



Just and Democratic Local Governance

Budgets

Revenues and Financing in Public Service Provision



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ELBAG Handbook Series

Budgets
Revenues and Financing in Public Service Provision

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This book has been produced by ActionAid’s International Governance Team (IGT) and is part of the ELBAG Handbook Series. ELBAG is the brand name for ActionAid’s work on Just and Democratic Governance and compliments ActionAid’s Handbook on Human Rights Based Approaches. ELBAG is an abbreviation for ‘Economic Literacy & Budget Accountability in Governance’.

Acknowledgement of sources
The content of this handbook has been inspired and informed by many other publications, papers and reports and numerous inputs, comments and suggestions from ActionAid staff and partners. A list of major sources appears at the end of the book.

The current edition is a preliminary draft which will be piloted in the field and assessed by an expert panel. A final edition will be produced in December 2011.

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Quality and Equity in Public Service Provision

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Human Rights form the basis for ActionAid's work.

ActionAid believes that poverty violates human rights and that this happens because of unequal power relations which start in the family and extend up to the global level. Violations of HR are often a result of failures in governance. Governance is about the relationship between citizens and the state and the way the state uses its power and authority to manage its political, economic and administrative affairs. ActionAid believes in democratic people-centred governance where governance processes and the exercise of power are guided by human rights principles and values.

Towards a fairer distribution of resources

Together these constitute the idea of rights-based, people-centred governance based on the rule of law and principled on democratic values of participation, equity, justice and fairness. ActionAid's approach to Human Rights is explained in ActionAid's Resource Book on **Human Rights Based Approaches** (HRBA) which also informs the **ELBAG Handbook Series on Just and Democratic Local Governance**. The 'ELBAG Just and Democratic Local Governance Handbook Series' is intended for civil society practitioners and activists working at the local level. The five books can be read independently, but they complement each other and contribute to a more overall picture of key governance issues of central importance to ActionAid's Human Rights Based Approach. The series focuses on the local level and will support practitioners in their efforts to achieve ActionAid's strategic promises of improving service delivery for poor people and achieving a fairer distribution of resources to finance public policies aimed at reducing poverty.

It is now generally acknowledged that strengthening accountability mechanisms and holding the state to account plays a crucial role in securing improvements in service delivery. Citizens can most easily influence the state at the local level. Decentralisation reforms in many countries have enabled citizens to form responsive local governments and hold these and other state institutions at the local level to account. Civil society action has demonstrated that considerable improvements can be achieved even without extra external resources by simply focusing on improving local accountability relationships and decentralised governance systems. This approach can achieve significant improvements in a short space of time for the most marginalised, many of whom only have limited access to any type of service.

Clearly many problems cannot be solved at the local level. National and international policies, global patterns of wealth generation and distribution are factors that impact on the local level and determine how much room there is to manoeuvre. The struggle for democracy and human rights at the local level must therefore necessarily be linked to national and international campaigns.

Focusing on the local level

The five books in the series cover issues from a general perspective and do not take specific national contexts into account. However, support will be given to developing national versions of these handbooks and translating them into national languages. The current series of five titles is focused at the local level and we hope that it will assist practitioners in improving services for the poor. Forthcoming titles over the next two years will focus on how the local level can effectively link up with national struggles.

Public Service Financing is about justice and equity

Financing and providing basic public services for all citizens is the responsibility of the state. The state must have sufficient and sustainable resources to finance these public services. However, public service financing is not only about generating as many resources as possible. It is also about justice and equity in terms of collection and distribution of the resources.

Focus on revenue: The state needs to be able to generate, decide and manage its own domestic financial resources for public service financing. Local government also has the responsibility for raising its own resources to complement national resources for public service financing.

The ELBAG approach promotes a political debate with the poor and marginalized about how public services are financed. ELBAG is democratizing knowledge about political economy by applying participatory tools to carry out people centered advocacy processes and to hold duty bearers to account. ELBAG is placing local and national work in a broader political context.

Linking local to national is essential and our work at the local level on budget analysis and tax justice must connect local, national and international levels. When we work for structural changes we need to engage with national and international movements, coalitions and networks.

What is this handbook about?

Budgets are the starting point of this book, and it continues with different types of revenue and taxes at the local level. Tax Justice is introduced and finally the book explains decentralization and the dilemma local government has in terms of limited independent space for planning and implementing plans.

The target groups are field workers and civil society organisations at the local level. We are aware that the political context is very different in each country; however, we hope that you can use the book as an inspiration to engaging in budget work at the local level. The book includes tools you can use to analyze budgets and understand political economy at the local level.

The Budget cycle

– what is really happening?



– My sister's son died from malaria – because we have no health clinic in our poor village. It is terrible – Local Government says there is no money for a clinic.



– I am sorry to hear that. The money from the rich cities does not reach the poor villages. The distribution of money is not just.

This chapter starts by defining the budget and then continues by going through the phases of the budget cycle. It talks about the challenges faced and the actions which civil society can take. These actions can be part of your ELBAG work.

A budget is the most important economic policy document of a nation or a district. It is the fiscal representation of government plans and goals. A budget is a statement of annually expected revenue and expenditure, and it has several dimensions:

The political dimensions:

- A budget is a key instrument in national and local policy making
- A budget is an instrument of administrative planning and control as it allocates money to various government departments
- A budget is used to allocate financial resources. How this is done determines the extent to which a state prioritises the fulfilment of human rights.
- Most states have signed Human Rights Conventions which mean they are obligated to fulfil them

The economic dimensions:

- A budget is the tool by which the government seeks to strengthen the economy and become self-sufficient
- Budgets authorise most government spending

Politicians and government may make promises to improve conditions for poor people – but it is only by studying budgets in detail that it becomes clear whether a government really intends to improve conditions by allocating money for poor people's needs – or whether it is empty talk. It is therefore important to understand budgets in order to influence governments' budget prioritisation and to make sure that money is well spent.

Budgets at the local level show how much local government has planned to spend. It also shows how much revenue (income) it should raise from taxes and licenses, and how much money is transferred from state or regional budgets.

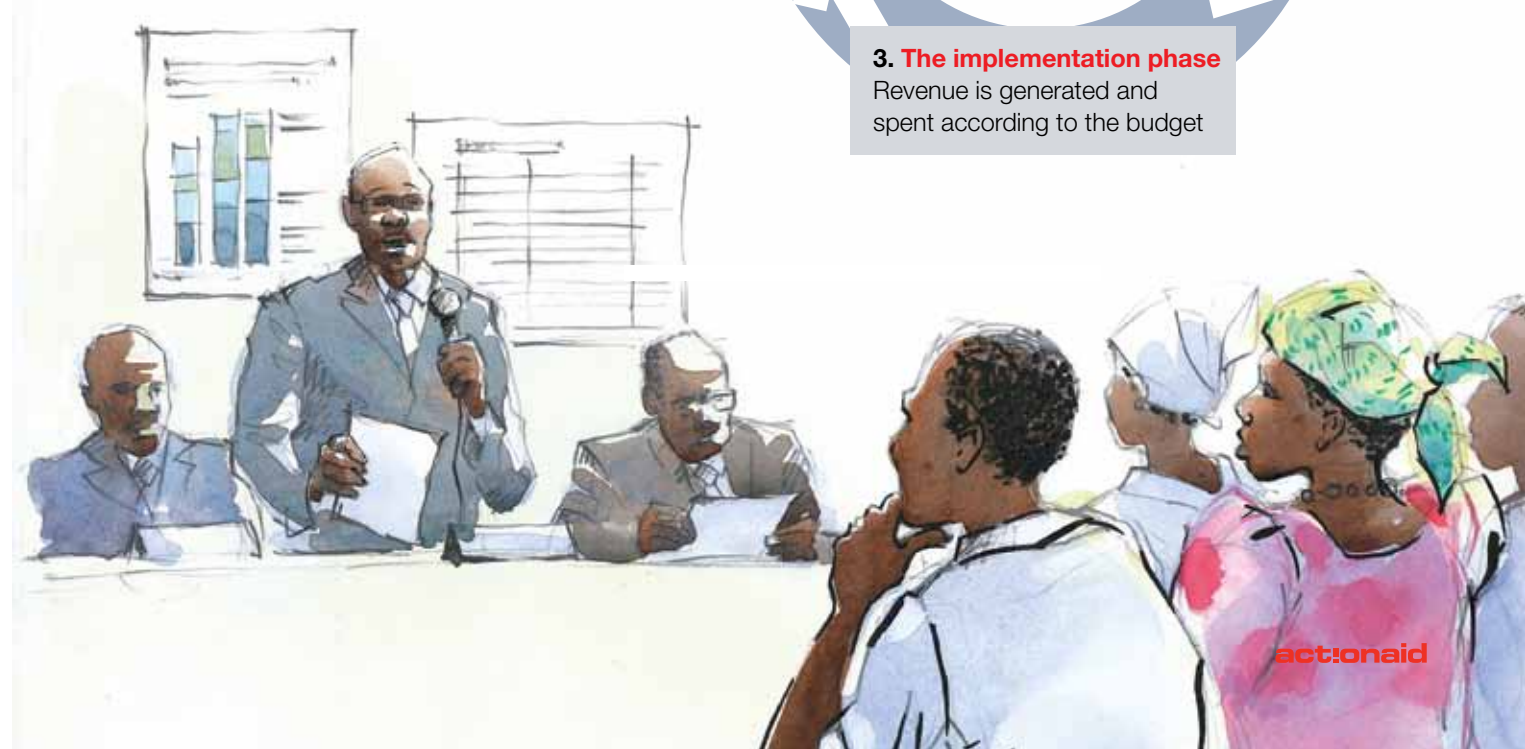
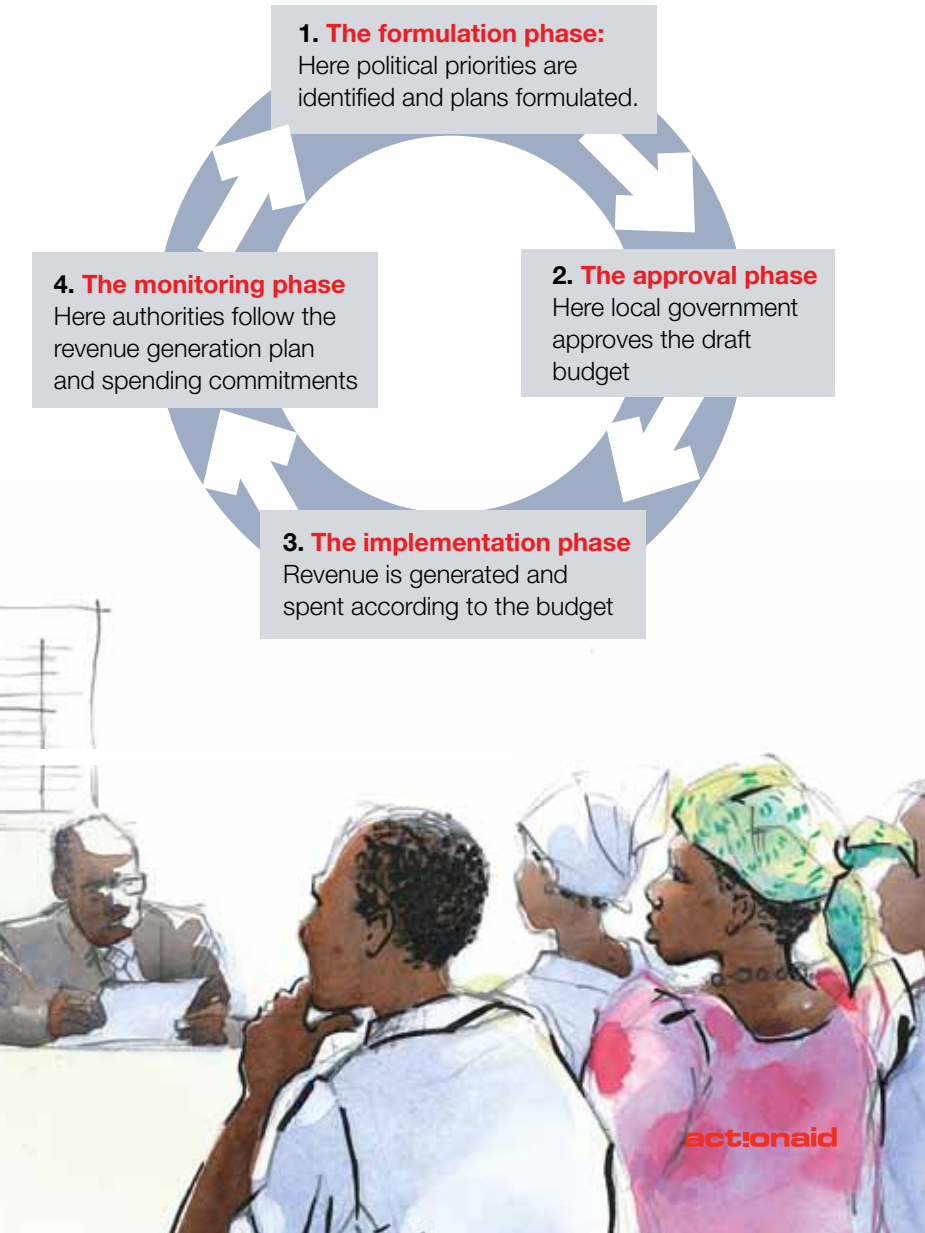
What is the budget cycle and how can we engage?

