

# Taxation and local government in Africa

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African History Through the Lens of Economics

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The logo for the London School of Economics (LSE), consisting of the letters 'LSE' in white, bold, sans-serif font, centered within a solid red square.

LSE

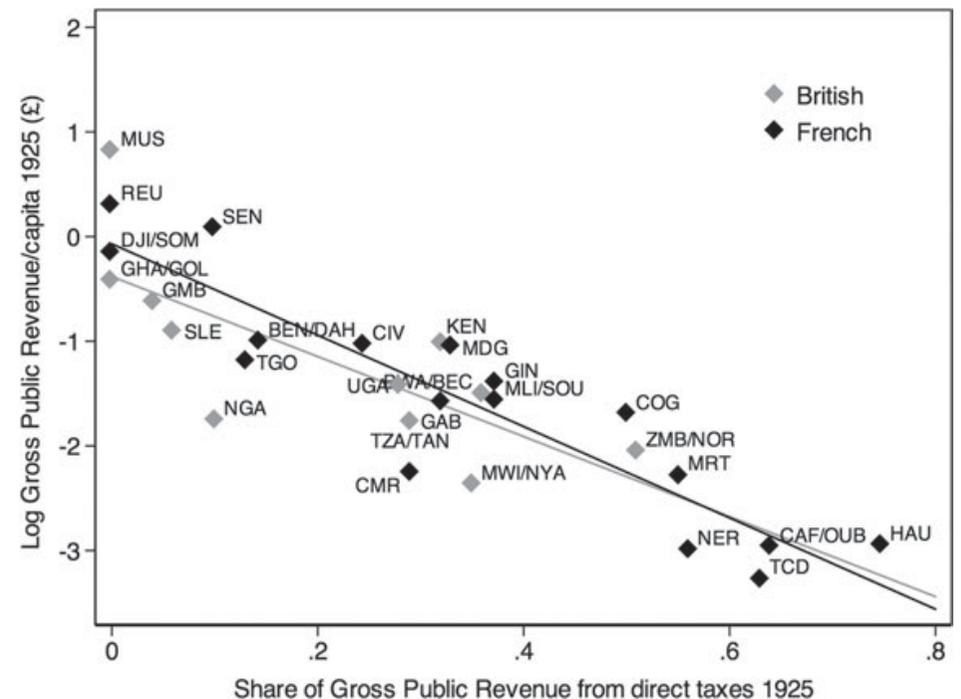
# Why taxation?

*'The budget is the skeleton of the state, stripped of all misleading ideologies,' Rudolf Goldschied, quoted in Joseph Schumpeter, 'The crisis of the tax state,' 1918.*

- Level of tax revenue linked to both levels of income and institutions
- Structure and distribution of taxes reflect political relationships

