

Collectors, councillors and donors: Local government taxation and state-society relations in Tanzania

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1 Introduction

Bargaining over the budget and over tax policy is one of the primary ways in which different state and societal goals are reconciled in a democracy. For instance, in Europe over the past two centuries, taxation and disputes over the use of revenues stimulated the development of greater citizen rights and privileges, with democratic institutions enforcing accountability and greater transparency in expenditures (Tilly 1992).

Building on this historical analogy, recent research on taxation in poor countries has brought new insights into the linkages between domestic revenue-raising, aid dependency and state-society relations (Moore, 1998). The core argument in this research is that the more a state 'earns' its income through the operation of a bureaucratic apparatus for tax collection, the more it needs to enter into reciprocal arrangements with citizens about provision of services and representation in exchange for tax contributions. Thus, it is argued, the greater the share 'earned' income represents of total revenues, the more likely it is that state-society relations will be characterised by accountability, responsiveness and democracy. Accordingly, effective democratic governance is undermined when a state relies on a high degree of 'unearned' income derived from foreign aid. African states have significant 'unearned' incomes in the form of aid (Goldsmith 2000). In 1997, aid represented 10 per cent or more of GDP in 21 African countries (World Bank 1999). Aid alone accounts for almost half the income of many governments of low-income countries. The donors' recipe for reducing aid dependence is straightforward: increase domestic revenue

* This article was prepared with financial support from the Research Council of Norway and Danida through the research programme 'Taxation, aid and democracy'. It draws on ideas developed in a paper published in *The Journal of Modern African Studies* (Fjeldstad 2001). Useful comments on earlier drafts were received from Ivar Kolstad, Lise Rakner and Mick Moore. Points of view and any remaining errors can be attributed to the author.

generation in the recipient countries. Consequently, by increasing the state's fiscal dependency of its population it is expected that the accountability of the state apparatus to societal forces will also increase.

In terms of local government taxation in Tanzania, these assumptions appear not to be valid. Firstly, direct or indirect use of coercion characterises local government tax enforcement, and revenue performance seems to depend on the degree of coercion involved in the collection process. Secondly, the stakeholders involved in local government tax enforcement may have widely different and contradictory objectives with respect to revenue performance. Thirdly, arrangements used by donors to increase domestic revenue generation, for instance incentive schemes which supply development aid on the basis of matching funds from the local government, may induce increased tax effort at the expense of accountability and democratic development.

The purpose of this article is to explore the possible linkages between taxation and accountability in a typical local government context in a poor, aid dependent country. Local authorities interact more closely with the citizens than other organs of the state apparatus. Hence, local government revenue mobilisation may be considered a more relevant testing ground for the proposition that increased domestic revenue generation is positively correlated to improved state-society linkages and accountability than the central government tax system. Typically local government taxes often involves millions of people, whereas only a few of hundred thousands individuals pay income tax to central government, and substantially fewer pay corporate taxes (Therkildsen 2001:118).

2 Local government taxes

Local authorities in Tanzania levy a large number of taxes, licences, fees and charges. In a recent study, Fjeldstad and Semboja (2000) identified 10 major categories of taxes; 18 major categories of licences; 40 groups of charges and fees; and 16 items listed as 'other' revenue sources. The distinction between taxes, licences, charges and fees is, however, often unclear. A number of levies are referred to as charges although they are in reality taxes, since no service is rendered directly and exclusively to the payer. In addition, a wide variety of fees for forms and permits exist. The primary purpose of such permits is regulation, although in many councils they

have become more a source of local revenue rather than a control mechanism. Furthermore, the number of different taxes, licences, charges and fees varies considerably between the councils.¹ In 1997, for instance, there were at least 25 sources of revenue being levied in Kibaha District Council, compared to more than 60 for Kilosa District Council and about 50 in Dar es Salaam.

Despite the large number of revenue sources, four main types are important in almost all councils. These are the 'development levy' (a head tax), crop and livestock cesses (agricultural taxes), business licences, and market fees. In 1997 these sources averaged two-thirds (66 per cent) of the reported tax revenues in 42 district councils studied. The 'development levy' dominated by contributing 30 per cent of total own revenues, followed by agricultural cesses (22 per cent), business licences (about 9 per cent) and market fees (5 per cent).² In a sample of 10 urban councils, the major own revenue bases in 1997 were licences (33 per cent), property tax (21 per cent) and the development levy (19 per cent). Total tax revenues per capita differed substantially between councils. In 1995, in a sample of 20 councils, reported revenues per person above the age of 18 ranged from 344 Tanzanian Shillings in Lindi District Council, to 1,541 Shillings in Mbinga District Council (Fjeldstad, 2001).