The diagram opposite shows how the budget cycle is designed to work both at national and local levels in most countries – in an ideal world. The legislation can be

different, but local government is generally responsible for:

- Consulting people about their needs and reflecting this in a draft budget
- Presenting the budget to civil society and including comments in the final budget
- Being accountable to citizens in the implementation of the budget
- Being accountable to the state or region and monitoring how funds are spent

A district usually makes a 2-5 year development plan – but sometimes it is only “wishful thinking” – and it eventually





– It is very different from country to country how much civil society is involved in the budget cycle. In some countries local government is cooperating with civil society about the budget. In other countries, it is a struggle to get involved, or even to get access to information.



– During each of the 4 phases of the budget cycle: preparation, approval, implementation and monitoring – we as citizens must be active and should seek influence.

becomes clear that the budget is too small to implement the plan. It is therefore very important to understand the budget - both with regard to monitoring the transfers of funds to local government from the state, and with regard to monitoring the spending of the money. Later the book will explain how funds are transferred from central to local levels.

Preparation Phase

Local government has an obligation to consult people about priorities in their area. This is called a Stakeholder Consultation. In most countries the law spells out how this consultation should take place and who is responsible for the consultation. The consultation can be a meeting called by local government in the town hall – or it could be a person from local government coming to a meeting in the local area. Alternatively, consultations could be a natural part of a committee agenda in the local area where both civil society and representatives from local government are members.

Civil society action: When you attend such a meeting, be well prepared and know your priorities before the consultation process begins. Are your local priorities a new health clinic, a new market or creating jobs? Civil society should meet before the consultation to agree on these priorities.

- **Before the meeting:** Think about and ask how local government can raise money in your area to fund the budget. You might ask whether local companies are indeed paying taxes.
- **After the meeting:** You can follow up with the local government representatives about local priorities that were brought forward during the meeting

Challenges in the preparation phase are both within the community and in relation to local government. Not everybody is equal in the community - there are different interests and power relations at play when it comes to access to water and access to health etc. Local power elites have their own agenda about how the money should be spent. The challenge is to be aware of these power imbalances.

What kind of power can you meet?

Visible power is exercised through formal structures and by people who have a mandate to exercise power. For example members of local government are authorised to talk when presenting the budget.

Hidden power is exercised from behind the scenes. Powerful stakeholders may be, for example, able to influence what gets on the agenda of a meeting. The elite in your district or community may influence the priorities of the budget.



In Bangladesh several ActionAid partners have been involved in participatory budget work which has involved Civil Society Organisations (CSO) and Ward and Union level Local governments. A key issue in relation to the success of this work has been the building of trust and dialogue between civil society and local government. A contributing factor to this is the fact that many activities are spearheaded by respected individuals from the local community who work for AAB partner organisations.

What are the power dynamics?

- How is hidden power being exercised amongst the stakeholders?
- Are there people who would loose out if your priorities for the budget are different from theirs?
- What conflict of interest could emerge?
- How would the poorest and marginalized be affected by the budget?
- How would women be affected?

Where does the power lie?

- Do laws or policies explain who has power?
- Where does real power lie in local government when you want to influence the budget?
- Who is powerful in the community? Are they with you or against you?
- Who could be empowered with information, knowledge or skills to work on budgets?



– The law may open for civil society participation, but in our community a “consultation” is just a meeting where the local government informs about the budget, but doesn’t really listen to us. Or there is no meeting at all.



In Sierra Leone a Local Council Fund was established by the government in 2004 so that some funding went directly to local councils. The council made real choices about service improvements and local infrastructure. One of the conditions for the Local Council Fund was that they prepare Local Council Service Delivery Plans on the basis of a process of consultations. Between September 2004 and February 2006, the level of public consultation was dramatically increased. More than a thousand public meetings were held and attended by over 38,000 people. The projects that were eventually prioritised during this process (wells, clinics, road repairs) reflect better the interests of ordinary citizens than those traditionally prioritised by the local council authorities themselves (vehicles, offices, equipment).

The process also requires councils to publicly display information about the resources available for local service delivery, submit budgets on time, submit annual accounts and identify how they will reduce their debts. This new process for transferring funds from central to local government has increased the opportunities for participation and prospects of improved accountability.



– Are the needs and rights of the poor and marginalized integrated into the budget?



– Does the budget reflect the needs and rights of women?

The Approval phase


The politicians approve the budget. When local government has collected all inputs from the consultations with citizens, revenue authorities in local government draw up a draft budget proposal, which they then may present to civil society. The way the budget is presented is different from country to country: it can be done at a public meeting or local government can display the budget on a notice board.

Civil society action continues when local government presents the budget. Understanding, analyzing and questioning the budget is very important. If local government does not call for a meeting, you should approach local government to demand the meeting. The questions in the box below are good to ask.

Challenges for civil society are mainly related to participation and transparency. Many countries have not passed a “Freedom of Information Bill”, which would allow space for civil society. Local government budget meetings are often meetings where local government

Think about this:

- What are the priority areas local government is budgeting for – and why?
- What are the sources of revenue? How much income comes from local taxes and how much from Government in the form of block grants? (see tool 3 page 34)
- Are local revenues rising or falling on a year to year basis? (Tool 4 page 36)
- What percentage of the previous year’s budget was implemented?
- Are the needs and the rights of the poorest and marginalized integrated into the budget?
- Does the budget reflect the needs and demands of women?
- How much is budgeted for capital costs and how much for running costs? Is it sufficient?
- Is the money for capital costs (constructions etc.) reflected in the priorities that were identified by the communities in the preparation phase?
- How much money is set aside for local government travel (travel expenses). What percentage is this of the total budget?



In Nicaragua, womens’ groups meet to discuss the budget and make comments to it seen from a gender perspective. Youth groups are also organizing meetings to discuss the budget so that they are well prepared for the public presentation by local government.

Some municipalities in Brazil have included civil society in participatory planning and budgeting processes. Citizens are directly involved in all phases of the budget cycle and they take part in decisions about the development of their own municipality, including the allocation of funding for different projects. This means that the people prioritize where to spend money and how to generate income. There are also challenges, for example making sure that even the most marginalized people are involved in the process and their voices are heard. Another challenge is that the funding available from local government for these processes has decreased over time in some municipalities. This means that the opportunities to be involved in decision making have also diminished over time.

representatives present a budget in a complicated way, making discussions with citizens nearly impossible. If this is the case you can demand that a “citizen’s budget” be prepared in advance so that citizens have the opportunity to get a clear picture of the budget (see page 14). In some countries the meeting is not even held; in that case, your role will be to demand such a meeting.

Implementation phase
In this phase local government collects revenues (see page 18) and at the local level this is primarily through the taxation of smaller businesses and through granting licenses to, for example, market stalls. At the same time local government decides on the distribution of grants received from the government. Finally local government releases funds.

Civil society action: After funds are released, civil society can follow up on whether the funds are being released in accordance with the budget. Civil society can also lobby to take part in for, example, procurement processes in order to monitor the spending of these funds.

Challenges: The Right to Information is a fundamental right, and people have a right to information that affects their lives. Moreover, States have a duty to provide this information. However, Right to Information legislation has not been passed in all countries, and even if there is legislation granting access to information, it may still be difficult to get hold of. In some cases this leads to conflicts between civil society and local government. Members of civil society can risk arrest or harassment. We suggest possible actions:



– In other words: we monitor to make sure that the money is released for the right thing and at the right time.

