

# THE POLITICAL ECONOMY OF PROPERTY TAX IN AFRICA: EXPLAINING REFORM OUTCOMES IN SIERRA LEONE

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## ABSTRACT

Effective local government taxation is critical to achieving the governance benefits widely attributed to decentralization, but in practice successful tax reform has been rare because of entrenched political resistance. This article offers new insights into the political dynamics of property tax reform through a case study of Sierra Leone, focusing on variation in experiences and outcomes across the country's four largest city councils. Based on this evidence, the article argues that elite resistance has posed a particularly acute barrier to local government tax reform, but that ethnic diversity has sometimes served to strengthen reform by fragmenting elite resistance. Furthermore, opposition councils have had stronger incentives to strengthen tax collection than councils dominated by the ruling party, in order to increase their fiscal autonomy. More generally, heightened electoral competition can lead to sustained revenue gains by encouraging city councils to adopt a more contractual approach to tax reform that stresses transparency, engagement, and equity.

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PROPERTY TAX HAS THE POTENTIAL to be both a primary source of local government revenue in low-income countries and a critical component of efforts to achieve the broader governance-enhancing objectives of decentralization.<sup>1</sup> By providing local governments with expanded revenue, the property tax

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1. Pranab Bardhan, 'Decentralization of governance and development', *The Journal of Economic Perspectives* 16, 4 (2002), pp. 185–205; Arun Agrawal and Jesse Ribot, 'Accountability in decentralization: a framework with South Asian and West African cases', *The Journal of Developing Areas* 33, 4 (1999), pp. 473–502; Jean-Paul Faguet, 'Does decentralization increase government responsiveness to local needs? Evidence from Bolivia', *Journal of Public Economics* 88, 3–4 (2004), pp. 867–93.

promises not only expanded service provision, but also greater decision-making autonomy for local governments.<sup>2</sup> More broadly, a growing chorus of scholars have noted the potential for the property tax to provide a foundation for expanded local accountability. Barry Weingast has shown that local governments that rely on their own revenue generation have strong incentives to support local economic growth.<sup>3</sup> Meanwhile, others have stressed the potential role of property taxation in providing a highly visible foundation for tax bargaining between citizens and governments, thus supporting accountability and the strengthening of local public services.<sup>4</sup>

However, despite longstanding international advocacy in favour of property tax reform, successful reform has been infrequent.<sup>5</sup> The lack of successful reform in part reflects challenges of policy, capacity, and resources,<sup>6</sup> but there has been growing recognition that the most important barriers to reform are political, grounded in entrenched resistance by large property owners.<sup>7</sup> While the importance of concerted political leadership has been increasingly acknowledged, there has been surprisingly little research

2. Roy Bahl and Richard Bird, 'Subnational taxes in developing countries: The way forward', *Public Budgeting and Finance* 28, 4 (2008), pp. 1–25; Roy Bahl and Jorge Martinez-Vazquez, 'The property tax in developing countries: Current practices and prospects' (Working Paper, Lincoln Institute of Land Policy, 2007); Richard Bird and François Vaillancourt, 'Fiscal decentralization in developing countries: An overview', in Richard Bird and François Vaillancourt (eds), *Fiscal decentralization in developing countries* (Cambridge University Press, Cambridge, 1998), pp. 1–48; Ben Lockwood, 'Political economy approaches to fiscal decentralization', in Ehtisham Ahmad and Giorgio Brosio (eds), *Does decentralization enhance service delivery and poverty reduction?* (Edward Elgar, Cheltenham, 2009), pp. 79–100; Anwar Shah, 'Balance, accountability and responsiveness: Lessons about decentralization' (World Bank Policy Research Working Paper, World Bank, 2009).

3. Barry Weingast, 'Second generation fiscal federalism: The implications of fiscal incentives', *Journal of Urban Economics* 65 (2009), pp. 279–93.

4. Michael Bell and John Bowman, 'Adapting the South African property tax to changed circumstances' in Michael Bell and John Bowman (eds), *Property taxes in South Africa: Challenges to the post-apartheid era* (Lincoln Institute of Land Policy, Cambridge, MA, 2002), pp. 1–22; William Fischel, 'Home voters, municipal corporate governance, and the benefit view of property tax', *National Tax Journal* 54, 1 (2001), pp. 157–74; Wilson Prichard, 'Taxation and state building: Towards a governance focused tax reform agenda' (IDS Working Paper 341, Institute of Development Studies, 2010); Richard Bird and Enid Slack, 'Taxing land and property in emerging economies: Raising revenue and more?' (International Tax Program Working Paper, Joseph L. Rotman School of Management, University of Toronto, 2006); Bird and Vaillancourt, 'Fiscal decentralization'.

5. Richard Bird, 'Subnational taxation in developing countries: A review of the literature', *Journal of International Commerce, Economics and Policy* 2, 1 (2011), pp. 139–61.

6. Roy Kelly, 'Designing a property tax reform strategy for sub-Saharan Africa: An analytical framework applied to Kenya', *Public Budgeting and Finance*, Winter (2000), pp. 36–51; Roy Kelly and Zainab Musunu, 'Implementing property tax reform in Tanzania', *Journal of Property Tax Assessment and Administration* 5, 1 (2000), pp. 5–15.

7. Paul Smoke, 'Why theory and practice are different: The gap between principles and reality in subnational revenue systems' (International Center for Public Policy Working Paper, Andrew Young School of Policy Studies, Georgia State University, 2013); Bird and Slack, 'Taxing land and property'; William Dillinger, 'Urban property tax reform: Guidelines and recommendations' (World Bank, World Bank Urban Management Program Tool No.1, 1991); Richard Bird, *Taxing agricultural land in developing countries* (Harvard University Press, Cambridge, MA, 1974).

seeking to understand why political leadership for property tax reform has emerged in some local government areas and not in others. This is both intellectually and practically important: recognizing the importance of political leadership is of limited value without subsequently understanding how and why such leadership may emerge.

This article seeks to advance our understanding of these questions by exploring a relatively successful property tax reform programme implemented in the four largest city councils in Sierra Leone – Makeni, Kenema, Bo, and Freetown. It draws on extensive interviews with reform leaders, government officials, civil servants, and taxpayers conducted over three years; detailed government revenue data; first-hand examination of administrative systems in each city council; a small targeted survey of large property owners in three of the city councils; and repeated presentation of key findings to government officials, reform leaders, and donors.<sup>8</sup> By exploiting variation in reform outcomes across the four city councils, the article captures the role of four political factors that have been critical to shaping reform outcomes: (1) the relationships among economic elites and political leaders; (2) the extent and character of ethnic diversity; (3) the relationship between local and central political parties; and (4) the extent and character of local-level political competition.

Given the scarcity of research focusing on the political economy of local government tax reform, we draw on the broader literatures on decentralization and central government tax reform. However, while hypotheses from these literatures provide a useful starting point, our conclusions go beyond them by highlighting the unique features of local government tax reform in four areas. First, we find, similar to the broader literature, that local elite cohesion has strengthened resistance to tax reform. However, we go further in arguing that elite resistance to tax reform has been particularly pronounced at the local government level, where elites have often had little interest in the small-scale services funded by local taxes.<sup>9</sup>

Second, whereas recent research has highlighted the negative consequences of ethnic diversity for tax compliance and public goods provision,<sup>10</sup> we find evidence that ethnic diversity – reflected in a high share of

8. The core findings of the article were presented on multiple occasions to leaders of the reform programme, to members of the Local Government Finance Department of the Ministry of Finance, and to senior officials within the local governments themselves. Note that we generally do not reference individual interviews throughout the main text, as the conclusions were repeated in multiple meetings with various key stakeholders over the course of several years. The exception is cases where information can be attributed more explicitly to particular individuals.

9. Tasha Fairfield, 'Going where the money is: Strategies for taxing economic elites in unequal democracies', *World Development* 47, 1 (2013), pp. 42–57.

