ICTD Research in Brief
Issue 74 • October 2021

Co-Financing Community-Driven Development Through Informal Taxation: Experimental Evidence from South-Central Somalia

Summary of Working Paper 126 by Vanessa van den Boogaard and Fabrizio Santoro

Community-driven development (CDD) has long been embraced by international development partners as a means of delivering public goods and strengthening social capital and cohesion, particularly in fragile contexts. To receive external support, CDD projects often require co-financing from communities through informal taxes – non-market payments that are not required or defined by state law and are enforced outside the state legal system. Co-financing is often incentivised through CDD grants, with the requirement for informal taxes largely justified based on the belief that they will create a greater sense of ownership over projects and increase their sustainability.

However, despite being widely embraced by development partners and donors and being incorporated into CDD programmes, there is limited evidence about the impact of co- financing requirements. First, it is unclear whether CDD programmes can incentivise informal revenue generation and local collective action.

Second, though it is often assumed that matching grant programmes requiring community contributions will lead to more positive public goods outcomes than external aid alone, there is little evidence of this outcome in practice. Meanwhile, reviews of CDD programmes highlight the risk of elite capture of programmes, while it is plausible that local revenue requirements lead to coercive revenue-raising tactics, with revenue used primarily to benefit local elites.

Third, little is known about the impact of requiring co-financing through informal community contributions for state and non-state governance actors. It is not clear whether co-financing requirements serve to ‘crowd out’ other forms of formal and informal revenue-raising, and whether working with informal taxing institutions outside the state negatively affects state legitimacy.

Research design and data

We explored these research gaps through a randomised control trial of a CDD programme in Gedo region in south-central Somalia, which made use of matching grants to incentivise informal contributions for local public goods. This CDD programme was implemented by two NGOs and involved two interventions: a grant, matching or surpassing revenue raised informally by communities, and a set of measures aimed at increasing oversight over communities’ management of informal revenue, including using an online contribution and payment tracking platform.

We rely on household survey data collected from 1297 respondents in 31 communities that received these interventions (treatment communities) and 31 communities that did not (control communities), before and after the programme implementation. We also make use of repeated surveys with village leaders and collect objective assessments of the programme’s impact through observable data like the quality of community development

> “The CDD programme with co-financing requirements did not undermine perceptions of the legitimacy of the local state and some non-state governance actors. Instead, citizen perceptions of the legitimacy of the local government – their willingness to accept the authority of the local government to levy taxes – increased as a result of the programme.”

projects built through the programme and rely on the digital payment tracking platform to cross-check reported contributions.

Positive effects on informal contributions to public goods

First, we found the CDD programme in Gedo region was effective in incentivising informal taxation within communities. Treatment communities were more likely than control communities to undertake a new development project and to raise new informal revenue to finance public goods. Importantly, the matching grants did not crowd out other forms of informal revenue-raising, which play an important role in social welfare provision in south-central Somalia.

Positive effects on the quality of public goods

Second, the programme was also effective in delivering better quality public goods outcomes. Individuals in treatment communities were more likely to be satisfied with the public goods outcomes and to perceive greater fiscal reciprocity of informal contributions, supported by more positive objective assessments of the new community development projects. These findings are somewhat surprising given the risks of elite capture associated with CDD programmes.

We believe they can be explained in part through the mechanisms of accountability that were embedded within the transparent and participatory programme design. For example, individuals in treatment communities were more likely to perceive their rights to make demands on local leaders and to play a role in monitoring local revenues and projects.

Positive effects on perceptions of state and non-state governance actors

Finally, we show that the CDD programme with co-financing requirements did not undermine perceptions of the legitimacy of the local state and some non-state governance actors. Instead, citizen perceptions of the legitimacy of the local government – their willingness to accept the authority of the local government to levy taxes – increased as a result of the programme.

This is striking, particularly as the local government had no direct role in the CDD programme. In exploring the mechanisms through which these outcomes emerge, we find no evidence of the project being falsely attributed to the government, partial evidence that legitimacy was strengthened through more frequent interactions with leaders, and strong evidence that the positive relationship emerged through shifts in perception of the transparency, trust and performance of local leaders. This indicates that where informal revenue generation helps to finance valued public goods, taxpayers may view state actors as doing their job even if they do not have a direct role in the financing or delivery of public goods.

Implications

This paper contributes to the relatively limited evidence base in this area, and contrasts with concerns that co-financed CDD programmes can lead to elite capture or that operating outside formal institutional channels can undermine the state. Our findings suggest that matching grants may be effectively used to incentivise informal contributions that are enforced through social mechanisms. The positive spillover effects on state actors points to a potential complementarity between informal taxing institutions, external financing and the state in a context of weak state institutional capacity.

These findings also have important implications for how development partners deliver aid and engage with informal taxing actors outside the state in contexts of weak formal statehood. In Somalia, international development partners and donors often rely on local leaders and informal institutions to deliver services and aid in the region, though are simultaneously invested in strengthening formal state capacity and reach throughout the country. Our evidence suggests that development partners may work with communities and community leaders to co-finance development without necessarily undermining state actors – and potentially actually strengthen the state's legitimacy.

Despite these possibilities, we highlight continued and significant risks of requiring co- financing within CDD programmes, including the important risks of a lack of accountability of local leaders, the exclusion of minorities and sub-populations, the reinforcement of inequitable public goods financing, and the entrenchment of non-universal conceptions of citizenship and rights.

Further reading

Citation: Van den Boogaard, V. and Santoro, F. (2021) 'Co-Financing Community-Driven Development Through Informal Taxation: Experimental Evidence from South-Central Somalia,' ICTD Working Paper 126, Brighton: Institute of Development Studies, DOI: 10.19088/ICTD.2021.016

Credits

Vanessa van den Boogaard is a Research Fellow at the ICTD and leads the research programme on tax and civil society and co-leads the programme on tax and informality.

Fabrizio Santoro is a Postdoctoral Fellow at the Institute of Development Studies and at the International Centre for Tax and Development.

The ICTD is funded with UK aid from the UK Government and by the Bill & Melinda Gates Foundation; however, the views expressed herein do not necessarily reflect the UK Government's official policies, nor those of the Bill & Melinda Gates Foundation.

institute of development studies

ICTD is based at the Institute of Development Studies, Brighton BN1 9RE UK.