If you have difficulty in getting information, here are some ideas you can try out:

| Information challenge | Possible actions |
|--|--|
| The information exists, but you cannot get access to it | <ul style="list-style-type: none">Find out what the information law is in your areaIdentify organisations and individuals within local government that can help you to obtain the information you need, and to ensure that the individual's identity is protected- if necessaryEngage the media to draw public attention to issue of right to informationTalk to other CSOs to find out if they have the information you need – mobilize others to demand the informationMake formal requests in writing to government officials – document your requests and answersTalk to powerful stakeholders outside government, do they have access to the information you need? |
| You can access the information, but it is incomplete or unreliable | <ul style="list-style-type: none">Supplement the documents with information from other sources, for example: reports or data from other local government departments or CSOsBring in specialists from outside – this could be people from national NGOs, coalitions or networks that are working on budgets and financesInterview Local Government officials to find out what exactly is missing – and explain it |
| The information you need does not exist or has not been recorded | <ul style="list-style-type: none">Develop your own survey to gather information. Get some help for this from other CSOs or professionals from for example universityAdvocate for better information – demand that local government records information correctlyEngage the media to draw attention to the lack of information |

For more information about budget monitoring see the accompanying handbook in this series titled “Accountability”

Monitoring Phase

In this phase, local government designs and organizes a monitoring process. In some cases civil society can take part in monitoring which is carried out by a school council or a health committee. Local government is accountable both to citizens and to the national government for the correct spending of the funds.

Civil society action in this phase focuses on monitoring the budget process. It is necessary for civil society to check that money is transferred and spent for the right purposes at the right time. This is also called an audit. Many CSOs are doing different kinds of budget tracking using different tools, for example social audit and public expenditure tracking tools.



When the Government of Uganda started announcing the amount of money that school parent associations should receive annually on the radio and in newspapers, the funding that actually reached the schools was raised from 13% in 1996 to 80% in 2000. This was due to parental interest and the availability of information. CSOs are still engaged in monitoring the resources allocated to schools to verify if they were spent as planned. CSOs have also sought to make head teachers and school management committees more responsible for planning and school budgeting. Corrupt district education officials, head teachers and building contractors have been exposed by the media for misuse of public funds.

Challenges often continue to be access to information. Budget tracking may reveal misuse of funds and corruption among staff at many levels, from high to low. Therefore, it is important to gather evidence and use it in the right way.

During the implementation phase and the monitoring phase, civil society can play different roles: A CSO can act as a watchdog where you hold local government to account or disclose corruption. Another role can be to engage constructively with local government to identify solutions and improve the social services. Depending on the context in your area, you may choose one of the roles or you may decide to handle both roles.

Spaces for participation are opportunities for civil society to participate in the budget cycle and they vary from country to country. The idea of spaces is helpful for thinking about how you can participate.

Closed spaces are spaces where the budget is developed and discussed behind closed doors. The doors may be closed due to lack of transparency.

Invited spaces are spaces where citizens participate in committees controlled by local government. The rules are set by local government, but CS may influence the outcomes in these spaces.

Under-utilized spaces are spaces where citizens are entitled to participate, but rarely do for a variety of reasons. It may be expensive (transport fees) or difficult (no public transport) to reach localities where meetings are held; there may be people who discourage entry or citizens may simply be unaware that these spaces are available to them.

Claimed spaces are spaces created and demanded by CS. They include forums established by CSOs, where duty bearers are invited. Claimed spaces can be a dialogue meeting between local government and CS; it can be an interface meeting where the media is invited.



– We must always be aware of power dynamics – and of who really holds power.

For more information about spaces see the accompanying handbook in this series titled “Voice and Representation”



– Our budget is so long and difficult to read, I doubt that even the politicians in our local government understand it. We need a citizen’s budget!

Citizen’s budgets – make them clear and simple

A key challenge for civil society is that budget reports are often long and written in technical terms. This can make it difficult for citizens to read and understand them. Therefore in many countries civil society organisations have started to demand ‘citizen’s budgets’.

Citizen’s budgets are simplified shorter budgets that include the most relevant information for citizens in an easy-to-read style. India, Rwanda, El Salvador and 20 other countries published citizen’s budgets

in 2010 thanks to pressure from civil society. So far, demands for citizen’s budgets have mainly focused on the national budget. But civil society can also put pressure on their local government to produce a citizen’s budget.

Challenges: If you find that your local government does not wish to – or cannot produce a citizen’s budget, it might be a good idea for civil society to make one and distribute it to citizens in the area. In the tools’ section you will find tools that can help you produce a citizen’s budget.

Sharing successes – strategies at the local level

Is your local government sceptical about civil society’s demand to be involved in the budget cycle and do they tell you that they cannot involve you because it is too difficult and too costly for them? Does your local government tell you that your demands for justice and transparency cannot be implemented in your district? If this is the case, you can look at other local governments in your country. You can try to find out if they are better at including civil society in the budget cycle and if they are in fact more transparent, just and easier to hold to account. If so, you can use these examples to put pressure on your local government to adopt best practices from other local governments in your country.

You can share your success. If a civil society organisation in your area has been successful in getting your local government to publish a citizen’s budget, you could get in touch with other civil society groups in your neighbouring district and share your victory with them (see page 14). These groups now have a strong argument for their local governments to also produce a citizen’s budget. You can also draw attention to your success at the national level by linking up with national civil society organisations.

Building solidarity. Linking up with other civil society organisations is the key to successful budget work. You can find other organisations in your country that work with budgets by visiting the International Budget Partnership’s webpage (listed under sources in this book). On their webpage you can enter your country’s name and see the contact details of other organisations working with budgets in your country.



- The local government in our neighbouring district gives much more information about the budget to their citizens. Why doesn’t our local government do the same?



- Find out if there is a network or coalition working on budgets in your country.

Kenya’s citizen’s budget

In 2011 the Kenyan Ministry of Finance published a 6 page citizen’s guide to the national budget. The document presents some of the key figures from the budget in diagrams and bullet points. For example, the pie chart on the right is from the document. The citizen’s budget provides information about how much money each sector will receive and how much has been earmarked for the poor as well as a lot of other information. The citizen’s budget also explains briefly what the government intends to do about important areas, such as creating youth employment and cushioning the poor from rising food prices.

| Category | Percentage |
|-------------------|------------|
| Income tax | 42% |
| Value Added Tax | 28% |
| Excise duty | 13% |
| Import duty (net) | 8% |
| Other | 7% |
| Investment income | 2% |



– If our local government doesn’t even follow the budget how can we hold them accountable? We need to demand credible budgets!

Can you trust your local government budget?

The budget is a binding document that should be followed by your local government. If the budget is not followed, it will be impossible to know what the money was actually spent on. The budget will not be transparent and accountability will suffer.

Projections

Because local governments cannot know exactly how much revenue they will collect during the year and how much they will spend, they need to estimate these figures. These estimates are called ‘projections’.

Projections for expenditure and revenue should be realistic and not wild guesses that turn out to be wrong every year. A typical problem with local government budgets is that revenue projections are too optimistic and expenditure projections are too low. Civil society needs to question and monitor projections and demand realistic budgets that are followed by the local government.

As a rule of thumb projections for revenue and expenditure should not be much larger or smaller than what was actually spent or collected the previous year. Civil society can check how much revenue was actually collected and how much expended in the previous year and then compare this with the projections for the coming year. Revenue and expenditure need to balance or otherwise local government will have to adjust the budget during the year, often without any monitoring from civil society.

Unrealistic projections in Uganda

In 2010 the Auditor General in Uganda found a number of problems with local government budgets. Local governments had spent almost 3.5 million USD more than projected. One district alone had spent 46% more than their projection. A sample also showed that local governments had collected 3.4 million USD less in revenue than they had projected. This shows that local governments were not making realistic projections.

Limits to expenditures – how much?

There are tight limits on how much your local government can spend. If you demand long lists of new expensive programmes, they will not listen. If you instead request new spending that can be financed within the budget, your local government is much more likely to listen to you.

Three questions that can give you an idea of how much you can demand:

- 1
- How much of the budget can be spent on new things? Most of the budget is already earmarked for things that cannot be changed. Salaries need to be paid every year and schools need to be maintained. Look at the budgets from previous years – how much was spent on new programmes? These numbers should give you an idea of how much new spending you can demand.

- 2
- Can you find expenditure in the budget that is wasteful or does not help meet the rights of the poor and marginalised? If so, you can suggest that your new spending proposals are financed by cutting these expenditures.
- 3
- Can you think of ways to raise more revenue in a just way? If so, you can suggest new spending for the same amount. On the next pages we will look more closely at the important role of revenue in the budget.

Who should you speak to?

It is important that you present your new spending suggestions to the right person. Ask yourself who really has the power to decide over new spending. For example, many local governments have Finance Committees that are in charge of calculating how much is available for new programmes. If the Finance Committee has real power it might be better to talk to them before you go to your local politicians.



– Try to ask people in your local area what they would like the local government to spend more money on. Only ask them to choose one or two of the most important things.



– There are so many things, but if I had to choose my biggest wish for new spending it would be for more teachers at my children’s school.

Revenue and Taxes

– the key to self-sufficiency?



– *Everybody needs to pay taxes – also the rich.*

Local government in most countries has the mandate to collect taxes from many different sources and to generate income at the local level to provide public services and ensure basic human rights as described in the country's constitution. In this chapter we discuss the different ways local government can collect taxes and generate income as well as the challenges that are involved. We will also suggest alternatives for increasing local government revenues. In addition, we will further suggest alternatives for redistributing wealth so that we reduce the inequalities between rich and poor. We will introduce you to Tax Justice work, which is about letting those who are better off pay more – both at the local, national and at the international level.

Donor support is an unsustainable source of revenue, because there is typically a time limit of two to five years. In many cases donor support comes with conditions, which means that a certain grant must be earmarked for specific purposes. For example there may be a lot of donor support to water provision in the form of water pumps, while there may not be any support for school buildings or books, or for health clinics or medicine. In other words: donor conditions limit the options for independent planning and implementation of plans by local government. There is also an issue with regard to accountability of such support – in most cases there is little or no transparency as to how donor support is provided and spent. Civil society has a role in terms of monitoring the support and creating awareness about the problems of being over dependent on donor support.

In general local government has limited powers to generate revenue. However, it has power to collect taxes and royalties. Here are some examples: Putting taxes or levies on natural resources such as fish, grain, charcoal and river sand. Demanding payment of fees, licenses for shops, market stalls, land application forms and permits for e.g. small scale mining and collecting property tax from private land owners and from smaller companies.

Other income sources could be taking loans in banks (with high interest rates) and receiving donor and NGO support.

NGO support in the form of service provision can also be an unsustainable input for a district as funds may suddenly dry up. In terms of accountability, there can be an issue if an NGO has provided a school building for example, which the local government originally has planned and budgeted for. In this case it is critical for civil society to monitor the budget to find out what the local government has used the allocated money for. Has it been

spent on motorcycles or water pumps for the people? Just like with donors, there is an issue about the accountability of NGO support. NGOs are rarely transparent and internal accountability of NGOs can be an issue that CSOs should be aware of.