10. James Habyarimana, Macartan Humphreys, Daniel Posner, and Jeremy Weinstein, 'Why does ethnic diversity undermine public goods provision?', *American Political Science Review* 101, 4 (2007), pp. 709–25; Alberto Alesina, Reza Baqir, and William Easterly, 'Public goods and ethnic divisions', *The Quarterly Journal of Economics* 114, 4 (1999), pp. 1243–84.

migrant large property owners – has also strengthened reform efforts by reducing cohesion among economic and political elites, thus fragmenting resistance and empowering tax enforcement efforts. Third, existing literature has stressed the negative incentive effects of large intergovernmental transfers,<sup>11</sup> but we find that these incentive effects are shaped by political allegiances. In opposition-led councils the fear that transfers may be politicized or delayed generates comparatively strong incentives for autonomous local tax collection. Finally, while existing literature has made clear that elections may both encourage and hinder tax reform,<sup>12</sup> we present evidence of the potential for the emergence of virtuous circles of improved taxation and greater accountability. In at least some cases, competitive elections may drive not only expanded revenue collection but also a shift toward more transparent, inclusive, and equitable approaches to reform, which in turn increase popular support for tax collection and quasi-voluntary tax compliance.<sup>13</sup>

The article proceeds as follows. The first section presents a review of the literature, highlighting potential hypotheses about the political drivers of divergent tax reform outcomes. The second section provides an introduction to the decentralization programme, describes the property tax reform, and details variation in reform outcomes across the four city councils. The third section presents evidence that these differences in reform outcomes are best explained by variation in local-level political commitment and leadership. The remainder of the article then demonstrates that effective local leadership is most likely where local elite resistance is fragmented, the local government is motivated to seek greater autonomy from the centre, and local-level political competition creates incentives for more contractual approaches to local taxation.

### *The political economy of local government tax reform*

The importance of local government tax reform to achieving the governance-enhancing goals of decentralization has been increasingly noted and rests on three interconnected elements. First, a government that raises taxes from its own citizens will be more fiscally independent of central government, and better able to align public spending with local priorities. Second,

11. Weingast, 'Second generation fiscal federalism'.

12. José Antonio Cheibub, 'Political regimes and the extractive capacity of governments: Taxation in democracies and dictatorships', *World Politics* 50, 3 (1998), pp. 349–76.

13. Margaret Levi, *Of rule and revenue* (University of California Press, Berkeley, CA, 1988); Mick Moore, 'Between coercion and contract: Competing narratives on taxation and governance', in Deborah Bräutigam, Odd-Helge Fjeldstad, and Mick Moore (eds), *Taxation and state building in developing countries: Capacity and consent* (Cambridge University Press, Cambridge, 2008), pp. 34–63.

the same government will have stronger incentives to be responsive to local demands in order to encourage tax compliance. And, third, the payment of local taxes is expected to spur demands for reciprocity and accountability from local taxpayers, and thus encourage broader processes of tax bargaining.<sup>14</sup> However, despite these links, the literature on decentralization has paid surprisingly limited attention to taxation.<sup>15</sup>

To the extent that research has addressed the political economy of local revenue collection, the focus has been on national-level policy actors: what are the political economy barriers to implementing effective decentralization reforms at the national level, and how might such reform be designed in order to create appropriate incentives for enhanced local government performance?<sup>16</sup> However, this focus sidelines the critical role of local-level political dynamics in shaping the implementation of decentralization initiatives.<sup>17</sup> It is these local dynamics that seem to matter most in many African countries, where significant formal decentralization has been achieved – often with the involvement of external actors – but there has been little, if any, progress in strengthening the collection of local taxes.<sup>18</sup>

In broad terms, existing research makes clear why there has been little support for local government tax reform. Local governments in low-income countries tend to be overwhelmingly reliant on central government transfers, while there are significant risks of government capture by powerful local economic elites resistant to taxation.<sup>19</sup> Hampered by weak capacity and access to limited tax bases, local governments have limited incentives to pursue more ambitious tax collection, irrespective of supportive national legislation. This situation had given rise to a relatively universal understanding of the reform challenge: successful reform requires strong ‘political will’ among local leaders in order to overcome local resistance and weak incentives for collection. However, such generic appeals to the importance of ‘political will’ are of limited value unless paired with more detailed empirical research exploring the conditions under which such political leadership

14. Weingast, for example, writes that ‘local revenue generation makes local governments more responsive to citizens, reduces corruption, and increases the incentives to provide market-enhancing public goods. ... Fiscal independence grants subnational governments bargaining leverage and hence a degree of political independence.’ Weingast, ‘Second generation fiscal federalism’, p. 290.

15. For example, a recent set of papers on the governance impacts of decentralization in developing countries pays scant attention to revenue collection, or its importance to governance outcomes. Jean-Paul Faguet, ‘Decentralization and governance’, *World Development* 53, 1 (2014), pp. 2–13.

16. Kent Eaton, Kai-Alexander Kaiser, and Paul Smoke, *The political economy of decentralization reforms: Implications for aid effectiveness* (World Bank, Washington, DC, 2013); Weingast, ‘Second generation fiscal federalism’.

17. Smoke, ‘Why theory and practice are different’.

18. Roy Bahl, ‘Fiscal decentralization as development policy’, *Public Budgeting and Finance* 19, 2 (1999), pp. 59–75; Bird, ‘Subnational taxation in developing countries’.

19. Bird, ‘Subnational taxation in developing countries’.

may emerge – and such research has not been forthcoming to date.<sup>20</sup> In seeking to fill this gap, we draw on insights from the broader literatures on decentralization and national-level tax reform in formulating initial hypotheses about the factors shaping local-level reform leadership.

The most prominent and intuitive possibility is that local tax outcomes will be shaped by the extent of elite cohesion and the broader power of elite economic interests – or, in other words, by the extent to which economic elites are unified, and have shared interests and personal ties with political elites.<sup>21</sup> Where powerful economic actors are unified and have strong ties to local political leaders, there is a greater risk of state capture, as economic elites use their power and connections to prevent the effective implementation of local tax reform.<sup>22</sup> However, a smaller body of literature has argued that elite cohesion, while posing the risk of state capture, may sometimes be critical to successful tax reform by facilitating collective decision making and thus strengthening tax compliance among economic elites.<sup>23</sup> Which of these possibilities predominates is expected to depend on the particular interests of elite groups: where cohesive elites are motivated to strengthen the state, increased taxation may follow,<sup>24</sup> while economic elites with narrower interests are likely simply to block effective taxation when they are cohesive enough to do so.

A second possibility is that local tax reform may be more successful in ethnically homogeneous local communities. A substantial literature has highlighted the potential for ethnic heterogeneity to undermine the quality of public goods provision.<sup>25</sup> Parts of this literature, in turn, have focused specifically on the potential for ethnic diversity to weaken tax collection, as

20. Smoke, 'Why theory and practice are different'.

21. This definition of elites intentionally does not focus on traditional authorities and senior bureaucrats. The former are extremely influential in more rural district councils, but have played a more limited role in shaping taxation in city councils. Meanwhile, while bureaucratic politics is often cited as an important contributor to tax reform outcomes at the national level, bureaucratic dynamics prove less important to our story – perhaps owing to the comparative absence of a highly institutionalized local bureaucracy in Sierra Leone's newly (re-)created councils.

22. This possibility is consistent with the centrality of elite cohesion and state capture to accounts of national-level tax reform, and of decentralization more broadly. Fairfield, 'Going where the money is'; Richard Crook, 'Decentralisation and poverty reduction in Africa: The politics of local–central relations', *Public Administration and Development* 23, 1 (2003), pp. 77–88; Pranab Bardhan and Dilip Mookherjee (eds), *Decentralization and local governance in developing countries: A comparative perspective* (MIT Press, Cambridge, MA, 2006).

23. Kurt Weyland, *Democracy without equity: Failures of reform in Brazil* (University of Pittsburgh Press, Pittsburgh, 1996); Dan Slater, *Ordering power: Contentious politics and authoritarian leviathans in Southeast Asia* (Cambridge University Press, Cambridge, 2010).

24. For example, Dan Slater argues that elites will invest in strengthening taxation, and the state more broadly, when they face a broad external threat to their existing position. Slater, *Ordering power*.