# Tax structures in colonial Africa

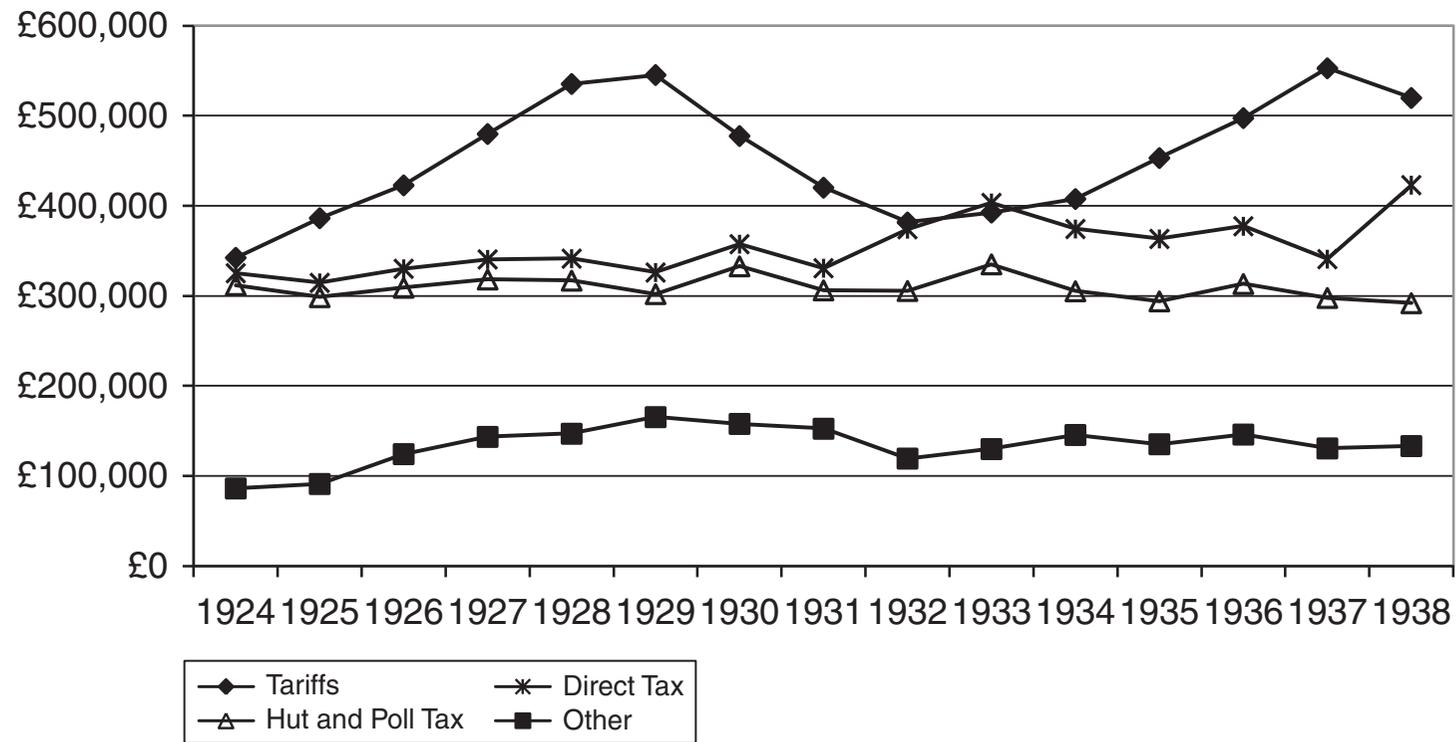
- Tariffs were most important source of revenue in all African colonies
- In general, direct taxes were avoided if possible
- In east and central Africa, value of trade not high enough to support colonial government so direct taxes used more extensively
- Most important direct tax was flat-rate tax on African population. Other (higher) rates imposed on Asians and Europeans.



Source: Frankema and van Waijenburg (2014)

# Sources of tax revenue in Kenya

a. Kenya



Source: Gardner, Taxing Colonial Africa (2012)

# Efforts to tax non-Africans in Kenya

- 1912: “Non-native” poll tax
- 1920 Income tax ordinance
  - Passed by official majority
  - Abandoned after settler protest meant little revenue raised - £58,000 out of £328,413 assessed
- 1927: Education levy (30s for Europeans and 20s for Asians)
- 1932: Income tax
  - Passed by official majority but abandoned again
- 1936: Income tax and non-native poll tax (implemented)

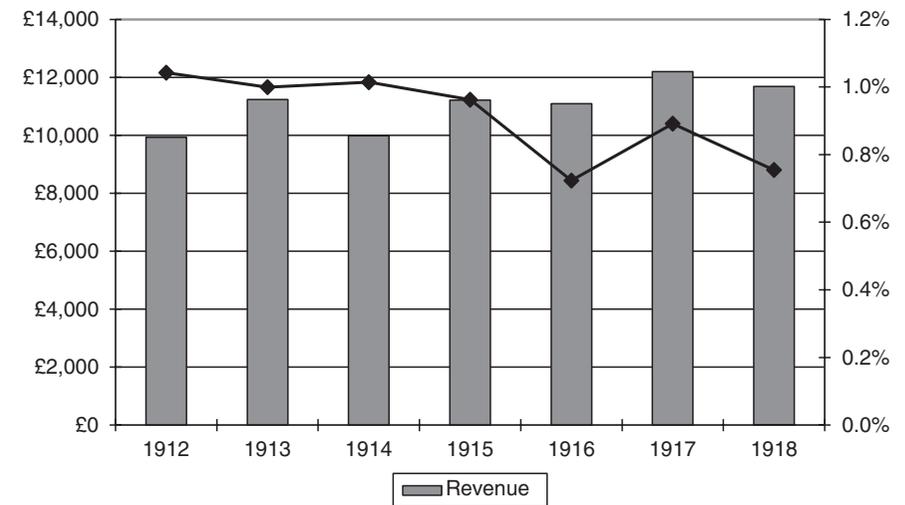


Fig. 3.5. Non-native poll tax revenue in Kenya, 1912–18 (in £ and as % of total)