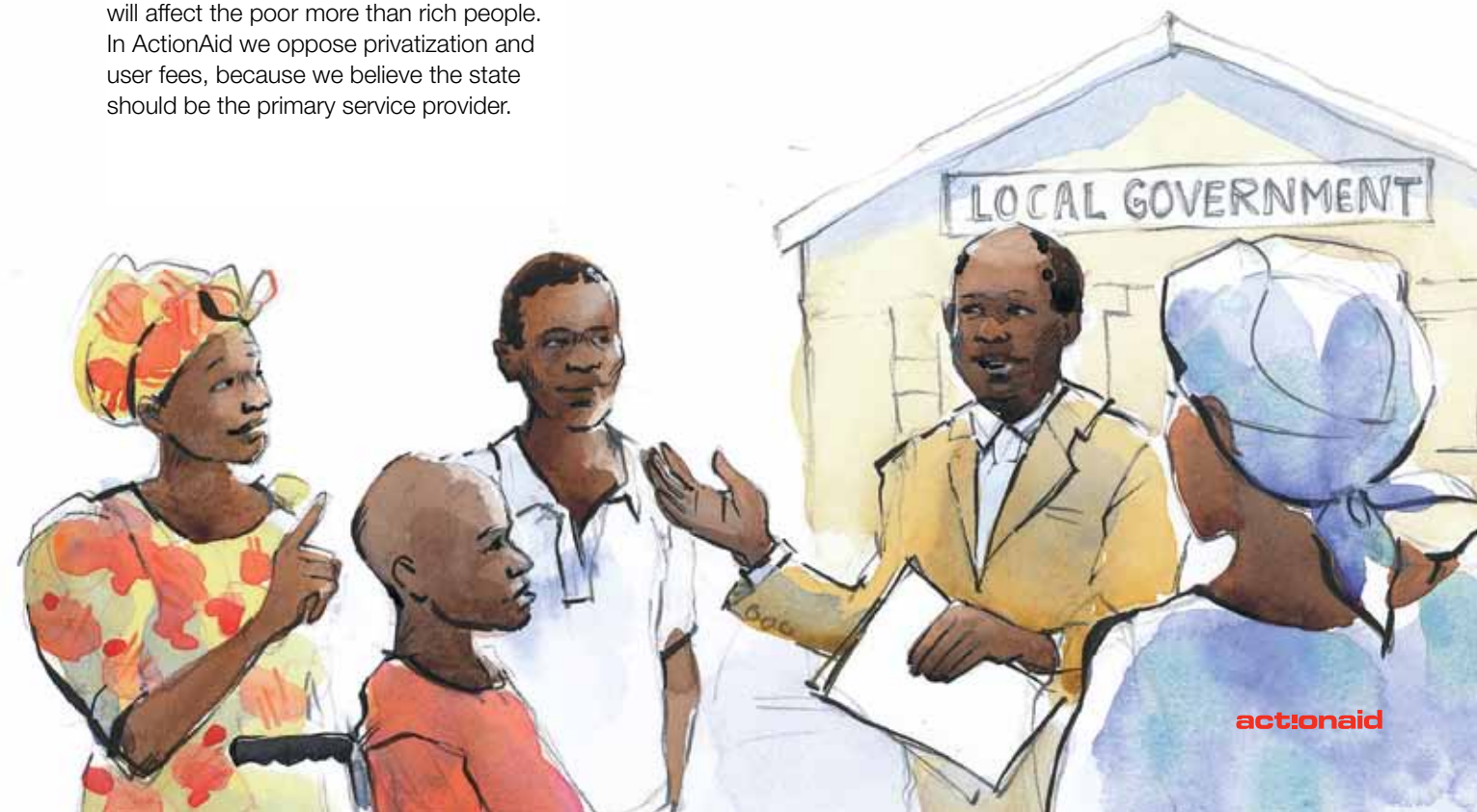
Privatization (in some countries called: Public Private Partnership) of social services may lead to the introduction of user fees for public services, for example in schools, for water provision and for medicine. Such fees will affect the poor more than rich people. In ActionAid we oppose privatization and user fees, because we believe the state should be the primary service provider.

ActionAid demands alternatives that place people in the centre

- **Wealth should be redistributed to those who have no access themselves to even basic human rights**
- **Justice so that those with the broadest shoulders pay more tax by advocating for a progressive tax reform**
- **Equality so that we all have equal access to public services**



– *Taxation can set us free from donor dependency*



Why do people refuse to pay taxes?

In many countries people refuse to pay taxes they are supposed to pay. A study of six African countries found that 30-70% more revenue could be collected at the local level if people paid what they were supposed to. Because of this less money can be invested in services for the poor and marginalised.

What should you do? Ask people why they refuse to pay taxes and the answers might surprise you. You may think that people prefer to keep their own money - but people may think that the tax collectors keep the collected money for themselves. Or that people refuse to pay because they do not think the local government will

spend the tax money properly. When you know the reasons - you will also be able to address the most pressing problems facing tax collection and at the same time make tax collection more just.

One way to find out why people refuse to pay tax is to do a survey in your local area. Ask people how they experience the tax collection system in your local area and what it would take for people to pay their taxes. Interviews with as little as five people can still give you a good idea of where there might be problems. Using personal stories, for example about the abuse of power by tax collectors, can be a very effective way of informing people about the problems in your local tax system.



– Why should I pay taxes when I have nothing and the local government uses all the money on big cars for themselves? We need to change this.



– The tax collector told me that I didn't have to pay tax if I gave him some money. I wonder how any taxes can be collected if all tax collectors are like him.

Another way to collect people's views on taxation is to call a meeting where you invite members from your area, local politicians and representatives from the local tax collection agency. At the meeting you can have an open discussion on what needs to change to increase revenue collection. At the end of the meeting, you

should try to discuss what can be done to address the problems that people have identified. Even if the politicians and representatives from the tax collection agency refuse to come you can still use the information that is revealed at the meeting in later campaigns.



– Everyone knows that the big companies in our district pay almost no taxes. If they don't pay, why should we?


Opinions on tax in Tanzania

In Tanzania a survey among taxpayers showed interesting results on why the local government was not able to collect much tax:

- 58% answered that tax collection was low because people did not feel that their tax money would be spent well by the local government
- 48% answered that they thought tax collection was low because the tax rates were too high
- 46% answered that the problem was that tax collectors were dishonest
- 38% answered that the problem was that tax collectors harassed the local population

A big surprise was that 73% of the people interviewed said that they would be willing to pay more tax if public services improved. This shows that the biggest problem in low tax collection is not necessarily that people prefer to keep their own money. If the budget is fair and just more people will also be willing to pay taxes.

It also shows that how taxes are collected can be very important. If tax collection involves corruption, intimidation or even violence, tax collection will also be low. Civil society can play a key role in addressing these problems by uncovering them and demanding that they are changed

 An NGO platform in Sierra Leone has documented that two-thirds of the people in the capital city do not have access to water. Their report claimed that the lack of safe drinking water is increasing the burden on women and children. Girls have been raped trying to fetch water as early as 4:00 AM and most children have lost the opportunity to attend schools. The platform recommended access to water service as a priority and that management of this service should be a collaborative effort between government, councils and community based organisations. The government has since back-tracked on the move to privatize, and is now piloting the recommendations of the NGO platform.



– Revenue is falling in our district – local government must do more.

Ideas for local revenue generation

- Property tax should be regulated and updated – so that it corresponds with the current price level in your country.
- Find out what it would take to make more people pay their taxes and make sure that corruption and inefficiency in local tax collection is limited (see pages 24 and 25).
- Make sure that the biggest companies in your local area are paying the taxes they are supposed to and whether they are given excessive tax exemptions (see pages 22 and 23)."

Challenges: Local government will often not have the manpower or the means to collect revenue in a rural context, where the districts are often vast. In a large district, it is also difficult to control the mobility of goods, e.g. fish, and grain movements across district boundaries. The staff in local government also need to know more about tax legislation, as well

as about how and what to collect from citizens.

Tools 3 and 4 page 34-37 can help you to identify what revenue is collected in your local area and see whether local government has changed the sources over the years. This information is important when you advocate for better income generation by local government.

Why do we pay taxes?

Taxes are a necessary precondition for a functioning state/region to fulfill people's needs and socio-economic rights. This means for example that school buildings, teachers' salaries and school books are financed from taxes paid by us or paid from taxes from the private sector. Taxes are collected at the national level. ActionAid firmly believes that those who earn the most should pay the largest share of their income in taxes; we need a just and fair tax system.

Governments need to spend more money on public services to combat poverty. Tax is a sustainable source of revenue. If this revenue were collected effectively it could provide better services for the poor. Experience shows that with adequate political will, a lot can be achieved within a few years.

For example:

- Rwanda quadrupled the amount of tax it raised between 1998 and 2006
- Uganda raised its tax-to-GDP ratio from 7.2% to 12.6% in just over a decade
- South Africa now raises 29% of its GDP in tax, compared to 24% in 2001

ActionAid has calculated that, if all developing countries were able to raise just 15% of their national income as tax revenue– they could realise at least an additional US\$198 billion (£99 billion) per year. This amount is more than all foreign development assistance combined.

Raising revenue from taxes rather than receiving aid means that governments need to be more accountable to their citizens in terms of spending the revenue.

Let us talk about two types of taxes here: consumption tax and income tax. Both types are collected at the national level, but they have a big impact on people at the local level.

Consumption Tax or VAT (Value Added Tax) is an extra percentage of the price of the goods and services you buy. For example when you go to the local market to buy a bar of soap or cooking oil or when you go to the pharmacy to buy medicine, typically 15-20% of the price is value added tax.

Personal income tax is when tax is deducted from your salary and paid to the national government by your employer.

Because the VAT rate is the same for all consumers, it imposes a heavier burden on the poor. In order to make the tax system more just, some countries exempt certain basic necessities from VAT, such as food items, and instead only impose VAT on luxury goods, for example alcohol and cigarettes.

The government can increase the revenue base in a more just and democratic way through **progressive tax reforms**. This means that people earning higher income will pay a larger share of their income in tax than lower-income people.

On the contrary, VAT is a **regressive tax**, because everybody pays the same VAT on goods like cooking oil. Tool 1 page 32 shows you how to calculate VAT.


Challenges: Often citizens have little confidence in the way tax is collected and administered because corruption in tax and revenue authorities tends to be very high. The tax and revenue collection methods are often not effective and in many cases the authorities need to be better qualified in order to do their jobs. There is often very little coordination between local and national tax authorities.