3 Coercion and reciprocity

There are two criteria we can use to judge the extent to which a local government income is 'earned' (Levi 1988; Moore 1998):

¹ In 1999, there were 111 local authorities in Tanzania: 92 District Councils; 9 Town Councils; 9 Municipal Councils; and 1 City Council (Dar es Salaam). However, the number of councils is increasing. Due to attempts to equalise rates on some revenue bases among councils within the same region, some rates have tended to differ by regions.

² These four main sources have dominated district councils' revenue generation since local government was re-introduced in Tanzania in 1983 (URT 1991). In 1987/88, in a sample of ten rural councils, the development levy, cesses and business licences contributed 77 per cent of revenues. Thus, although these sources are in relative decline, they still account for the major share of the councils' own revenues.

- *Organisational effort*: This refers to the bureaucratic apparatus that the local authority deploys to collect revenues. It is represented by the enforcement activities of collectors and the penalties imposed on those detected for non-compliance, i.e., the coercive element.
- *Reciprocity*: This has to do with fiscal exchange, i.e., how far citizens are obtaining some reciprocal services in return for their tax contributions. Thus, taxation and the provision of public goods and services may be interpreted as a contractual relationship between taxpayers and the (local) government.

To what extent are these criteria valid in the Tanzanian context? In general, there is widespread dissatisfaction with public services in local authorities, and the quality of the services seems to have deteriorated in recent years (Cooksey and Mmuya 1997; Enemuo 2000; Fjeldstad and Semboja 2001). In a survey of the tax compliance behaviour of households in five local authorities in Tanzania, including both rural and urban councils, the majority of the respondents judged that taxes were not at all or only partly used to provide public services (Fjeldstad et al. 2002a). In a corresponding survey of small and medium scale firms, almost 80% of the respondents perceived that the major problem in tax collection was that taxes were not used to provide services (Fjeldstad et al. 2002b).

In response to the public sector's inability to deliver services there has been a proliferation of self-help activities to contribute to the maintenance of services like primary education, health care, road maintenance and security. Participation in law and order enforcement through traditional defence groups ('sungusungu') is today the most widespread communal activity in Tanzania. This reflects a growing loss of confidence in the government machinery (Mwaikusa 1995:170-1). Many people feel that the state has left them without protection. Therefore, they have adopted their own ways of ensuring security, to defend local communities and to protect them from crime and lawlessness.

The reciprocity argument does not seem to be valid in this setting. Taxpayers in local authorities in Tanzania see, in general, few tangible benefits in return for the taxes they pay. Virtually no development activities are financed by councils, and even the existing capacities do not produce the expected services due to lack of operation and maintenance funds (Semboja and Therkildsen 1995). Basic services are increasingly funded by user charges or through self-help activities. The

deterioration and in some cases total absence of public services leads taxpayers to feel they are being exploited by government, and promotes tax resistance.

Widespread tax resistance is observed in many local authorities. People may go to the extreme to evade taxes, for instance, by literally hiding in the bush when tax collectors are approaching. Many local governments rely heavily on simple physical coercion to obtain the resources they need from their subjects and to ensure compliance. Roadblocks manned by the local militia or police and village-by-village invasions by collectors are frequently used as tools of tax enforcement. The use of coercion in raising local government taxes in Tanzania is so pronounced and detested that this mode of earning income is not conducive to improving accountability of state to society.

Taxpayers sometimes reciprocate in the form of violent ‘counter-attacks’ on collectors, burning tax offices, etc. In some councils, tax collectors avoid certain villages due to the high personal risk involved in tax collection (Fjeldstad 2001). Other villages are only visited by collectors accompanied by the local militia. The well documented 1998 tax revolt in Arumeru District in North-East Tanzania involved the refusal of almost the entire district population to pay the poll tax (‘development levy’), the beating up of council collectors, the burning of the council chairman’s house, and his subsequent resignation (Kelsall 2000).

The argument that tax resistance is correlated with deteriorating public services is supported by various studies. Bukurura (1991:91) refers to an investigation from 1987 by the *Tanzania News Agency* in Kigoma Town Council, which reported that ‘many people were defaulting apparently because they thought the council was not doing its best to serve the residents’. Tripp (1997:154) describes non-payment of the poll tax as a form of popular opposition towards state policies. She argues (p.8) that tax evasion may be understood as one of many ‘quiet strategies of resistance in the form of economic non-compliance’.