25. Habyarimana *et al.*, 'Why does ethnic diversity undermine public goods provision?'; Edward Miguel and Mary Kay Gugerty, 'Ethnic diversity, social sanctions and public goods in Kenya', *Journal of Public Economics* 89 (2005), pp. 2325–68.

individuals from different ethnic backgrounds may have lower levels of trust or weak commitment to collective goals.<sup>26</sup> Similarly, Kimuli Kasara has argued that ethnic diversity may weaken the monitoring of tax compliance and sanctions for non-compliance, as tax collectors and political leaders may be better able to monitor the economic activities of co-ethnics.<sup>27</sup>

A third possibility is that variation in local support for reform may be shaped by divergent experiences of intergovernmental transfers. Weingast and other proponents of 'second generation fiscal federalism' have highlighted the extent to which large intergovernmental transfers may undermine incentives for local governments to collect their own tax revenue.<sup>28</sup> In turn, within developing countries these incentives may be shaped not only by formal transfer rules, but also by the informal politicization of transfers,<sup>29</sup> as the risk that transfers may be withheld for political reasons may strengthen incentives for autonomous local government revenue collection.

A fourth possibility relates to the role of elections, which have become a growing focus of studies of decentralization in developing countries.<sup>30</sup> On the one hand, expanded popular demands for public services through elections may strengthen incentives for tax collection, while the greater legitimacy enjoyed by democratic governments may strengthen quasi-voluntary tax compliance.<sup>31</sup> On the other hand, democracy may increase the effectiveness of resistance to taxation, making officials wary of the potential political costs of taxation.<sup>32</sup> The impact of elections is likely to depend not only on the existence of elections *per se*, but on their particular characteristics, including their quality, content, and competitiveness. Most notably, competitive elections are likely to enhance the incentive effects – both positive and negative – of elections.<sup>33</sup>

Finally, there is mounting evidence that tax compliance may be significantly greater where taxpayers feel that local governments are accountable,

26. Alesina, Baqir, and Easterly, 'Public goods and ethnic divisions'.

27. Kimuli Kasara, 'Tax me if you can: Ethnic geography, democracy, and the taxation of agriculture in Africa', *American Political Science Review* 101, 1 (2007), pp. 159–72.

28. Weingast, 'Second generation fiscal federalism'.

29. Fernanda Brolo and Tommaso Nannicini, 'Tying your enemy's hands in close races: The politics of federal transfers in Brazil', *American Political Science Review* 106, 4 (2012), pp. 742–61; Afua Banful, 'Do formula-based intergovernmental transfer mechanisms eliminate politically motivated targeting? Evidence from Ghana', *Journal of Development Economics* 96, 2 (2011), pp. 380–90.

30. Weingast, 'Second generation fiscal federalism'; Barry Weingast, 'Second generation fiscal federalism: Political aspects of decentralization and economic development', *World Development* 53, 1 (2014), pp. 14–25; Faguet, 'Decentralization and governance'.

31. Levi, *Of rule and revenue*.

32. Cheibub, 'Political regimes and the extractive capacity of governments'; Carles Boix, 'Democracy, development and the public sector', *American Journal of Political Science* 45, 1 (2001), pp. 1–17; Jeffrey Timmons, 'Taxation and representation in recent history', *The Journal of Politics* 72, 1 (2010), pp. 191–208.

33. Wilson Prichard, 'Electoral Competitiveness, Political Budget Cycles and Taxation in Developing Countries', ICTD Working Paper 24 (Institute of Development Studies, Brighton, 2014).



that they receive valued services in return, and that the tax system is fair.<sup>34</sup> The existence of such accountability, reciprocity, and fairness should not be understood as the direct cause of greater political commitment to tax reform, but, instead, as an important factor in facilitating reform. Efforts to expand tax collection are likely to be most successful where they include a contractual element, which may both promote quasi-voluntary tax compliance and build popular support for reform.<sup>35</sup>

While all of these possibilities are intuitive, none have been systematically studied at the local government level. Consistent with this general trend, research into taxation within city councils in Sierra Leone has remained strikingly limited. Several studies have looked at local government taxation in the comparatively rural district councils, reflecting particular interest in the role of the chieftaincy and in the development impact of mineral wealth.<sup>36</sup> However, tax dynamics in city councils are quite distinct from those in district councils: chiefs have played a more limited role, mineral revenues are very limited, and the property tax base is substantially larger and more accessible. We thus turn to the empirical evidence from the city councils, exploring how key political variables have shaped divergent tax reform outcomes.

#### *Decentralization and property tax reform in Sierra Leone*

In 2004, the government of Sierra Leone passed the Local Government Act, which re-introduced the system of decentralized local governments that had been abolished in 1972. The new system of local government is based on five city councils, one smaller municipality, and 13 rural district councils. The decentralization process was a major priority of both the government and donors after the conclusion of the civil war in 2002, as extreme centralization was widely cited as an important cause of the conflict.<sup>37</sup> Local council

34. Odd-Helge Fjeldstad, Collette Schulz-Herzenberg, and Ingrid Sjørusen, 'Peoples' views of taxation in Africa: A review of research on determinants of tax compliance' (ICTD Working Paper 8, Institute of Development Studies, Brighton, 2012).

35. Moore, 'Between coercion and contract'.

36. Richard Fanthorpe, 'Tax administration and representative authority in the chiefdoms of Sierra Leone' (London, Department for International Development, 2004); Richard Fanthorpe, Andrew Laval, and Mohamed Sesay, 'Decentralization in Sierra Leone: Impact, constraints and prospects' (London, Department for International Development, 2011); Paul Jackson, 'Chiefs, money and politicians: Rebuilding local government in post-war Sierra Leone', *Public Administration and Development* 35 (2005), pp. 49–58; Paul Jackson, 'Reshuffling an old deck of cards? The politics of local government reform in Sierra Leone', *African Affairs* 106, 422 (2006), pp. 95–111.

37. Richard Fanthorpe, 'On the limits of liberal peace: Chiefs and democratic decentralization in post-war Sierra Leone', *African Affairs* 105, 418 (2006), pp. 27–49; Edward Sawyer, 'Remove or reform: A case for (restructuring) chiefdom governance in post-conflict Sierra Leone', *African Affairs* 107, 428 (2008), pp. 387–403; Melissa Labonte, 'From patronage to peacebuilding? Elite capture and governance from below in Sierra Leone', *African Affairs* 111, 442 (2012), pp. 90–115; Daniel Esser, "'When we launched the government's agenda ...': Aid



elections are held every four years, with directly elected mayors limited to a single term in office. Those elections are dominated by the two major national political parties – the All People’s Congress (APC) and Sierra Leone People’s Party (SLPP). Meanwhile, the local civil service is led by the chief administrator, who is formally independent but can face significant political pressures from the mayor and local council.

The newly created local councils immediately faced sharp challenges of both capacity and legitimacy, and relied heavily on financial transfers from the central government. These transfers averaged greater than 50 percent of city council revenue during the period 2006 to 2011, while the central government separately pays most local government salaries and directly provides major public services. During the years following decentralization, local revenue collection – which is used primarily to fund additional staff and small-scale local services – averaged less than 50 percent of budgeted targets and was concentrated in relatively easy-to-collect market dues, while collection of harder-to-collect property taxes lagged behind.

Against this background, a property tax reform was initiated in Makeni City Council in late 2006. The initial reform programme enjoyed significant success, leading the Local Government Finance Department of the Ministry of Finance to play an active role in facilitating the spread of the reform programme to other city councils. The reform team began meeting with officials from the Bo, Kenema, and Freetown City Councils in 2007, with reform implemented in all three locations from 2008. Only one city council – Koidu-New Sembehun – did not implement the reform programme, but this appears primarily to reflect the idiosyncrasies of timing, geography, and donor funding, rather than a purposeful decision by either donors or the council.

Whereas donors had provided large-scale support to strengthening expenditure functions within the city councils, historically support for revenue raising has been relatively neglected. As a result the property tax reform was initiated with very little pre-existing capacity, a limited budget, and comparatively modest external support. Given these constraints, the reform programme stressed the implementation of a highly simplified property tax system that relied on the development of new local capacity, operated within the pre-existing legal framework, and involved five key elements: discovery, assessment, billing, sensitization, and collection.

Discovery and assessment (that is, valuation) involved the assembly and maintenance of a database of the value of all properties within the city council borders. The valuation system was based on observable characteristics of individual properties and called for recruiting and training teams of

local assessment staff. Valuation data were then to be recorded using a simple, locally developed software platform, installed and administered on a local computer and managed by a newly trained senior assessor.