– We are poor, but still we pay tax when we buy a scarce pack of rice, or salt or sugar – but what do the rich landlords pay in tax for their huge properties? It is not fair.



– We want to know what our tax-money is spent for. Politicians must be accountable to us.

 South Africa’s Women’s Budget Initiative has carried out an analysis and advocated removing VAT on paraffin, which is used by most poor people. This had a positive impact on women – because many more women live in poverty and depend on paraffin.



– Women spend more money on household goods, so we pay more VAT than men. The VAT should be less on such goods. Rather, taxes should be put on alcohol and cigarettes.

People also mention that local tax officials use coercion when they collect taxes, and in some cases they have even demanded sexual favours from women.

Tax Avoidance

In the area where you work and live there may be natural resources like coal, oil and precious stones etc. Such resources are very valuable for your country and therefore it is crucial that civil society is aware of the revenue coming from these resources. The resources may be extracted by international companies which may have made an agreement with the state/region to pay no or very little tax.

Some countries compete to offer the best conditions for these companies, in order to attract them to set up businesses in their countries. This often results in companies making huge profits and paying very little tax. This “race to the bottom” where everyone competes on lowering their taxes can also happen at the local level where local governments try to attract companies.

Civil society must demand that the state imposes and collects tax from these companies in order to ensure that the value of the extracted resources remains within the country, and are redistributed and spent on public services. Civil society must also demand that local governments do not compete on low taxes.

Other international companies like breweries also avoid paying taxes and transfer the profit to so-called tax havens.

Tax avoidance by political elites and financial elites happens on a large scale in many countries; the rich and powerful elite does not want a progressive tax reform, or a redistribution of wealth, so they misuse the weak legislation, the weak tax authorities and use their elite status and hidden power to avoid paying income and property taxes.

This also happens at the local level where the political elite are closely connected to the private sector elite and both parts avoid paying taxes. Tax avoidance means that the countries, and the districts, have less money to finance public services.



– When companies fail to pay their taxes because of tax avoidance it means that your country becomes more dependent on foreign aid to finance their budget

International Tax Justice is about transparency in international finance. It is about promoting tax compliance and opposing tax evasion, tax avoidance, and all other mechanisms that enable owners and controllers of wealth to escape their responsibilities to the societies upon which they and their wealth depend.

It is estimated that tax avoidance in the South amounted to 1.2 trillion USD – and that every time rich countries give 1 USD in development aid – the international companies take out 10 USD.

Think about this:

- Which institutions are collecting tax in your area?
- Are taxes progressive or regressive in your area?
- How is tax collected? Is coercion and violence involved? Are women more exposed to violent tax collection?
- Do tax laws and rules treat all people fairly? Are taxes targeting women more than men?
- Are taxes designed in a way that ensures that the poor pay the least tax?
- Are taxes raising enough revenue?

ActionAid demands a redistributive and just tax system that ensures well-functioning public services to the poor. It is also vital that we demand the state/region to have an effective tax system, which can redistribute income and wealth for social justice and reduce societal inequalities and raise substantial domestic resources.



Companies must be transparent in payment of taxes and governments must be transparent and accountable to us in how it spends the revenue.

Fiscal Decentralisation

– a just distribution of resources?



– There are many actors and different funds for civil society to monitor, in order to ensure that funds are spent on the right thing, and not captured by the elites.

Now we have talked about the different types of income that local governments and states have. The next thing to look at is how money flows from the national to the local level. We need to know something about decentralisation. The idea of decentralisation is to have the state/region closer to the people, to be able to provide better social services, such as health and education.

The level of decentralization is very different from country to country: in some countries the central state/region has given a lot of political, administrative and fiscal power to local government, while in other countries central government clings to power and doesn't want to give its power away.

ActionAid is advocating for **People-centered Decentralisation** to ensure that our rights are fulfilled and our influence is increased. We strongly believe that people-centered decentralisation must:

- Give more influence to citizens in decision making processes, in planning, in budgeting and in monitoring.
- Enable citizens to exert real influence over local matters
- Secure the voice and representation of women and marginalized groups.
- Give clear obligations to local governments to fulfil the rights of their citizens especially in terms of justice, accountability and transparency. It is not enough to just increase budgets at local level; we must also ensure that the money is distributed in a just manner.
- Secure locally elected governments that have clear mandates, sufficient capacity and skills, and adequate funding and ensure that they have well-functioning accountability systems with particular emphasis on downward accountability.

Fiscal Decentralisation: The decentralisation of finances in most countries is very limited and therefore the role of local government is limited. Local government makes local development plans, but the budget is the actual indicator of how much decentralisation is really taking place at the local level. In the diagram opposite, we show how the different funds flow between local and national levels, as well as the many different actors who are involved:

The diagram shows that:

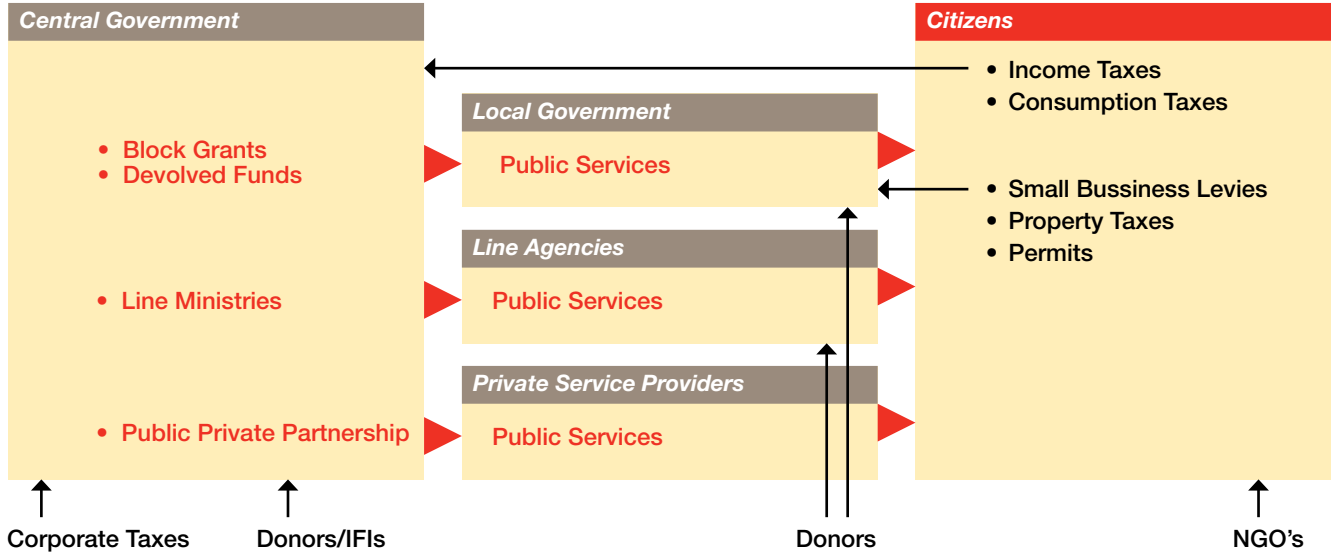
- Central Government transfers money to Line Agencies (Line ministries), which administer the funds for Education and Health etc. This money makes up the bulk of funds available for social services. Therefore the important thing for civil society is to focus on the “BIG money” – to find out how much money is transferred to line agencies? How is the money managed at the local level? How can you get access to budgets and monitor the implementation?
- Central government transfers Block Grants to local government. The grants can be

- either “Discretionary”, which means they have a specific purpose, or they can be non-discretionary, which means that local government has more say about what the money can be spent on with regards to public services.
- Central government transfers Devolved Funds to local government; these funds are generally a very small percentage of nationally generated taxes. The funds are used for smaller projects which civil society can apply for. The projects are of course important for civil society, because they can contribute to local development on a



– It is important that the funds are just and equitably redistributed, so that the access to public services is equal for all.

Flow of public service funds and actors





– We need to monitor both budgets in the line agencies and the local government budgets.

Block grants and Development Funds are technically called “Allocation of Expenditure”. In this book we look at these funds as local government income, because they are part of the money

smaller scale. But as civil society, we often focus on this money and forget to look the bigger picture – and the BIG money: the Block Grants and the funds administrated by Line Agencies.

- Donors and NGOs fund different levels: local government, Line agencies or specific schools for example.
- Private Service Providers administrate money from the Central Government and collect user fees.
- Central Government often bypasses local government in some cases, for example when larger project/employment schemes are financed directly by the state. This undermines the authority and power of local government.

The distribution of money from the state/region to the districts is calculated by the state/region and it follows a certain formula, which has been agreed politically. The formula for distributing the grants considers criteria such as population size, number of rural communities, population density, poverty index, how much revenue local governments collect, etc. The distribution is not always fair and just, but it shows us whether the state/region wants to promote local development and secure a fair redistribution of wealth. Some poor districts do not receive what they are entitled to, but local government may not be aware of this. You can use tool no. 5 page 34 to compare per capita revenue between your own district and neighbouring districts.



– We invite duty bearers to our meetings and trainings – so now they share information with us, and listen to our concerns.



– Good idea, the duty bearers also need to know more about our rights and what their responsibilities are.

Civil society action:

- Analyse and monitor the flow of money from central to local levels. Monitor the spending of funds to expose corruption.
- Engage with line-agencies to get the full picture of how public services are financed in your district.
- Engage with local government to find out whether the distribution of money between districts is fair and just.
- Make sure you understand local government structures so that you can participate and influence all the existing committees and councils etc. Suggest alternative ways of getting influence.
- Include local government and district officials in your work and train them in budget analysis.

Challenges:

- Central government is often not ready to delegate power to local levels; this is a political issue.
- Line-ministries at the local level have their own budgets and plans, which need monitoring by civil society. Access to information can be difficult and the duty bearers at local level line agencies have not been elected and may be more upwardly accountable to their ministry than downward to the people, the users of public services.

- Local government needs training in managing public services and finances. Control systems in local governments are often not sufficient, so there are many reasons for delays in services. Many countries experience delays in transfers from the central level and this creates big problems for local governments – and it contributes to difficulties in delivering public services.
- At the local level staff are not inclined to provide the information civil society requests, they are also reluctant to let go of their power and opening up to civil society in order to cooperate on improving services.
- Corruption is common and powerful people in local government misuse the non-transparent and complicated money flows to access public funds for themselves. The low capacity of the staff, the poor control systems – and finally the lack of awareness and attention by civil society and media all contribute to a high level of corruption in the public sector.