Thus, in circumstances where taxes are perceived to be unfair and people receive few tangible benefits in return for taxes paid, we may expect that only coercive methods of tax enforcement will generate tax revenues. The reciprocity or contractual relationship between taxpayers and the

local government seems to be absent. Coercive methods yield higher taxes per capita, but the need for coercion also reflects higher levels of distrust in the governmental system and dissatisfaction with service delivery. Moreover, harsh tax enforcement combined with poor service delivery contribute to undermine the legitimacy of the local government and increase tax resistance.

4 Collectors and councillors

In a setting where tax collection to a large degree depends on the extent of coercion used to raise revenues, we will also expect variations between councils in their capacity to raise revenues depending on the extent of coercive tax enforcement. This is what we observe in practice. Total tax revenues per capita vary widely between councils. Some of these differences may be explained by different economic structures, revenue bases, population densities, incomes per capita, and the level and quality of public services. However, we also observe variations in revenue performance between councils that apparently have fairly similar socio-economic characteristics. How do we explain these observations? Why do the tax enforcement regimes differ between councils, leading to substantial differences in the use of coercion? To explore these questions we need to focus on the stakeholders involved in tax collection, and their relative bargaining power. They may have widely different objectives when it comes to taxation.

Local government tax collection in Tanzania is basically a council staff affair, and completely separate from central government revenue collection, that is undertaken by the Tanzania Revenue Authority. In district councils, tax collection is organised at three levels: the council headquarters, the ward and the village. This institutional set-up encompasses at least three principals: (i) the administrative leadership (management team) of the local authority, (ii) local politicians, and (iii) the central government administration (i.e. the ministry responsible for local government). These stakeholders, sometimes independent of each other and sometimes through collusion, try to influence the revenue target and, thus, the actions of the tax collectors. Based on evidence from fieldwork, the various stakeholders' objectives can be summarised as follows (Fjeldstad 2001):

(i) The objective of *the management of the local authority* (the administrative leadership) is to generate enough tax revenues to pay the wage bill and allowances of the staff. This target seems to

be a minimum performance requirement from the central government. Otherwise complaints will be forwarded through the trade unions, and there is a risk of being fired or transferred to a less attractive position due to poor performance.

However, since both revenue estimates and reports on revenue collection are based on information from the administrative staff, there is room for manufacturing numbers. Tax collectors at the ward and district levels seem to be driven by motivations to maximise revenues. Thus, collectors can report sufficient revenues that cover the wage bill and pocket whatever is left, with or without collusion with their superiors. The larger the amount collected, the larger the amount that can supplement their own meagre salaries. Fiscal corruption is extensive in local authorities. It takes many forms and varies by types of taxes, methods of tax collection and location, and it cuts across all levels of the local government, from the villages to the councils' headquarters.

Although many cases of collusion between taxpayers and collectors are reported, the most common type of corruption is embezzlement of revenues by tax collectors and administrators (Fjeldstad and Semboja 2000). In 1998, for instance, the Auditor General revealed a substantial gap between reported tax revenues and the amount transferred to the bank accounts of the councils. In a sample of 31 councils this amount corresponded to 3.5% of total reported tax revenues from all local authorities to the ministry of local government (*Daily News* 23 March 1998). Later the same year, the *East African* (30 September 1998) reported that the Auditor General suspected extensive embezzlement of tax revenues from agricultural products in various councils. The amount in question corresponded to about 10 % of the total reported local government tax revenues in 1997. Prolonged embezzlement of large amounts of tax revenues requires the involvement of relevant senior officials from the councils' headquarters. Furthermore, the prolonged existence of such corruption is made easier when: (a) the collectors and tax inspectors are stationed relatively permanently in their positions, i.e., they are rarely transferred; (b) the network is limited to a relatively small number of people in the tax administration; and (c) taxpayers are not directly involved. The exclusion of taxpayers from the embezzlement corruption network is possible because the tax collectors may indeed provide genuine receipts to taxpayers on taxes paid. In some cases two sets of similar receipt books are used.

These observations are consistent with Migdal's (1988: 253) argument that political systems under pressure from the centre to produce certain development results are likely to exercise their own form of accommodation. The most common form is simply to pass false or inflated accounts of performance to superiors who are out of touch with local conditions. Thus, where supervision is lax, district leaders, including local bureaucrats, may use their budgetary discretion and the force at their disposal for personal gain.