Discovery and assessment were to be followed by the automated production of rate demand notices and the roll-out of sensitization efforts designed to explain the tax to taxpayers, provide information on the use of tax revenues, and provide opportunities for taxpayers to engage with the council. The last stage, collection, relied on payments to financial institutions by taxpayers and, critically, the pursuit of enforcement actions against non-compliant taxpayers.<sup>38</sup> Enforcement amongst large taxpayers was to be of particular importance, as available data indicate that the largest 100–150 taxpayers in each location account for roughly 50 percent of potential property tax collection.<sup>39</sup>

Though its task was challenging, the reform programme resulted in substantial improvements in property tax collection across the city councils, with nominal revenue increasing more than five-fold on average between 2007 and 2011 – more than a three-fold increase in real terms (see Figure 1).<sup>40</sup> While these improvements in collection occurred from a low base, they exceeded donor expectations,<sup>41</sup> were dramatically greater than in the fifth city council (Koidu-New Sembahun) where the reform programme was not adopted, and exceeded performance in similarly sized local government areas elsewhere in the region.<sup>42</sup> As tellingly, property tax collection grew roughly twice as quickly as other revenue sources, increasing from an average of 15 percent of total revenue collection across the four city councils in 2006 to 31 percent in 2011.

However, while all of the city councils experienced substantial revenue gains, there has also been significant variation in outcomes. This is apparent in simple revenue figures. Among the smaller city councils (Bo, Kenema, and Makeni), revenue increased 450 percent in real terms in Bo between 2007 and 2011, about 350 percent in Kenema, and only slightly

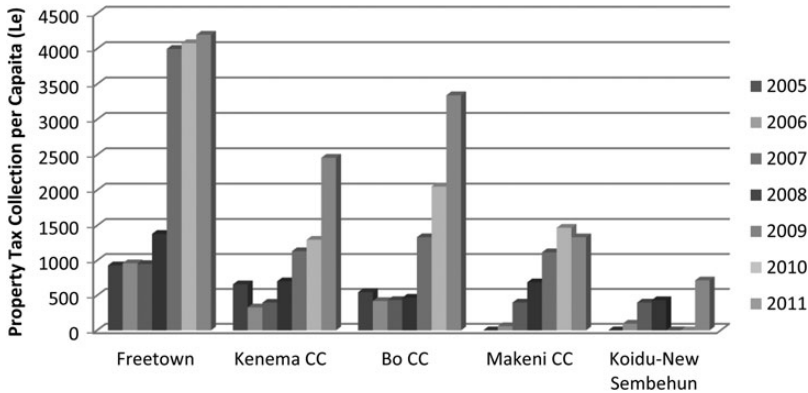
38. Additional details about the reform programme are available in Samuel Jibao and Wilson Prichard, 'Rebuilding local government finances after conflict: The political economy of property taxation in post-conflict Sierra Leone' (ICTD Working Paper 12, Institute of Development Studies, Brighton, 2013).

39. Data provided by the tax authority in Bo indicate that total tax liabilities for the 107 largest taxpayers were equal to 48 percent of total property tax collection in 2012.

40. Figures in real terms are estimated on the basis of changes in the national consumer price index (CPI), as council-level inflation data are not available.

41. The World Bank Institutional Reform and Capacity Building Project (IRCBP) set a revenue goal of 3,000 Sierra Leonean Leones (Le) by 2009, which was comfortably exceeded in all four councils.

42. For example, data from Ghana – the most developed country in the region – indicate collection in comparable districts at lower levels than in Sierra Leone. Wilson Prichard and Vanessa van den Boogaard, 'Ground-level realities of market taxation in northern Ghana: Socially embedded practices, unequal power and implications for taxation and governance' (ICTD Working Paper 30, Institute of Development Studies, Brighton, 2015).



*Figure 1.* Property tax collection per capita, 2005–11.

*Source:* Local Government Finance Department, Ministry of Finance, Government of Sierra Leone.

less than 200 percent in Makeni. Collection in Freetown increased two and half times in real terms during the same period, but is universally viewed as having been particularly disappointing, given that Freetown has a dramatically larger tax base on which to draw.<sup>43</sup>

The same divergence becomes more apparent when considering a wider range of indicators (summarized in Table 1). All of the city councils experienced dramatic improvements in property identification and valuation (‘discovery’ and ‘assessment’), but there were markedly greater shortcomings in Freetown. All of the city councils similarly introduced new information technology (IT) systems to manage property tax data, but again with significant variation. Bo City Council introduced the most robust IT system, which included important elements to ensure transparency and to reduce the scope for manipulating the data; Kenema adopted a somewhat more permissive system; while Makeni was most resistant to a more transparent system. Freetown again lagged behind in failing to fully implement the IT platform. Turning to outreach efforts, each city council expanded outreach to taxpayers, but to varying degrees. Most ambitious, again, was the Bo City Council, which implemented public education programmes, expanded transparency, new efforts to draw links between revenue and expenditure, and new forums for engagement with taxpayers. Makeni and Kenema adopted a more modest course, focused primarily on public education, but

43. There are, unfortunately, no available estimates of the size of the available tax base against which to measure collection efficiency formally. That said, revenue per capita in Freetown only narrowly exceeded that in Bo City Council by 2012, despite Freetown being home to a vastly greater share of the country’s wealth.

*Table 1.* Implementation of different components of the reform programme

	<i>Bo City Council</i>	<i>Makeni City Council</i>	<i>Kenema City Council</i>	<i>Freetown City Council</i>
<b>Discovery and assessment</b>	Near universal property identification and assessment	Near universal property identification and assessment	Near universal property identification and assessment	Significant problems. Local officials estimate 25 percent of properties identified and valued
<b>Billing</b>	Successfully implemented, including transparent and tamper-proof IT System	Basic system implemented, but with less robust IT System	Basic system implemented, but with less robust IT System	Partially implemented, with only a very rudimentary IT system
<b>Sensitization</b>	Significant public education and outreach to create increased transparency and new forums for engagement	Significant public education about the tax, but minimal additional outreach and transparency after 2007	Significant public education about the tax, but minimal additional outreach and transparency	Little public outreach, and consistent resistance to greater transparency about revenue collection and spending
<b>Enforcement</b>	Effective enforcement, even among elites	Initial enforcement efforts curtailed after 2007, with limited enforcement action taken against elites	Some enforcement among average taxpayers, but very limited enforcement among elite groups	Weak enforcement among elites

*Source:* Information collected by the authors.

with minimal investment in expanding transparency and dialogue, while Freetown made the least significant progress on all fronts.

Most striking have been differences across councils in efforts to pursue enforcement actions against large taxpayers. Because no official figures on tax compliance are available, we conducted a small survey of large taxpayers in Bo, Makeni, and Kenema in May and June 2012, supported by complementary interviews with taxpayers and key stakeholders. Owing to the

Table 2. Taxpayer compliance and enforcement across councils

	<i>Able to produce a property tax receipt</i>	<i>Resident-owner has been taken to court</i>	<i>Knows property owner who has been taken to court</i>	<i>Believes elites can be successfully taken to court</i>
Bo City Council	93.0%	17.9%	37.5%	87.5%
Kenema City Council	38.5%	0%	9.4%	31.0%
Makeni City Council	41.7%	8.30%	7.5%	25.0%

Source: Results of a survey of large business owners conducted in May–June 2012.

much larger size of Freetown, a fully reliable and comparable survey was impractical except at major cost – and was effectively unnecessary, as there is universal agreement among key stakeholders that enforcement efforts there have lagged far behind the other councils.<sup>44</sup>

The survey targeted 40 large taxpayers in each location, out of a total population of 100–150 such large taxpayers in each city. In Bo City Council we were given access to the full property register and sampled 40 taxpayers with property tax liabilities exceeding 450,000 Sierra Leonean Leones (Le) (slightly more than US\$100), with the largest taxpayer owing Le8.5 million (US\$2,000). We were not given the same access to property registers in Kenema and Makeni, and thus drew a random sample of taxpayers of comparable size and type to those in Bo from wealthy residential and commercial areas.<sup>45</sup>

The results reported in Table 2 – fully supported by qualitative interviews – match the trends described so far, with compliance much higher in Bo than in either Makeni or Kenema.<sup>46</sup> This higher compliance has been matched by much more effective enforcement, as residents in Bo were more likely to have been taken to court for non-payment, to know

44. Those interviewed estimated that effective valuation and compliance has reached only perhaps 25 percent of relevant properties, with effective enforcement concentrated on a handful of large, often foreign-owned, commercial taxpayers.