For more information about local governance and decentralising see the accompanying handbook in this series titled “Democracy”

ELBAG: Putting it into Practice

– empowerment, campaign, solidarity



– We must create networks and movements at the local levels to strengthen our influence

We hope this book and the tools inspire you to start or continue ELBAG work to demystify budgets and the economic policy underlying the budgets in your area. In this book we are expanding ELBAG to also include revenue and taxation at local level.

Depending on the experience your organization has of budget work, we suggest that you get some help to get started with using the tools we have collected here. Understanding and analysing budgets is not easy and the tools we are introducing about revenue and taxation may need some extra explanation.

Linking local to national levels is essential for ELBAG work. There is a limit to what you can achieve at the local level, because budgets at the local level, the flow of funds, and taxation are dependent on national and international policy. Larger structural changes in legislation and policy happen at the national level.

You need to engage with national or regional networks, coalitions and social movements in order to advocate for increased and just financing of public services for poor and marginalized people. You need the national NGOs to support you and strengthen your voice and advocacy. Likewise, national NGOs need you to document issues and challenges at local

level, which they can then use in their national campaign.

Linking to international level is especially important with regard to taxation. As we have explained tax avoidance involves both the local, national and global level. Civil society voice in districts where the resources are extracted is important. Supporters and activists in other countries can become part of an international movement for change.

Campaigning: Be inspired by the HRBA Handbook to campaign and to get your messages out. We want to empower people who are members of local CSOs, Reflect Groups and other groups to do budget work where you also focus on revenue analysis.

The mobilization of many budget groups and building solidarity on the basis of empowerment is important – numbers matter when you want to engage with local government and officials, the more people engaged the more difficult it is for the duty bearers to ignore you.

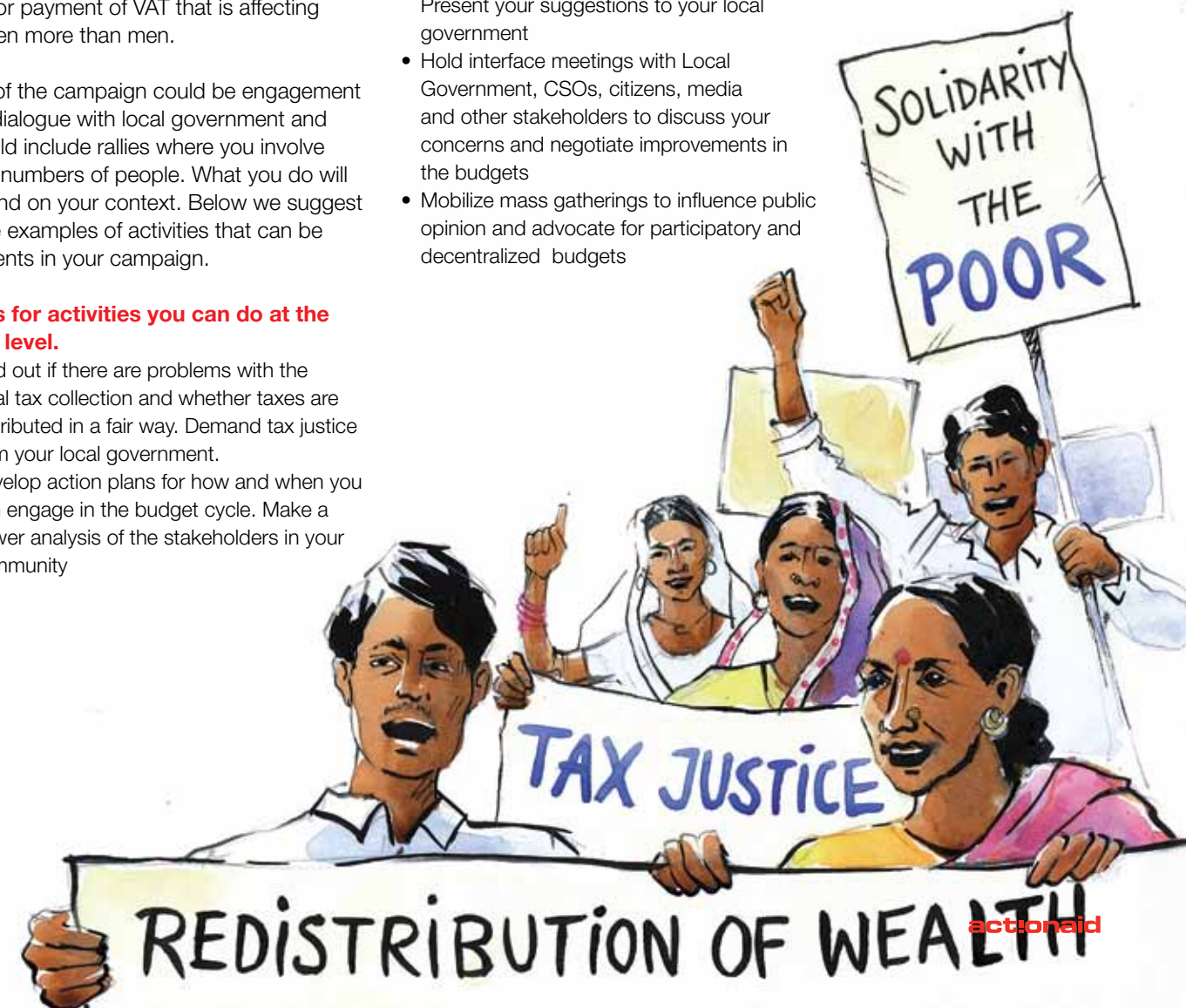
Your campaign could include, for example, documentation of changes in budgets over time or payment of VAT that is affecting women more than men.

Part of the campaign could be engagement and dialogue with local government and it could include rallies where you involve large numbers of people. What you do will depend on your context. Below we suggest some examples of activities that can be elements in your campaign.

Ideas for activities you can do at the local level.

- Find out if there are problems with the local tax collection and whether taxes are distributed in a fair way. Demand tax justice from your local government.
- Develop action plans for how and when you can engage in the budget cycle. Make a power analysis of the stakeholders in your community

- Together with people from your local area develop new ideas for a more just budget. Present your suggestions to your local government
- Hold interface meetings with Local Government, CSOs, citizens, media and other stakeholders to discuss your concerns and negotiate improvements in the budgets
- Mobilize mass gatherings to influence public opinion and advocate for participatory and decentralized budgets



Tool #1: Calculating VAT

What is VAT?

VAT is a tax that is charged on the sale of goods and services. The money is collected by the company or shop when you buy something, but it must then be passed on to the government.

What this tool is useful for

When you buy a product or a service from a company, you are likely to pay Value Added Tax (VAT). This tool will show you how to calculate the amount of VAT you pay on an item or service. No matter what your household income is, you will pay the same percentage VAT as your poorer or richer neighbour. The VAT rate differs from country to country and sometimes varies depending on what you buy. In many countries, certain items are exempted from VAT. For the purpose of the example below, a VAT rate of 15% is used. We also assume that the product being bought is not exempted from VAT.

How to do the calculation

In your country, VAT may be included in the price of a product or service. In this case, VAT is part of the price you see on the price tag. However, it may also be that VAT is only added to the price when you pay. The price tag will then reflect what the price is before VAT. The method you use to calculate VAT will depend on which of the situations above apply in your context. The calculations for both are presented below. A calculator may come in handy.

A) If VAT will be added to the price when you pay:

You will pay more for the item or service than the price tag says. To work out what the VAT amount will be on a single item, use the following formula:

$$\frac{\text{VAT rate}}{100} \times \text{price on tag} = \text{the VAT amount}$$

Here are the steps:

- a. Take the VAT rate and divide it by 100.
- b. Multiply the answer you got in a) with the price on the price tag.

B) If VAT is included in the price:

To calculate how much of the price of a single item is VAT, you use the following formula:

$$\text{Price on tag} \times \frac{\text{VAT rate}}{\text{VAT rate}/100+1} = \text{the VAT amount}$$

Here are the steps:

- a. Take the VAT rate and divide it by 100.
- b. Add 1 to the answer you got in a).
- c. Divide the price on the price tag with the answer you got in b).
- d. Subtract the answer to c) from the price on the price tag.

Example in practice

Say you want to buy 1 litre of cooking oil, 1 kilogram of sugar and 1 kilogram of maize flour. The price on the price tags say 40, 35 and 17 respectively. The total amount for all three items is 92. Depending on the country you live in, this may be a little or a lot of money for these items. But for the sake of this example, let us pretend it is what they cost. You now want to know how much VAT you will pay when buying the oil, sugar and flour.

A) If VAT will be added to the price on the price tag when you pay:

You will use the calculation as in A) above:

- a. Take the VAT rate of 15 and divide it by 100: $15/100 = 0.15$.
- b. Multiply 0.15 with the price of the items: $0.15 \times 92 = 13.8$ (rounded off to 14).

You will pay 14 in VAT over and above the price of 92. The final price you will pay for the three items will therefore be 106 ($92 + 14$).

B) If VAT is included in the amount shown on the price tag:

You will use the calculation in B) above:

- a. Take the VAT rate of 15 and divide it by 100: $15/100 = 0.15$.
- b. Add 1 to the above answer of 0.15: $1 + 0.15 = 1.15$.
- c. Divide the total price of the items (92) with the above sum of 1.15: $92/1.15 = 80$.
- d. 80 is the amount you will pay for the actual oil, sugar and flour, the rest is VAT. To get the VAT amount you subtract 80 from 92: $92 - 80 = 12$.

The final price is 92 and 12 of this is VAT.



“Be sure to have a calculator ready when you use the tools”

Tool # 2:

Tax and redistribution

Two ways of taxing

- **Regressive taxation:** The more you earn, the smaller the share you pay in taxes
- **Progressive taxation:** The more you earn, the larger the share you pay in

What is this tool useful for?

This tool is a game that demonstrates the impact of regressive and progressive taxation.

Playing the game

You will need:

- A number of similarly sized units to represent income, for example bottle caps, beans or pebbles.
- 3 bowls or transparent plastic bags to collect taxes. There should be one bowl or bag for each income group. Place them so all participants can see them.
- A flip chart or a large piece of paper and a marker.

First you need to divide the participants into 3 groups: Low, middle and high income. Most people should be in the low income group. For example, if you are 10 participants you can put 6 people in the low group, 3 in the middle group and 1 person in the high income group.

Next, give participants units that reflect their monthly income. Give everyone in the low-income group 5 units, 12 units to everyone in the middle income group, and 50 units to everyone in the high income group.

Now you are ready to play the game!

