates were on the order of 95% and 200 permanent jobs were created. A community bank enables women recyclers to access micro-credit to expand their activities[iv]. The Partnership for Municipal Development (PDM), a regional organization, provided the municipality with capacity building and technical support and facilitated the initiation and institutionalization of the program.

In 1998, the piped water supply system operated by "Benin Water and Electricity Company" (SBEE) covered less than 50% of Cotonou. Only 16% of the households were directly connected and 32% purchased potable water from neighbors and public water fountains. The PDM encouraged the municipality to work jointly with informal vendors in order to ensure affordable delivery of potable water to poor settlements in the peripheral urban wetlands where half the city's population lived. This entailed reaching and organizing the vendors and building up their capacities. A formal Association of Water Vendors (AREB) was created grouping 300 vendors, a core group representing 20% of potential members.

The Municipality and the SBEE recognize AREB as a formal partner and SBEE grants AREB members preferential pricing for water purchases. A survey of AREB operated fountains showed undisrupted service and improved quality. The municipality is constructing 24 public fountains in settlements that are not regularized and AREB members will operate the new public fountains.

The PDM acts as a mediator and a facilitator to overcome the conflicts and distrust prevailing between small vendors, SBEE and the municipality. It is planning to transfer this partnership concept to other West African cities to improve the delivery of services to the poor.

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[i] PDM, Observatoire des Finances Locales, *La Revue des Finances Locales*, 2003.
[ii] Source West Africa: Municipal Development Programme, 1996, 1997, 1998, 2000, 2001, 2002, 2003.
[iii] PDM, « Renforcement du partenariat tripartite collectivités, entreprises concessionnaires et petits opérateurs pour un accès a l'eau des populations urbaines défavorisées », Cotonou, Bénin. Unpublished updated information graciously contributed by the project officers. Quoted in Serageldin, M. et al, *Local Authority Driven Interventions and Processes*, Cambridge, 2003.

[iv] In 2002, Pr.A.P.E. was recognized as one of 10 Best Practices worldwide to receive an award for excellence in improving the living environment under UNCHS/Habitat Best Practices and Local Leadership Program.