Delegating Property Tax Collection to Local Elites in the DRC

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Sector(s): Political Economy and Governance

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Fieldwork: Odeka (Organisation d'Etudes Economiques sur le Kasai)

Ubicación: Kasai-Central Province

Muestra: 356 neighborhoods spanning 45,162 properties in the city of Kananga

Grupo objetivo: Civil servants Politicians and electoral candidates Urban population

Resultado de interés: Social service delivery Taxation Corruption and Leakages Profits/revenues

Tipo de intervención: Administrative reform Regulation enforcement programs

Número de registro del AEA RCT Registry: AEARCTR-0003308

Datos: Download dataset from OpenICPSR

Research Papers: Local Elites as State Capacity: How City Chiefs Use Local Information to Increa...

Socios Implementadores: Provincial Government of Kasaï-Central, L'Université Notre-Dame du Kasayi, Evidence in Governance and Politics (EGAP), International Centre for Tax & Development

Weak tax systems are a key challenge facing governments across low- and middle-income countries. In partnership with the Provincial Government of Kasaï-Central in the Democratic Republic of Congo, researchers conducted a randomized evaluation during the 2018 property tax collection campaign to test the impact of delegating tax collection to local chiefs. Where local chiefs collected taxes, households were more tax compliant than where state collectors collected, mainly because chiefs had local knowledge about property owners and could better target collection to those more likely to pay.

Problema de política pública

Taxes are a key source of income governments need to provide and manage infrastructure and services, including roads, electricity, and schools. However, governments in fragile states often lack the capacity to collect enough taxes and to efficiently manage public spending. Where their capacity is limited, governments sometimes delegate tax collection to local elites instead of using state officials. Today, many sub-Saharan African countries engage local elites in tax collection.

Delegating tax collection to local elites comes with advantages and disadvantages. On one hand, local elites usually have better information on local people, and costs are lower for governments because fewer tax offices are required. On the other hand, it is harder for the government to control local elites, which could come with increased potential for misalignment and corruption. Should governments in fragile states delegate their tax collection responsibilities to local elites to raise more revenue?

Contexto de la evaluación

The evaluation took place in the city of Kananga in the Democratic Republic of the Congo (DRC). With a population of almost 2 million inhabitants, in 2016 the average household in Kananga had a monthly income of US$106. Prior to the evaluation, the provincial government had tax revenues equal to about US$0.30 per person per year and provided few, low-quality public infrastructures and services.

To increase tax revenues, the government held citywide property tax collection campaigns in 2016 and 2018. The government, in collaboration with researchers, used the 2018 property tax campaign to evaluate whether tax collection was higher when done by local elites with local knowledge compared to state actors belong to the central tax ministry. Local elites are city chiefs that are key members of their community, they mediate disputes and support the upkeep of local infrastructure. Chiefs are not paid a regular salary and typically maintain other roles (e.g., teacher, pastor). They often serve as chiefs for life.

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Detalles de la intervención

In collaboration with the provincial government of Kasaï-Central, researchers conducted a randomized evaluation to study if a local government with limited capacity could strengthen its tax systems by delegating tax collection to local elites in an urban setting. After the first property tax campaign in 2016[1], the provincial government of Kasai-Central hypothesized that involving local city chiefs in tax collection might grow revenues further. To test this idea, the researchers assisted in randomizing the type of tax collector assigned to collector in each neighborhood in the 2018 property tax campaign.

The campaign had two steps: property registration and tax visits. During the property registration stage, collectors allocated a unique tax ID and judged each property's tax liability. If households could not pay the respective tax at that time, the collectors scheduled follow-up appointments. The collectors were instructed to return to the household until they paid taxes. They had one month to finish the work in each neighborhood and were allocated one to two neighborhoods per month. Collectors worked in groups of two.

The researchers randomly assigned 356 neighborhoods in the city of Kananga, including 45,162 properties, to five different groups differing in the identity of the tax collector and their access to local knowledge:

1. Central (110 neighborhoods, 14,489 properties): Fifty state collectors were responsible for tax collection.

2. Local (111 neighborhoods, 14,383 properties): One hundred eleven local city chiefs were responsible for tax collection.

3. Central + Local Information, CLI (80 neighborhoods, 9,422 properties): Same as Central, but chiefs also shared property owner information with state collectors after the property registration.

4. Central X Local, CXL (50 neighborhoods, 6,071 properties): In this group, one state collector and one chief worked together. Everything else remained the same.

5. Pure Comparison (5 neighborhoods, 797 properties): A few neighborhoods kept the system from before 2016, in which state collectors registered the property, assigned an ID, and distributed tax letters, which instructed the owner to pay taxes at the ministry, without further follow-ups.

The focus of the study was on comparing the Central and Local groups. Administrative data (property registration data and payment records) as well as three household surveys were used to study the effect of the type of tax collector on tax compliance. The property tax campaign took place from May to December 2018, and the household surveys were carried out in three rounds from July 2017 to September 2019.

Resultados y lecciones de la política pública

Researchers found that households were more tax compliant in neighborhoods where local chiefs collected taxes compared to those where state collectors collected, due to local information that chiefs possessed on households.

Tax compliance and revenues: In neighborhoods where local chiefs collected taxes ("the Local" group), tax compliance was 9.5 percent, compared to 6.3 percent in neighborhoods where state collectors were responsible for the property tax campaign (the "Central" group), a 50.8 percent increase. This increased compliance translated into 44 percent higher property tax revenue.

One concern with delegating tax collection to local elites is that it could encourage corruption and weaken trust in government. Despite concerns about mismanagement, chiefs were more likely to properly exempt vulnerable households (e.g., elderly people or people with disabilities) and were less likely to incorrectly assign a property value classification than state collectors, suggesting respect for the tax campaign's rules and processes. However, chiefs were slightly more likely than state collectors to be paid bribes. In spite of this, researchers found no differences between chief and state tax collection neighborhoods in terms of views of government, trust in tax authorities, perceived fairness of property taxation, tax morale, or perceptions of tax enforcement, suggesting that delegating tax collection to local chiefs did not negatively impact peoples' perceptions of government over the short term.

Local information: Chiefs' local information helped identify households more likely to pay property taxes. In addition to neighborhoods where local chiefs collected taxes, neighborhoods where city chiefs shared property owner information with state collectors (the "Central + Local Information" group) also saw improved tax collection compared to areas where state collectors were responsible for tax collection without such information. Without knowledge of local residents, state collectors had to rely on

visible signs, like house quality, when deciding which households to visit when collecting taxes. Chiefs, using their local knowledge of non-visible characteristics like cash availability or attitudes toward taxes, targeted owners of lower-quality homes who were more willing and able to pay.

Cost-effectiveness: Letting local chiefs collect taxes was more cost-effective than state collection. In areas where local chiefs handled tax collection, each US$1 spent on administration brought in 53 percent more return than in areas with state collectors, thanks to higher revenues and lower costs.

Overall, in fragile and low-capacity settings, governments may gain in the short term by working together with local elites to collect taxes in cities.

Balán, Pablo, Augustin Bergeron, Gabriel Tourek, and Jonathan L. Weigel. "Local Elites as State Capacity: How City Chiefs Use Local Information to Increase Tax Compliance in the Democratic Republic of the Congo." American Economic Review 112 no. 3 (2022): 762–797.

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1. Jonathan L. Weigel "The participation dividend of taxation: How citizens in Congo engage more with the state when it tries to tax them." *The Quarterly Journal of Economics* 135, no. 4 (2020): 1849-1903.