Paying VAT

The facilitator announces: During one month the low-income group has spent 4 units on groceries while the middle income group has spent 9 units, and the high income group has spent 15 units. Included in the price of all groceries at the market is 25% VAT. How much has each of you paid in tax?

Using tool #1 B the facilitator helps calculate the tax for each income group. The calculations should be done on the flip-chart or big piece of paper. If you do the calculation correctly you find out that the tax paid is:

- Low income: 1 unit (rounded up from 0.8)
- Middle income: 2 units (rounded up from 1.8)
- High income: 3 units

Ask the participants to put the units they have paid in tax into the bowl that belongs to their income group. With 6 people in the low income group their bowl will get 6 units, with 3 people in the middle income group their bowl will also get 6 units, and with 1 person in the high income group this bowl should have 3 units in it.

Discuss:

- 1 Who is left with how many units? Which group has contributed with the most units? You might be surprised to see that even though the poor individually pay less than the rich, they still end up paying more because there are more poor people than rich.
- 2 What is the tax rate of the different groups? Calculate this for each group on the flip chart or large piece of paper. The calculations are done this way:
Number of units paid / original number of units x 100 = tax rate
If you do the calculations correctly you find out that: The poorest pay 20%, the middle group pays 17%, and the richest pay 6%.
- 3 Is this a regressive or progressive tax system?
- 4 Is this a fair tax system? Why/why not?

Everybody gets their units back.

Progressive income tax

The facilitator announces: A new income tax is introduced to finance local government development expenditure.

The more you earn, the larger the share of your income you should pay:

- 0-9 units: You do not have to pay income tax
- 10-29 units: You should pay 15% in income tax
- 30-100 units: You should pay 30% in income tax

Calculate how much tax each income group has to pay following this calculation:

- Tax rate / 100 x income = units paid in tax

If you do the calculations correctly you find out that the poorest pay 0 in tax, the middle income group pay 2 units, and the richest pay 15 units.

Ask the participants to put their tax payment in the bowl that belongs to their income group.

Discuss:

- 1 Who is left with how many units? Which group has contributed with the most units?
- 2 Is this a fair tax system? Why/why not?



– If you have a lot you should also contribute more because you can afford it. If you are poor you should not pay too much tax because you cannot afford it.

Tool # 3: Identifying sources of revenue

What is revenue?

Revenue refers to all the income that a country or area receives. The sources of revenue might include different kinds of taxes, income from public enterprises and service fees, allocated funds from other levels of government, loans, grants and development aid.

What this tool is useful for

This tool shows you how find out and present which revenues are collected in an area of your choice. In many developing countries, revenues are collected nationally. This means that even though people pay taxes (for example VAT) at the local level, the taxes are all pooled at the national level. It is often very difficult or impossible to find out exactly which amounts of revenue came from which local areas. The easiest way to use this tool is therefore to look at the national level. However, in some instances, it may be possible to find out which taxes were collected from people or businesses at your local level, for example in your village or metropolitan area.

How to do the calculation

- a. Make a list of all the types of revenues that are collected in or allocated to the country or area.
- b. Decide on a time period to focus on. The most common is to look at a budget year. You are more likely to find relevant information if you choose a year that ended at least a year ago, as it often takes some time for the data to become available.
- c. Find out the amount collected or received for each revenue source in the selected time period.
- d. Add up the total amount of all the sources of revenue and allocations.
- e. Divide the amount for each revenue source with the total amount of all the revenues and allocations.
- f. Take the result of each calculation above and multiply it by 100. You now have the percentage (of each revenue source) within the total revenue.
- g. Compare the shares collected from different sources of revenue by looking at the percentages of the total: what were the main sources of revenue in your country or area?
- h. Present your findings in a table or a pie chart as shown in the example below.

Example in practice

Imagine you would like to know what kinds of revenue were collected from and allocated to your province or district in a given budget year. After some investigation, you are able to establish that the following amounts were received:

- Corporate tax (licenses, fees and permits) – 3,200,000 million
- Property tax - 409,000
- Block grants – 355,000
- Allocated funds from other levels of government – 9,013,000
- Other taxes and levies 23,000
- Donor funds – 1,200,000

All the amounts above add up to 14,200,000.

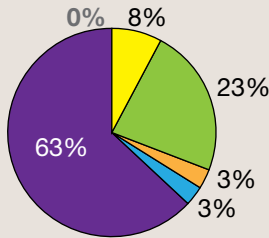
The next step is to work out what percentage of this total revenue pie was contributed by the various sources of revenue or allocations. For example:

Divide the block grant amount (355,000) with the total amount of all revenue (14,200,000):
 $355,000 / 14,200,000 = 0.025$

To express the result as a percentage, multiply 0.025 with 100: $0.025 \times 100 = 2.5\%$

Repeat the calculation with the other three kinds of taxes. Then you can compare your findings and calculations in a table or a pie chart, as shown below:

Shares of tax revenue collected



- Donor funds
- Corporate tax (licences, fees, permits)
- Property tax
- Block grants
- Allocated funds from other levels of government
- Other taxes and levels

| Types of revenue | Amounts of revenue | Percentage of total revenue |
|---|--------------------|-----------------------------|
| Corporate tax | 3,200,000 | 23% |
| Property tax | 409,000 | 3% |
| Block grants | 355,000 | 3% |
| Allocated funds from other levels of government | 9,013,000 | 63% |
| Other taxes and levies | 23,000 | 0 |
| Donor funds | 1,200,000 | 8% |
| Total tax revenue: | 14,200,000 | 100% |

Tool # 4: Tracking changes in a revenue source over time

What this tool is useful for

This tool helps you to compare how different sources of revenue in a country or area have changed over time. It can reveal whether a revenue source is growing or shrinking, and also whether certain revenue sources are becoming more important while other become less important. Looking at revenue sources over a time period helps you to identify such trends.

Why do revenue sources change over time?

This may happen for many reasons, for example:

- The government may have amended its tax policies;
- More or less people may be living and paying taxes in the area;
- More or less companies may be operating in the area and earning more or less in turnover;
- The collection of taxes could have become more or less efficient;
- The government may have raised or reduced user fees on public services;
- Income from extractive industries, like copper mines and oil refineries, may have been affected by fluctuations in commodity prices.

How to do the calculation

- a. Decide which source of revenue you would like to compare over time.
- b. Decide on the area you will focus on (local, district or national level, for example).
- c. For the geographical area you have chosen, find out what amounts were collected for that revenue source over a number of years.
- d. To get a good overview, it is useful to express the revenue amount for each year as a percentage of the total revenue collected from that source over all the years. To do this:
 - i. Add up the total amount collected from that revenue sources over all the years you are studying.
 - ii. Divide the revenue amount for each year with the total amount for all the years together (the answer to i) above).

- iii. Take the result of the calculations above and multiply them, one by one, by 100. This will give you the percentage that each year’s collection of that revenue source contributed to the total.
- e. Present the information in a table, (as shown below), or in a bar chart.

Example in practice

Say you want to know how the collection of school fees in your town has changed over the years 2007 to 2010. Using this tool, you can calculate how the school fees collected each year contributed as a percentage to the total school fees collected over all the years.

With some research, you were able to find out how much was collected in school fees each year. In the table below, these figures are presented in the second column from the left.

You can now calculate how the amounts collected over the various years each contributed to the whole amount.

- First add up the amounts for all the years together. As you can see, the total school fees collected between 2007 and 2010 was 2,330,000.
- Starting with 2010, work out what percentage of the total school fees over this four year period was collected in 2010: Divide 400,000 with 2,330,000 and then multiply the result with 100. The answer is 17.2% (rounded off).
- Repeat the exercise with each of the other years and add your results to a table like the one below.

| Year | Amount of school fees | Percentage of total school fees 2007-2010 |
|-------|-----------------------|---|
| 2010 | 400,000 | 17.2% |
| 2009 | 650,000 | 27.9% |
| 2008 | 700,000 | 30% |
| 2007 | 580,000 | 24.9% |
| Total | 2,330,000 | 100% |

Now you have an overview that shows how the collection of school fees has changed over time. For example, you can see that the revenues collected in each of the other years made a larger contribution than in 2010.



- When you compare numbers over several years make sure that they have been adjusted for inflation

Tool # 5:

Calculating per capita revenue

What this tool is useful for

This tool allows you to calculate how much revenue is collected on average per person in a given area. This is often referred to as “revenue per capita”. Per capita means “per head”.

Calculating per capita revenue can be useful as it gives you an idea of how much income has been gathered on average per person. You can then compare the per capita amounts across different districts or provinces (see Tool # 5). You can also compare the per capita amounts over time to see whether more or less revenue is being generated on average per person.

How to do the calculation

- a. Decide which source of revenue you want to express in per capita terms.
- b. Decide on the geographic area you will focus on (for example local, district or national level).
- c. Decide on a time period to study.
- d. Find out how much of your chosen source of revenue was collected in total in the area over the time period of your choice.
- e. Find out how many people live in the area you are focusing on.
- f. Divide the total amount of revenue collected by the number of people living in the area. The formula is:

$$\frac{\text{Revenue amount}}{\text{Number of people}} = \text{Revenue per capita}$$

Example in practice

Imagine you would like to know the average amount of income tax collected per person in the district where you live. You do some research and find out that in 2010, a total amount of 75,550,000 was collected in income tax in your district. You also establish that 340,000 people were living in your district in 2010.

To calculate the per capita income tax, divide 75,550,000 by 340,000. The result is 222 (rounded off).

This means that in 2010, an average amount of 222 was paid in income tax per person in the district.

Of course you know that in reality, some people paid more income tax and some paid less or none at all. This calculation gives you an amount that has been averaged out so that it is easier to compare to other districts or other years.



– In our district per capita revenue has fallen over the past 5 years – and so has the quality of public services.



– You must insist that the government ploughs more funds back into local level development

Tool # 6:

Comparing per capita revenue between geographical areas

What this tool is useful for

This tool helps you to compare amounts of revenue collected across different geographical areas, whether these are districts, municipalities or otherwise defined. When you want to investigate revenue collection in different areas, it is often not very useful to simply compare the money amounts. For example, if you know that District A generates twice as much revenue as District B, it is difficult to draw too many conclusions from this information. It could be that District A is quite a bit larger and has more people and economic activities. Comparing per capita amounts of revenue is more useful as it allows you to factor in the size of the population.