45. While this may raise concerns about uneven sampling, the survey teams made significant efforts to verify the completeness of the property register for large taxpayers in Bo, while the relatively small numbers of large taxpayers in each location, coupled with the familiarity of the survey teams with each council area, gives us a high degree of confidence in the reliability and comparability of the samples.

46. Given the unreliability of self-reported compliance, the survey teams asked respondents to produce tax receipts to verify actual compliance.

Table 3. Comparative characteristics of Bo, Makeni, and Kenema city councils

	<i>Bo City Council</i>	<i>Makeni City Council</i>	<i>Kenema City Council</i>
<b>Population</b>	149,957	82,840	128,402
<b>Poverty score<sup>+</sup></b>	53.88	52.20	55.23
<b>Transfers as a share of total revenue (avg. 2005–11)<sup>++</sup></b>	61%	72%	58%
<b>Political affiliation</b>	SLPP	APC	SLPP

+ : No GDP figures are available at the city council level. The “poverty score” was calculated by the Government of Sierra Leone based on the 2004 Census, with higher values implying less poverty, and captures the similarity of economic conditions.

++ : Excludes central government payments for staffing and direct local expenditure by central government line ministries.

Sources: Population data from 2004 Census; Poverty score from Government of Sierra Leone 2004 Population and Housing Survey Analytical Report on Poverty; Transfers data from the Local Government Finance Department.

someone who had been taken to court, and to believe that elites could be forced to comply with tax obligations effectively.

#### *The political foundations of divergent outcomes*

Although essentially the same reform programme was initiated in all four city councils, results differed markedly. This variation cannot be explained easily in technocratic terms. The city councils in Bo, Kenema, and Makeni are of broadly similar size, are similarly reliant on external transfers, and have similar economies and tax bases (see Table 3). In all three cases, local administrative capacity for the property tax was very limited at the outset and developed over the course of the reform programme. Freetown offers a more complex comparison, but there is no obvious technical reason to expect weaker performance.<sup>47</sup> While property identification and valuation in Freetown are more complex owing to its larger size, the capital also has access to greater technical capacity, a more developed economy, a larger tax base, and relatively fewer transfers, all of which would lead us to expect better, not worse, local revenue performance. Instead, the explanation for divergent reform performance lies primarily in divergent political commitment to reform across city councils.

47. Freetown has also been home to complex political interactions between local, national, and international actors, which have contributed to poor reform performance across a range of areas. While these broader issues are not addressed here owing to constraints of space, they are consistent with the overall argument: particularly poor performance in Freetown reflects political, rather than technical, barriers. Esser, “When we launched the government’s agenda”.

The importance of political leadership is revealed most clearly in important shifts in support for reform following national and local elections in 2007 and 2008, respectively. The Makeni City Council was the first council to implement the reform programme, with an active reform leadership making major strides in late 2006 and throughout 2007. This included the successful implementation of property discovery and a new IT system, extensive outreach efforts, and rapid increases in revenue collection. However, the 2008 local elections brought a much less supportive government to power, resulting in reduced outreach, an unwillingness to upgrade the IT system, and strong resistance to enforcing compliance among elites. While revenue continued to increase gradually from 2008 to 2010 based on the foundation put in place in 2007, revenue had begun to decline by 2011, while the policy reversal was unambiguous, eventually forcing the reform team to withdraw from the council.

The same decisive role of changes in government is apparent in Bo, where the 2008 elections saw the election of Mayor Wusu Sannoh, a former university lecturer. Whereas the previous government had been hesitant to advance the reform programme, the new mayor immediately embraced it and pushed through ambitious new measures. Unlike what happened in the other councils, in Bo concerted political leadership allowed for the implementation of a more transparent IT system, the creation of significant new public transparency and consultation around tax collection, and active and successful efforts to enforce compliance among local elites. Interviews with those involved make clear that at every stage these ambitious reforms – and expanded enforcement in particular – required the resolve of the mayor, supported by the chief administrator, in confronting concerted resistance from powerful property owners.

Kenema presents a middle ground between Makeni and Bo, as support for reform was relatively constant over time, but with important limitations. The government actively supported discovery, valuation, and the expansion of collection, but was never willing to implement a fully transparent IT system and largely refused to pursue effective enforcement action targeting elites.

Finally, reform efforts consistently faltered in Freetown, where efforts to promote reform date at least to 2005. Despite regular meetings with reform leaders from Bo and Makeni, a lack of political leadership meant that meaningful reform only got under way in 2009. It has been comparatively unsuccessful at every stage, with only an estimated 25 percent of properties valued by 2011, concerns that valuations were regressive, extremely limited transparency, and weak enforcement. While Freetown experienced early revenue gains, the largest gains actually predate the full implementation of



the reform programme, reflecting the much larger tax base and the comparative ineffectiveness of the reform programme itself.<sup>48</sup>

*Explaining variation in political commitment to reform*

There is little question that the existence, or absence, of political commitment within the city councils has figured centrally in explaining divergent outcomes. According to the leader of the initial reform programme, Paul Fish, ‘successful reform requires the leadership of either the chief administrator or the mayor, and ideally both’,<sup>49</sup> while changes in the mayoral leadership have been particularly decisive.<sup>50</sup> However, this observation alone is widely accepted, as studies of public sector reform now routinely highlight the importance of ‘political will’ to reform outcomes.<sup>51</sup> The more important research challenge lies in identifying the sources of variation in political commitment to reform.

This effort is fraught with potential risks for two reasons in particular. First, political leadership and commitment to reform are inevitably idiosyncratic to some degree, as there is no way to account fully for the good fortune of having a talented and committed mayoral candidate. Second, the factors that may help to explain variation in political leadership, such as elections or ethnic diversity, may affect political incentives through multiple alternative causal pathways in different contexts. For example, we know that elections may in some contexts inspire increased tax collection, in order to fund popular services, while in other contexts elections may discourage tax collection, owing to the risk of alienating political supporters.<sup>52</sup> There is correspondingly limited value in seeking to arrive at a single, immutable, relationship between elections and tax collection. Instead, greater analytical value comes from better understanding the nuance of particular causal processes and from exploring the contexts in which particular outcomes are most likely to occur. With these goals in mind, we consider the roles of elite

48. While specific data are not available, it is widely felt by those close to the city council that the increase in revenue was driven by the taxation of a relatively small group of commercial properties, and most notably banks, while taxation of residential properties – owned by politically connected elites – has lagged far behind.

49. Interview (Pritchard), Paul Fish, leader of reform programme, Toronto, Canada, September 10, 2011.

50. In our cases the chief administrators, while important players, have broadly followed the lead of the mayor and council in advancing, or blocking, reform. Meanwhile, the weakness of pre-existing administrative capacity for the property tax has meant that entrenched bureaucratic interests have not played a decisive role.

51. Richard Bird, ‘Tax administration and tax reform: Reflections on experience’, in Javad Khalilzadeh-Shirazi and Anwar Shah (eds), *Tax policy in developing countries* (World Bank, Washington DC, 1991), pp. 38–56; Brian Levy and Sahr Kpundeh (eds), *Building state capacity in Africa: New approaches, emerging lessons* (Washington, DC: World Bank, 2004).

52. Cheibub, ‘Political regimes and the extractive capacity of governments’.

cohesion, ethnic diversity, intergovernmental transfers, and elections as important determinants of political leadership for reform.

*Elite cohesion and tax enforcement*

The most widely cited barrier to effective local property tax collection in Sierra Leone has been high levels of elite cohesion, with close ties and overlapping interests among economic elites and political leaders leading to weak tax enforcement. This appears to have reflected both the strength of direct personal ties and shared interests between economic and political elites, and the power wielded by local economic elites by virtue of their role in shaping local economic opportunity and financing local elections.<sup>53</sup> In turn, weak enforcement has had direct revenue implications, owing to limited taxation of the largest and most valuable properties, but has equally undermined both support for essential administrative reform and the broader popular legitimacy of reform efforts.