(ii) One important objective of *local politicians* is to get re-elected (and thereby also to obtain allowances for participating in council meetings). Politicians may say they want an efficient tax administration – but only to the point at which voters begin complaining that they are being harassed. Local political leaders are dependent on a popular local base (Kelsall 2000:15).³ Thus, councillors are, in general, reluctant to raise local taxes and charges, not only due to concerns about their popularity, but also because they may be major local landowners or businesspeople who consider higher taxes to have a direct negative impact on them. As a result councillors try to intervene in revenue collection.

Indications of the impact of political intervention on tax collection can be found in the councils' financial statements. For instance, many councils experience revenue shortfalls in election years, particularly with respect to the 'development levy'. In a sample of 48 councils, 31 experienced a drop in revenues in the election year 1995.⁴ This may be due to the influence of politicians.

(iii) The objective of the *central government administration* (i.e. the ministry responsible for local government) is vague with respect to taxation. However, a tax system is also a mechanism of political control. According to Moore (1998: 105), it comprises two main elements: (1) the sets of information on citizens that a government otherwise might not collect and maintain; and (2) a network of public collection agents who use this information, and become 'repositories

³ Under the previous one-party system a substantial minority of the MPs gained access to Parliament either on tickets of the mass organisations of the party (e.g., Co-operatives, Youth, Women), or as appointees of the President. This system was abolished when the multi-party system was introduced in 1995. Therefore, aspiring national leaders today also need a local power base.

⁴ Based on data from the Ministry of Regional Administration and Local Government.

of knowledge' about what is going on in remote areas where the state elites have little direct influence and knowledge. Thus, the revenue itself may not be the most valuable product of tax enforcement. But active revenue raising may be an important means of keeping a state machinery alive and active at the local level. An indicator used by the central level to confirm that this machinery is alive, is that the local authority generates sufficient revenues to cover its wage bill.

By and large, however, the central government is not directly involved in matters of local government taxation. For instance, local authorities in Tanzania have quite a wide discretion to introduce new local taxes and to set tax rates, subject to ministerial approval (see Fjeldstad and Semboja 2000). Due to lack of capacity and poor coordination between the central and local government, only limited restrictions are in practice imposed by the central level on local governments' tax plans and activities. Therefore, the local revenue systems have developed without much interference from the central level.

To summarise, the various stakeholders involved in tax enforcement have divergent objectives with respect to tax collection. In particular, political pressure seems to be a major impediment to revenue collection. Political intervention sometimes results in conflicts between the revenue administration and local politicians. Such conflicts seem to be rooted partly in divergent objectives with respect to tax enforcement, and partly in lack of trust between administrators and politicians at the local level. Based on data from 14 district councils, Jacobsen (1999) finds that there is a 'trust deficit' in the political-administrative relations at the local level in Tanzania. Furthermore, lack of trust seems to reduce the flow of information between politicians and bureaucrats.

The conflict between the tax administration, including collectors, and local politicians is particularly evident in some local authorities. For instance in Kilosa District Council, local politicians have little influence on the tax enforcement process (Fjeldstad 2001). Collection is facilitated through extortive and violent methods that are mainly advocated and implemented by council administrators, with minimum support from local politicians. Thus, in the absence of democratic forms of accountability, tax collection in some local authorities has turned into a licence for collectors to more or less freely augment the local treasury and supplement their own salaries

through extortion from local residents.⁵ In accordance with Mamdani's (1996:59) notion of 'decentralised despotism', financial autonomy has provided the framework in which lower-level officials resort to extra-legal enforcement and violence to extort money from the population.

In other councils, however, tax collection is characterised by greater laxity due to the intervention of politicians. For instance, in some wards in Kibaha District Council local politicians partly act as executives. A general view expressed by the tax collecting staff, reflecting their frustration at this intervention, was that councillors obstructed tax collection. The expected consequence of this intervention is reduced tax effort.

This simple analysis suggests that tax effort depends on the relative 'bargaining power' between the elected councillors and the management of the council. Coercive tax enforcement is facilitated when the balance of power with respect to tax collection is in favour of the council administration, and the elected councillors have no direct influence.