How to do the calculation

- a. Select the type of revenue you would like to focus on.
- b. Decide on the geographical areas you would like to compare (such as municipalities, districts or provinces).
- c. Decide which time period to include in your study.
- d. Find out what amounts of your chosen revenue source were collected in the selected geographical areas over the time period in question.
- e. Establish how many people live in the geographical areas you are comparing.
- f. Calculate the per capita revenue for each selected area using Tool # 4 (Divide the amount of revenue collected in that area by the number of people living there).
- g. You now know the per capita revenue in each area within a certain time period and can start comparing and analyzing the numbers.

Example in practice

Say you would like to compare the amount of development funds on average per person that was allocated to your municipality and two neighbouring municipalities in 2010.

In that year, the development funds were directed towards employment projects for young people and women, and the installation of water pumps. You do some research and find the amounts for all three municipalities, as well as the number of people living in each area.

Working on one municipality at a time, now calculate the amount of development funds per capita for 2010, using Tool # 4. For example, for your own municipality, divide 2,430,000 by 202,500. The answer is 12.

Repeat the exercise for the other two municipalities.
The results can be presented in a table or chart like the ones below.

Table: Development funds per capita allocated to three municipalities, 2010

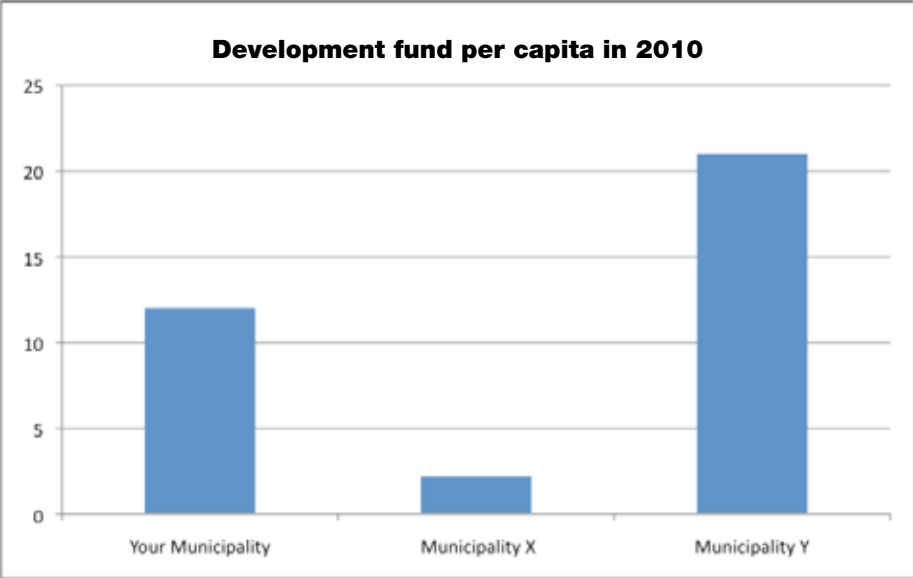
| | Your Municipality | Municipality X | Municipality Y |
|---|-------------------|----------------|----------------|
| Amount of development funds allocated in 2010 | 2,430,000 | 1,177,000 | 3,211,446 |
| Total number of inhabitants in 2010 | 202,500 | 535,000 | 152,926 |
| Development funds per capita in 2010 | 12 | 2,2 | 21 |





Tool # 6: Comparing per capita revenue between geographical areas

**Chart: Development funds per capita allocated
to three municipalities, 2010**



These findings show that when population numbers are taken into account, Municipality Y was allocated much more development funds per capita than the other two municipalities.

Acknowledgements of sources

This handbook has been inspired by the following resources:
“Action on Rights”, HRBA Resource Book, Actionaid, 2010

The Space and Power tools are inspired and adapted from A New Weave of Power, People & Politics: The action guide for advocacy and citizen participation (2002) by Lisa VeneKlasen & Valerie Miller. In addition Space and Power tools have been inspired by Gaventa, John (2005).

Reflections on the uses of the ‘Power Cube’ approach for analyzing the spaces, places and dynamics of civil society participation and engagement. CFP Evaluation Series 2003-2006:No 4. Learning by Design publication, Codaidd/Hivos/Icco/Novib/Plan Nederland.

The chapter about the budget cycle draws on “Public Financial Analysis Manual” A participatory toolkit on PFA for communities and CSOs, ActionAid, Nigeria; “ELBAG Handbook” ActionAid

The ideas for getting information (p.12) draws on “Monitoring government Policies, A toolkit for civil society organisations in Africa” (CAFOD, Christian Aid, Trocaire) http://www.trocaire.org/sites/trocaire/files/pdfs/policy/monitoringgovernmentpolicies_full.pdf

The chapter on revenues and taxes draws on “Calling Time: Why SABMiller should stop dodging taxes in Africa”, ActionAid; www.actionaid.org.uk/schtop ; “A Guide to Tax Work for NGOs”; The International Budget Partnership (IBP) <http://internationalbudget.org/> ; “Tax Justice Advocacy: A toolkit for Civil Society”; Christian Aid and SOMO, 2011

The section on “citizen’s budget” draws on “Facts about the Citizens Budget”, Soros Foundation. http://www.soros.kz/en/press_room/facts/citizens-budget

Kenya’s citizen’s budget can be found here: http://www.treasury.go.ke/index.php?option=com_docman&task=doc_details&gid=328&Itemid=86

The example on local government budgets in Uganda draws on “Annual Report of the Auditor General for the Year Ended 30th June 2010 – Volume 3 – Local Authorities”.
http://www.oag.go.ug/uploaded_files/1305652768Vol3%202009-2010%20Local%20Government.pdf

The survey on why people do not pay tax in Tanzania is from the report “Local government finances and financial management in Tanzania - Baseline data from six councils, 2000-2003”, Chr. Michelsen Institute (CMI), Working Paper 2004: 7.
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Other sources

“Budget advocacy for the water and sanitation sector in Nepal:
A primer for civil society organisations”, Wateraid Nepal (www.wateraid.org/nepal)

“Peoples Action for Just and Democratic Governance
- Using Evidence to Establish Accountability” ActionAid Denmark (2009),
Anna Schnell and Erika Coetzee. Editor: Robin Griggs

“Significance of Budget Accountability for Economic Justice”, ActionAid Pakistan

“Tools to support transparency in Local Governance”. Transparency International/UN Human Settlements Programme.
<http://ww2.unhabitat.org/publication/TOOLKITGOVERNANCE.pdf>

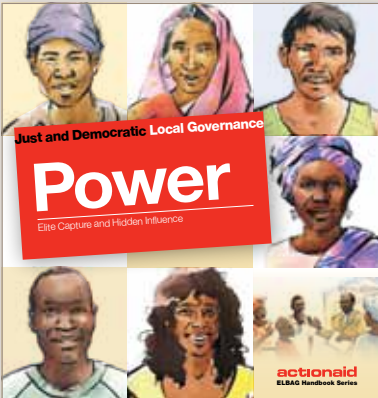
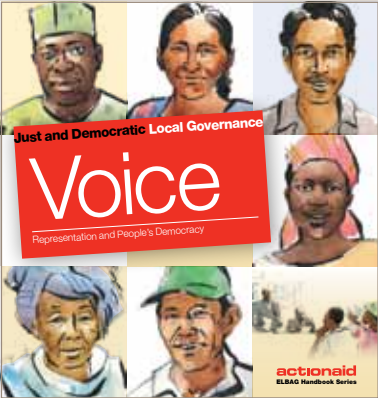
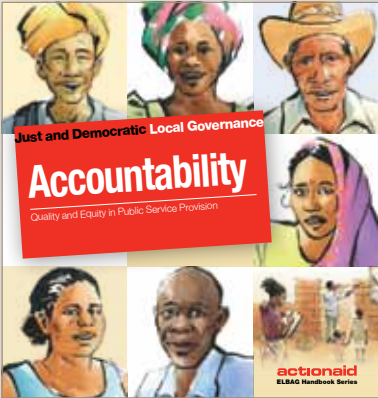
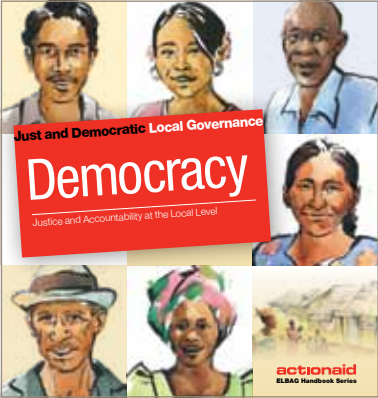
The International Budget Partnership (IBP) webpage has lots of relevant information in many languages. The web address is <http://internationalbudget.org/>. Under their library you will find a number of very helpful how-to guides for civil society, for example the report “A guide to budget work”. You can also find other CSOs that work with budgets in your country under the header “Who does budget work?”

The National Democratic Institute has published the “South African Budget Dictionary”. You can use it as a dictionary to look up difficult words when reading a budget report. Although it is made for South Africa almost all of the information in it can be used in other countries.
http://www.ndi.org/files/972_sa_budgetdiction.pdf

The Tax Justice Network works with taxation in many countries. Their webpage is full of relevant information: www.taxjustice.net.

The ELBAG Handbook Series

The ELBAG Handbook Series consists of a series of handbooks which aim to support the work of civil society activists in their struggle for Just and Democratic Local Governance. The series focuses on key challenge areas identified in ActionAid’s governance work. Under the common title: Just and Democratic Local Governance, the series at present consists of the following titles.



Just and Democratic Governance

Throughout the world, people's demands for democracy are growing louder as many have suffered under oppressive regimes and unaccountable leaders. Without meaningful democracy, elites capture decision-making processes and resources. For many of the poorest and most excluded groups, there is a strong connection between a lack of political space or influence and the perpetuation of poverty and injustice. Seeking alternatives, women, men and youth around the world are taking to the streets; using the internet; and or joining local meetings to demand proper political representation and accountability from the State for delivering on basic rights.

ActionAid works through a **Human Rights Based Approach** and is committed to holding governments and corporates to account and improving the quality, equity and gender responsiveness of public services for five million people living in poverty as well as supporting people and their movements to gain significant victories in achieving a fairer redistribution of resources for financing poverty reducing public policies by 2017.

This book is part of the **ELBAG Handbook Series**. ELBAG is the brand name for ActionAid's work on Just and Democratic Governance and compliments ActionAid's Handbook on Human Rights Based Approaches. Originally ELBAG was an abbreviation for 'Economic Literacy & Budget Accountability in Governance'. ELBAG in ActionAid has now been expanded to also include political and social aspects of governance.

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- **Democratisation. Just Governance and Accountability at the Local Level**
- **Accountability. Quality and Equity in Public Service Provision**
- **Voice. Representation and Peoples' Democracy**
- **Power. Elite Capture and Hidden Influence**
- **Budgets. Revenues and Financing in Public Service Provision**