This pattern is most apparent in Kenema, where informants almost universally point to the weakness of enforcement among elites as the primary reform challenge. Weak enforcement, we argue, is rooted in close ties between political and economic elites that date to the civil war period, during which local elites were often excused from virtually all public levies. Freetown offers a more extreme case, as the city council finds itself unable to enforce property taxes effectively among the national elite, who combine economic clout and national-level political influence. In this case it is not merely cohesion, but the relative subservience of the city council to national elites that undermines tax collection. By contrast, the government in Bo was felt to be much more independent of the local economic elite, reflected most notably in the mayor being a university lecturer. In turn, the Bo government attributes its success in pursuing enforcement in large part to their relative independence and the comparative lack of cohesion among the local economic elite.

While the role of elite cohesion in blocking reform efforts is highly intuitive, it stands in contrast to some earlier literature stressing the importance of elite cohesion in facilitating national-level tax reform. While somewhat counterintuitive, this literature has proposed a two-step argument. First, governments will be unable to substantially strengthen tax collection without elite buy-in and political support. Second, such support is more likely where there is greater elite cohesion: when elites are fragmented they will pursue narrow strategies to reduce their tax burdens, while a unified elite may opt to engage government proactively to strengthen tax collection

53. Labonte, 'From patronage to peacebuilding?'

and make investments in strengthening the state.<sup>54</sup> This literature does not view elite cohesion as a guarantee of improved performance and, indeed, stresses that elites most often use their influence simply to avoid taxes. However, authors in this tradition argue that elite cohesion has been a critical facilitating condition in the most successful examples of tax reform.

However, while elite cohesion has undoubtedly contributed to tax reform in some national contexts, experiences in Sierra Leone provide tentative evidence that the potential benefits of elite cohesion are particularly unlikely to arise at the local government level. At the national level, there are a variety of reasons why cohesive elite groups may favour more effective taxation, for example in order to strengthen security and supportive state institutions or finance market-supporting services.<sup>55</sup> By contrast, local government revenue is used primarily to finance basic local government services, including sanitation, market services, and minor road repairs, while local governments receive the vast majority of revenue and investment through central government transfers. Intuitively, local economic elites appear comparatively unlikely to view local government services as essential to their core interests, making them correspondingly more likely to use their political influence to escape effective taxation. And, indeed, this is the pattern reported by local leaders in Bo, who have explicitly sought to build support for tax reform *not* by catering directly to the preferences of local elites, but, instead, by building a broader base of popular support for taxation through public outreach and the extension of small-scale but broadly popular services.

#### *Ethnic diversity, elite cohesion, and tax enforcement*

The second message to emerge prominently from the case study evidence is that ethnic diversity – as measured specifically by the share of migrants among large property owners – has played an important role in facilitating tax reform. It has reduced elite cohesion, thus making it easier for local governments to pursue enforcement efforts.<sup>56</sup> This message was repeated frequently

54. Slater, *Ordering power*; Weyland, *Democracy without equity*; Evan Lieberman, *Race and regionalism in the politics of taxation in Brazil and South Africa* (Cambridge University Press, Cambridge, 2003).

55. Dan Slater identifies several cases from South-East Asia in which elites rallied behind expanded taxation by the state in order to support investments in both security and public services designed to quell resistance by popular opposition and rebel movements. Evan Lieberman highlights the role of apartheid in leading elites to support very high levels of taxation in South Africa in order to build a powerful state apparatus for repression and redistribution to low-income whites. Slater, *Ordering power*; Lieberman, *Race and regionalism*.

56. Elsewhere, Prichard has proposed a similar story for understanding the relative effectiveness of tax collection in Kenya post-independence, as the African-led government was comparatively willing to enforce taxation among largely European and Asian-origin economic elites. Wilson Prichard, *Taxation, responsiveness and accountability in sub-Saharan Africa: The dynamics of tax bargaining* (Cambridge University Press, Cambridge, forthcoming).

by reform officials, who believed that it was easier to overcome tax resistance by a more mixed, and less cohesive, community of large property owners.

Our survey of large property owners allowed us to investigate these claims more systematically. As a first step we sought to explore the share of migrants among large property owners in each of Bo, Makeni, and Kenema. This is not an effort to measure ethnic diversity in general, but instead aims to capture a particular aspect of diversity: the distinction between indigenous property owners and migrant property owners, which is expected to shape the extent of elite cohesion in response to property taxes. Consistent with the claims of reform leaders, we find that a greater share of large property owners – and particularly of politically influential resident property owners – are migrants in Bo, whereas the share of migrant property owners is lower in Makeni and Kenema (see Table 4). In turn, the survey responses offer clear support for the contention that enforcement actions have been more extensive in Bo. Almost 40 percent of respondents in Bo reported knowing a property owner who had been taken to court for non-compliance, while the same was true of less than 10 percent of respondents in Makeni and Kenema. There is thus, at a minimum, a clear correlation between a larger share of migrants and the strength of enforcement efforts, both of which are substantially higher in Bo.

Moving beyond simple correlation, if a higher share of migrants facilitates greater tax enforcement, then we might expect to find that migrants are disproportionately targeted by enforcement actions. To explore this possibility, we asked those who reported knowing a property owner who had been taken to court for non-compliance whether that property owner was a migrant. In all three locations, the share of migrants among those who reportedly were taken to court was meaningfully larger than the overall share of migrants within the population of larger property owners. More simply, survey responses indicate that migrant owners of large property have been more likely to face enforcement actions by governments (see Table 4). Indeed, in Kenema not a single respondent was aware of a non-migrant who had been taken to court for a failure to pay taxes. Of course, these responses need to be treated with care, as the beliefs and statements of property owners may be a poor reflection of the actual share of migrant property owners among those taken to court.<sup>57</sup> However, they ultimately offer important support for the

57. For example, enforcement action against migrants might be more memorable or more public. Alternatively, local property owners may prefer to offer the impression that migrants are the major tax evaders, while migrant property owners may wish to signal that the tax authorities disproportionately target them. However, we have no evidence of these types of systematic bias. Indeed, the opposite bias could equally exist: prosecution of non-migrant property owners might be more memorable and public, while local property owners might prefer to signal that they, in fact, are targeted by the government.

*Table 4. Origin of large property owners in Bo, Kenema, and Makeni*

	<i>Share of migrant property owners</i>	<i>Share of migrants among resident property owners</i>	<i>Share who have resided in current location &lt; 20 years</i>	<i>Share who have resided in current location &lt; 10 years</i>	<i>Knows property owner who has been taken to court</i>	<i>Share of migrant property owners among reported prosecutions for tax evasion</i>
Bo	52.5%	53.6%	44%	24.0%	37.50%	60%
Kenema	38.0%	31.0%	37.4%	18.7%	9.4%	100%
Makeni	27.5%	25.0%	37.5%	12.5%	7.5%	66.7%

*Notes:* ‘Migrant’ is defined as someone not born in the region of the country (north, south, east, west) in which the city lies.<sup>58</sup> Questions about the duration of residence in the city offer an alternative measure to ensure consistency of the results.

*Source:* Results of field survey of large business owners conducted in May–June 2012.

possibility that a higher share of migrants among property owners can facilitate greater enforcement.

There is a potential dark side to this finding, as it suggests that migrants are forced to bear a disproportionate share of the tax burden owing to their lack of political influence and local connections. While this is not entirely surprising, it is certainly contrary to basic notions of equity and fairness. To the extent that increased revenue collection is the result of more aggressive targeting of migrants it would be problematic to label such an outcome a “success”. And, indeed, in Kenema and Makeni in particular available evidence suggests that migrant property owners have been forced to bear a disproportionate share of expanded collection.

However, experience in Bo suggests that there is also a more optimistic side to the story. The survey evidence and interviews suggest that while there has been some targeting of migrant property owners, the larger share of migrants has also facilitated a more generalized and much larger increase in enforcement among both migrants and non-migrants. While the survey suggests that migrants are slightly more likely than non-migrants to be targeted by enforcement actions, both migrants and non-migrants are far more likely

58. We rely on these four regions because they best capture the major political, ethnic, and religious cleavages in the country, and are a dominant frame of reference locally. The northern region is more heavily Muslim, and largely aligned with the APC party, while the largest ethnic group is the Temne. By contrast, the southern region is largely aligned with the SLPP and has a larger Christian population, while the Mende are the largest ethnic group. The eastern region more closely resembles the southern region, but is more remote, more religiously diverse and was most heavily affected by the war. Finally, the western region includes Freetown, which is by far the largest urban area in the country, and its surrounding areas.

to be targeted by enforcement actions than in the other city councils. Our conclusion is that the larger share of migrants in Bo has contributed to reducing the strength of the political opposition mobilized collectively by large property owners, shifting expectations and emboldening enforcement efforts among all taxpayers. This interpretation flows from the survey responses, but more directly from interviews with those involved with the reform programme itself. Local government officials in Bo are explicit in arguing that they do not target migrant property owners specifically, while those involved with the reform programme note that the larger presence of migrant property owners has weakened overall resistance to reform.