5 Donors

Through district development programmes, aid donors often exert strong influence on the behaviour, decisions and actions of local authority administrators and politicians. Generally, donors co-operate with council administrators and staff to implement their activities, usually through the creation of parallel structures. This intervention increases the influence and power of the bureaucracy, at the expense of the political system. This claim is supported by other studies. In a comprehensive study on the role of government in adjusting economies, Batley (1999) reports that public sector reform programmes pushed by donors and emphasising technocratic solutions, lead to increased managerial power without a strengthening of the accountability of the managers to politicians and the public. Moreover, since donors increasingly use revenue generation as an indicator of the performance of the councils they are involved with, this may further empower the management level. For instance, in

⁵ Wunsch (1990:54) argues that in circumstances where national leaders were dogmatic in implementing comprehensive programmes, as Tanzanian leaders were during the late 1970s regarding Ujamaa villagisation, bureaucrats have been reduced to authoritarian instruments for enforcing compliance.

a study exploring the determinants of success in African local governments, Smoke and Olowu (1992) define success mainly in terms of fiscal performance.⁶

One strategy donors have used to reduce the problems of free riding by local councils has been to adopt a matching scheme, which supplies aid only on the basis of matching funds from the local government. According to Catterson and Lindahl (1998:20), this has ‘created strong incentives for revenue collection’ in Tanzania. Furthermore, donor support may cushion council administrators against possible taxpayers’ opposition. Service provision through donor supported activities provides a free riding opportunity to council administrators who often claim to be the providers of such services.

In councils where donors are not present, local politicians seem to play a more important role in tax enforcement, and tax collection is characterised by greater laxity. We will also expect that the level of fiscal corruption (both absolute and relative) will be lower in these local authorities. This is because local politicians to some extent carry out informal monitoring of the collectors. In general, the formal monitoring and auditing devices do not function at the local level in Tanzania.

6 Conclusion

This article shows that coercion is likely to be an integral part of the effort to raise local government taxes. Furthermore, the study demonstrates that the involvement of donors at the local level may have at least two impacts on tax enforcement: (i) donors’ presence may induce increased tax effort, however, (ii) at the expense of accountability and democratic consolidation.

Thus, the proposition that the more a state (in this case a local government) ‘earns’ its income through bureaucratic tax collection, the more likely are state-society relations to be characterised by accountability and democracy, is not supported. In contrast, increased tax effort is achieved through coercive methods, often characterised by violent and extortive forms of enforcement. The

⁶ Changes in the performance of decentralised institutions have tended to be studied principally in terms of financial performance or revenue mobilisation (Crook and Manor 1998:8).

reciprocal element between the state and citizens seems to be absent in connection with local government taxation in Tanzania.

Moreover, the analysis shows that donors, by the means they use to promote development, may undermine democracy and good governance. For instance, arrangements which supply development aid on the basis of matching funds from the local government may empower the administration at the expense of the elected councillors, and lead to increased extortion. Harsh tax enforcement in situations with poor service delivery may thus contribute to further undermining the legitimacy of the government and increase tax resistance.

Coercive tax collection has important consequences for citizens' rights and for the democratisation process. If taxpayers' rights are unclear for both taxpayers and for tax authorities, tax compliance and accountability will be affected. As long as coercion is accepted as an integral part of tax collection, it is unlikely that state-society relations can become more accountable and democratic.

The paper provides us with some directions for further research. In particular, there is a need to explore whether there might be differences between local and central government tax enforcement. Is the proposition suggested by Moore (1998) on the linkages between 'earned' revenues and accountability more appropriate to central than local government taxes? There are some indications that this might be the case.

Firstly, the state is fiscally more dependent on central government taxes, such as import duties and corporate taxes. As argued by Levi (1988), coercive tax collection is costly both economically and politically in the longer run. Thus, to minimise the costs of enforcement and to maximise the output that can be taxed, the government has to create some kind of voluntary compliance, by entering into reciprocal relationships with taxpayers.⁷ In contrast, the rationale for local government taxation may,

⁷ Levi (1988) uses the concept 'quasi-voluntary compliance'. It is 'voluntary' because taxpayers choose to pay. It is 'quasi-voluntary' because the non-compliant are subject to coercion – if they are caught.

as argued in this article, not be revenue collection but to keep a government machinery alive at the local level. One might even argue that for certain small local taxes and charges the collection costs are the reason for the levy. In other words, the purpose is to create employment or at least an income-earning opportunity for someone who would otherwise be unemployed. Secondly, the objects of many central government taxes are fairly mobile. Thus, to discourage capital owners from leaving the country, the state has an incentive to protect them from arbitrary and exploitative tax enforcement. Such considerations are to some extent reflected in the granting of tax exemptions to larger and foreign owned companies. In contrast, local government taxes are often imposed on tax bases that are less mobile, including fixed property. And finally, central government taxpayers are in general more powerful, organised and vocal than the bulk of local government taxpayers who is composed of the peasantry and small-scale enterprises. In Tanzania, the influence of the larger business associations that organise medium scale and larger companies is clearly reflected in central government tax reforms in recent years.

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