On the surface these findings appear to be in conflict with recent research findings about the negative implications of ethnic diversity for taxation and public goods provisions. However, the difference reflects a focus on alternative causal pathways.<sup>59</sup> Arguments linking ethnic diversity to less effective tax collection focus on the impact of diversity on attitudes toward tax compliance<sup>60</sup> and on the ability of governments to monitor compliance with taxes that are difficult to monitor.<sup>61</sup> By contrast, the evidence here focuses on the impact of a particular aspect of ethnic diversity – the share of recent migrants among large property owners – on elite cohesion and, by extension, on the political feasibility of effective tax enforcement.<sup>62</sup>

While most research has focused on the potentially negative impact of ethnic diversity on attitudes toward *tax compliance*, the evidence here suggests that the impact of diversity on *tax enforcement* may be more important to actual tax collection, at least when it comes to property taxation. Why might this be the case? While quasi-voluntary compliance, driven by trust in government and other citizens, is undoubtedly important, the term itself presupposes at least credible enforcement. Few taxpayers will pay taxes purely out of a commitment to the public good, and entirely irrespective of

59. An alternative possibility is that the findings from Sierra Leone might reflect the relatively mild salience of ethnicity as a barrier to collective action, as argued by Glennerster, Miguel, and Rothenberg, but this would not account for the positive effect of diversity on enforcement, and does not match the qualitative evidence gathered from reform leaders and government officials. Rachel Glennerster, Edward Miguel, and Alexander Rothenberg, 'Collective action in diverse Sierra Leone communities', *The Economic Journal* 123, 568 (2013), pp. 285–316.

60. Alesina, Baqir, and Easterly, 'Public goods and ethnic divisions'.

61. Kasara, 'Tax me if you can'.

62. This conclusion shares a degree of conceptual commonality with recent arguments about the potentially positive impact of ethnic diversity on the emergence of unified and politically active business communities. Handley has argued that where there is close ethnic overlap between state elites and the business community, the latter tends to become dependent on the state, while seeking narrow benefits and opportunities for rent seeking. By contrast, where such overlap does not exist, the business community is more likely to develop autonomous capacity as a political actor, leading to broader improvements in the quality of governance. The argument here represents the other side of the same coin: where there is less overlap between the state and business elites, the state is more likely to be autonomous, and to enforce tax demands on large businesses. Antoinette Handley, *Business and the state in Africa: Economic policy-making in the neo-liberal era* (Cambridge University Press, Cambridge, 2008).

the presence of effective enforcement, which both encourages compliance and ensures that everyone pays their fair share.<sup>63</sup> Instead, the concept of 'quasi-voluntary compliance' proposes that factors that strengthen taxpayer confidence in the state, and support for public initiatives, will increase tax compliance when pursued in combination with measures to strengthen enforcement and equal application of the law.<sup>64</sup> Where enforcement is relatively effective, measures to enhance quasi-voluntary compliance may be comparatively decisive in improving outcomes. By contrast, where enforcement is extremely weak, improved enforcement may be a necessary first step towards expanded collection, which can then be complemented by 'softer' measures to encourage compliance (as discussed below). This logic is particularly relevant to property taxation, where traditionally enforcement has been remarkably ineffective, but where improved enforcement is also extremely feasible owing to the ease of identifying both the tax base (the property itself) and the taxpayer (by virtue of the immobility of the property). The centrality of enforcement as a starting point for property tax reform suggests that the impact of diversity on *enforcement* may thus be of greater importance in shaping outcomes than the impact of diversity on attitudes toward *compliance*.

Finally, a note is required about the unique case of Freetown. On the surface it appears to offer a counter-example. It is the most cosmopolitan city in Sierra Leone, but has nonetheless experienced the weakest tax performance of the four city councils. However, this superficial contradiction merely clarifies the two-step nature of the argument. Ethnic diversity does not itself lead to greater tax collection, but may do so indirectly by contributing to reduced cohesion among elites resistant to effective taxation, and the consequent weakening of resistance. In the particular case of Freetown, however, this causal chain breaks down. Most basically, elite resistance to property taxation is stronger in Freetown because of the character of those resisting, as it is home to the most powerful national economic and political elites. Moreover, while local political elites everywhere in the country are dependent to some extent on national elites for their political success and survival, this dependence appears particularly entrenched in Freetown, which is both closer geographically to national elites and draws greater national attention because of its political and economic importance.

63. Odd-Helge Fjeldstad, 'What's trust got to do with it? Non-payment of service charges in local authorities in South Africa', *Journal of Modern African Studies* 42, 4 (2004), pp. 539–62.

64. Margaret Levi, who introduced the term 'quasi-voluntary' compliance, argues explicitly that methods to encourage quasi-voluntary compliance are not a substitute for enforcement. Instead, they are complementary: 'quasi-voluntary compliance *bolsters* mechanisms of monitoring and enforcement' [*emphasis added*]. Levi, 'Of rule and revenue'.



*Political alignment, intergovernmental transfers, and incentives for revenue collection*

The third message that emerges from the case studies is that city councils controlled by the political opposition have had stronger incentives to raise local tax revenue. This reflects their stronger incentives to seek fiscal autonomy from the central government, largely out of a fear that transfers may be withheld or delayed for political reasons, particularly in the run-up to elections.<sup>65</sup>

Following the 2007 elections that brought the APC to power nationally, tax reform has been most successful in opposition-held Bo and Kenema, while there has been little reform in APC-dominated Makeni and Freetown. Most striking is the case of Makeni, where the local APC government showed significant support for reform while the SLPP was in power nationally, but where support for reform began to decline quite immediately following the election of the APC at the national level. Government leaders in opposition-led councils, particularly in Bo, prominently and repeatedly cited the risk that government transfers may be politicized as a primary motivation for strengthening local revenue collection.

This fear is consistent with research demonstrating the politicization of fiscal transfers elsewhere in the developing world.<sup>66</sup> However, establishing a clear and unambiguous empirical pattern of politicization in Sierra Leone is not possible. Tables 5a and 5b report annual per capita transfers to all APC- and SLPP-controlled councils, respectively, from 2006 to the first half of 2012.<sup>67</sup> Figures are reported including (Table 5b) and excluding (Table 5a) Freetown, given its large size and consequent influence on per capita figures. On one hand, the data reveal a sharp decline in the share of transfers to SLPP councils in 2008 and 2009, following the election of the APC nationally. There is also a very modest decline in transfers to SLPP-controlled councils in the run-up to the 2012 elections. On the other hand, when Freetown is included, total transfers per capita remain very close to equal between SLPP- and APC-controlled councils throughout the period since 2008 – while when Freetown is excluded we see a sharp rise in transfers to opposition-controlled councils after 2009.

65. This possibility has also been raised in a study of urban governance in Lusaka. Danielle Resnick, 'In the shadow of the city: Africa's urban poor in opposition strongholds', *Journal of Modern African Studies* 49, 1 (2011), pp. 141–66.

66. Brollo and Nannicini, 'Tying your enemy's hands in close races'; Banful, 'Do formula-based intergovernmental transfer mechanisms eliminate politically motivated targeting?'

67. We focus on all councils, instead of city councils alone, in order to expand the sample size, and attempt to smooth out the effects of idiosyncratic variation. However, data for city councils alone are equally inconclusive. We further experiment with calculating average transfers to APC and SLPP councils weighting councils equally, rather than on a per capita basis, and results are broadly similar.

*Table 5a.* Central government transfers by political affiliation, excluding Freetown

<b>Annual total transfers (Le)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012 (Q1+Q2)</b>
APC average per capita transfer (by population)	4606.6	1435.2	5028.5	5734.5	8456.8	8172.4	3061.4
SLPP average per capita transfer (by population)	5319.6	1682.7	4579.5	5353.5	10267.3	9628.5	3491.8
Ratio SLPP-APC	1.15	1.17	0.91	0.93	1.21	1.18	1.14

*Table 5b.* Central government transfers by political affiliation, including Freetown

<b>Annual total transfers (Le)</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012 (Q1+Q2)</b>
APC average per capita transfer (by population)	4533.6	1395.3	4803.5	5274.9	9795.9	9689.1	3747.9
SLPP average per capita transfer (by population)	5319.6	1682.7	4579.5	5353.5	10267.3	9628.5	3491.8
Ratio SLPP-APC	1.17	1.21	0.95	1.01	1.05	0.99	0.93

*Notes:* Excludes Bonthe Municipal Council, which has experienced extreme year-to-year variation in transfers out of proportion to all other councils.

*Source:* Local Government Finance Department, Ministry of Finance, Government of Sierra Leone.

These suggestive, but not entirely conclusive, trends do not necessarily imply the absence of politicization. The detailed government data on which we rely may be imprecise or inaccurate, while governments may politicize transfers in more subtle ways, as with delayed disbursements. The striking (and difficult to explain) volatility of transfers, coupled with the relative decline in transfers to SLPP councils in 2008 and 2009, could be consistent with politicization, and would almost certainly have fostered the *perception* of politicization.<sup>68</sup> The leaders of opposition councils have a clear belief that there has been politicization, and a clear fear of the possibility of further politicization at critical moments, and these beliefs and expectations have been critical to fostering greater commitment to tax reform in opposition-led councils.

*Political competition, 'contractual' taxation, and revenue collection*

The final lesson from the case studies relates to the complex relationship between local elections and tax collection. While all local governments in Sierra Leone hold elections, these elections have varied dramatically in the extent of electoral competitiveness. While expanded competitiveness may enhance or discourage tax reform depending on the context, experience in Sierra Leone highlights the potential for more competitive elections to spur greater attention to tax reform and, perhaps more critically, to incentivize the implementation of more contractual approaches to tax reform.

In general, local-level elections in Sierra Leone have remained relatively uncompetitive, with the APC dominating elections in the north and the SLPP dominating elections in the south. In this context, electoral victors have generally received upward of 65 percent of the vote, and often much higher, and thus face little meaningful electoral threat and relatively little pressure to respond to popular demands. However, the 2007 elections in Bo City Council presented an exception to this trend, as leading members of the dominant SLPP party organized a rival party, the People's Movement for Democratic Change (PMDC), which briefly posed a significant electoral threat. Although many PMDC leaders eventually returned to the SLPP, Bo City Council remained by far the most competitive of the city council elections, with the SLPP receiving only 46 percent of the vote.

This enhanced electoral competitiveness is credited at least in part with enabling future Mayor Wusu Sannoh to achieve the SLPP nomination and with creating incentives for him to lead an ambitious local tax reform programme after the election. Leading council officials are explicit and

68. Melissa Labonte similarly notes this measure of unpredictability in central government transfers, owing to the regular revision of grant formulas. Labonte, 'From patronage to peace-building?'

adamant in arguing that their efforts to raise tax revenue were motivated to a significant extent by a need to fulfil electoral promises by expanding public services. As importantly, they viewed this effort as an important part of their strategy for achieving re-election for the SLPP in 2012. While the majority of local revenue arrives through central transfers, local government revenues provide critical revenue for small-scale local services, including sanitation, market infrastructure and cleaning, public bus services, and public toilets. As noted earlier, this division of labour may explain why economic elites have little interest in local taxes, as they have little need for the services that they provide. By contrast, the services provided through local government taxes are popular and valuable among lower-income constituencies, who appear to have become more electorally relevant amidst increased electoral competition.<sup>69</sup>

While electoral incentives figured centrally in the decision to prioritize the tax reform programme, competitive elections also generated incentives for the Bo City Council to adopt a more contractual approach to property tax reform that stressed the existence of a 'fiscal contract' between government and taxpayers in order to build a sustainable and broad base of political support.<sup>70</sup> This effort involved three broad components. First, the government stressed transparency about what revenue is collected, while making explicit efforts to draw clear connections between revenue collection and the provision of new or improved services. Second, the government built on this basic transparency through efforts to engage in active outreach to taxpayers, including a weekly call-in radio show with senior officials. Third, the government drew public attention to its efforts to ensure enforcement among large property owners, repositioning enforcement among elites as a political asset in seeking broad-based public support, rather than as a political liability. These efforts not only generated short-term political support, but also appear to have provided the basis for sustaining reform more effectively over time in the face of pressures for reversal.

None of this is to suggest that greater electoral competition will always be translated into more successful tax reform. Elections generate multiple competing incentives and are likely to have mixed impacts. However, the evidence here highlights the potential for more competitive and meaningful local elections to set in motion a virtuous circle of expanded reform and accountability. Electoral pressures not only helped to generate support for

69. Recent research at the district council level finds that satisfaction with these small-scale local services is an important determinant of support for local government taxation. Samuel Jibao and Wilson Prichard, 'Tax perceptions in the periphery: The local foundations of tax compliance in district councils in Sierra Leone' (ICTD Working Paper, Institute of Development Studies, Brighton, 2015).

70. Moore, 'Between coercion and contract', p. 37.

raising local revenue, but also shaped the character of the reform process itself, creating incentives to build popular support for reform through transparency, engagement, and a focus on equity, thus laying the foundation for sustained progress. This type of positive dynamic appears particularly likely in relation to property taxation, which is both highly visible and progressive, and thus well suited to building broad-based popular support for improved enforcement. However, there are reasons to believe that there may also be a more general potential for the creation of such virtuous circles at the local government level, as local governments are well positioned to draw explicit connections between local revenue raising and small-scale services valued by the majority. This is a topic that demands further research.

### *Conclusions*

Given the growing recognition that the most important barriers to property tax reform in low-income countries are political, this article is among the first to capture systematically the local political drivers of successful reform. The research has stressed four sets of factors that have been critical to shaping sub-national variation in reform outcomes. First, elite cohesion served as a critical barrier to tax reform, and particularly to effective enforcement, by strengthening the effectiveness of resistance by economic elites. Second, ethnic diversity – as reflected in a higher share of migrant large property owners – enhanced the effectiveness of reform by fragmenting elite resistance. Third, opposition councils showed a stronger commitment to local tax collection in response to the risk, whether real or perceived, of the politicization of intergovernmental transfers. Finally, experience in the Bo City Council illustrated the potential for competitive local elections not only to expand incentives for tax collection, but also to shape the character of tax reform efforts in the direction of greater transparency, inclusiveness, and equity.

These factors are not to be understood as simple and immutable determinants of successful reform. Elections, political alignment, and ethnic diversity can shape outcomes through multiple causal pathways, and will almost certainly have diverse implications for reform in different contexts. There is an obvious need for caution in generalizing from the limited set of cases explored here, and beyond the specific dynamics of property taxation. However, the findings offer a valuable starting point for a clearer understanding of the politics of property tax reform in low-income countries, in part by highlighting often overlooked and distinctive features of tax dynamics at the *local* government level. In particular, elite cohesion appears particularly likely to undermine tax reform at the local government level, owing to the ease of local state capture but also a lack of interest among local elites in the services funded by local revenues. By contrast,

competitive local elections may be particularly beneficial to local government tax reform efforts, as local governments are comparatively able to draw connections between local taxes and popular local services. Finally, whereas existing research has stressed the negative impacts of ethnic diversity on attitudes toward tax compliance, the findings here stress the potential for diversity among elites to strengthen tax enforcement by fragmenting elite resistance.

The importance of these lessons does not lie only in supporting improved revenue collection. A growing literature has stressed the potential role of tax reform in promoting reciprocity, bargaining and the construction of local-level accountability; or, more simply, as an entry point for realizing the promised governance benefits of decentralization. However, in practice the strengthening of local government tax collection has advanced very slowly across African countries despite the expansion of *de jure* decentralization. Against this background, experiences in Bo in particular speak to the potential for achieving both significant revenue gains and the broader expansion of more contractual forms of taxation. This success has been based not on a highly sophisticated and technocratic tax reform programme, but on a simplified and locally appropriate set of strategies. In turn, this article points toward the value of reform that seek explicitly to address political barriers through, among other strategies, partnering with committed local leaders, confronting and fragmenting elite resistance, establishing clear fiscal incentives for local government tax collection, and stressing transparency, equity, and inclusion – including clear links between local revenue and expenditure – in order to build a base of popular support for sustainable reform.