Source: Gardner, *Taxing Colonial Africa* (2012)

## Share of total revenue from African direct taxes

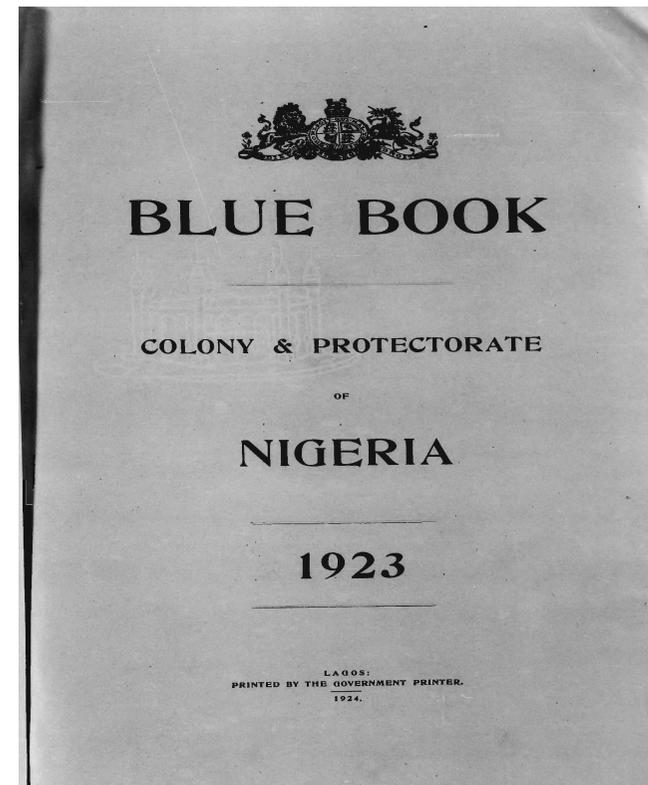
	1938	1951	1953
Nigeria	14.2	1.4	1.6
Sierra Leone	9.9	3.0	2.0
Kenya	14.1	6.4	5.0
Uganda	30.9	3.6	2.9
Tanganyika	31.7	10.6	11.7
N Rhodesia	8.5	1.2	0.7
Nyasaland	24.5	13.3	10.4

Gold Coast?

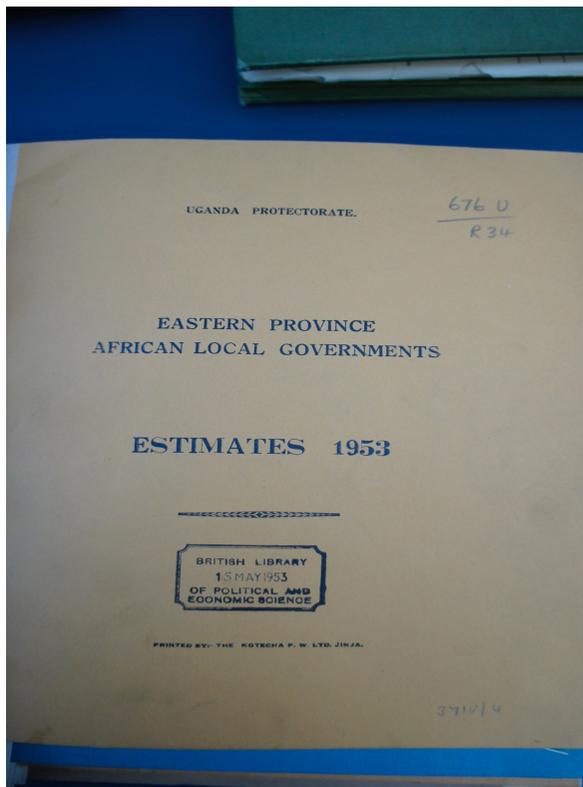
# Why have local finances been neglected?

Main reason: evidence

- Colonial administration finances systematically reported
- Reporting of local government finances more sporadic, formatted differently in each colony



# Sources (individual colonies)



- Before 1940s, most commonly reported in province/district annual reports
- From 1940s, some published annual reports of NA finances
- One-off reports sometimes have more detail

## Local taxes are mirror image of colonial admin

- Direct tax most important in West Africa
- Contributed to higher pc local revenue

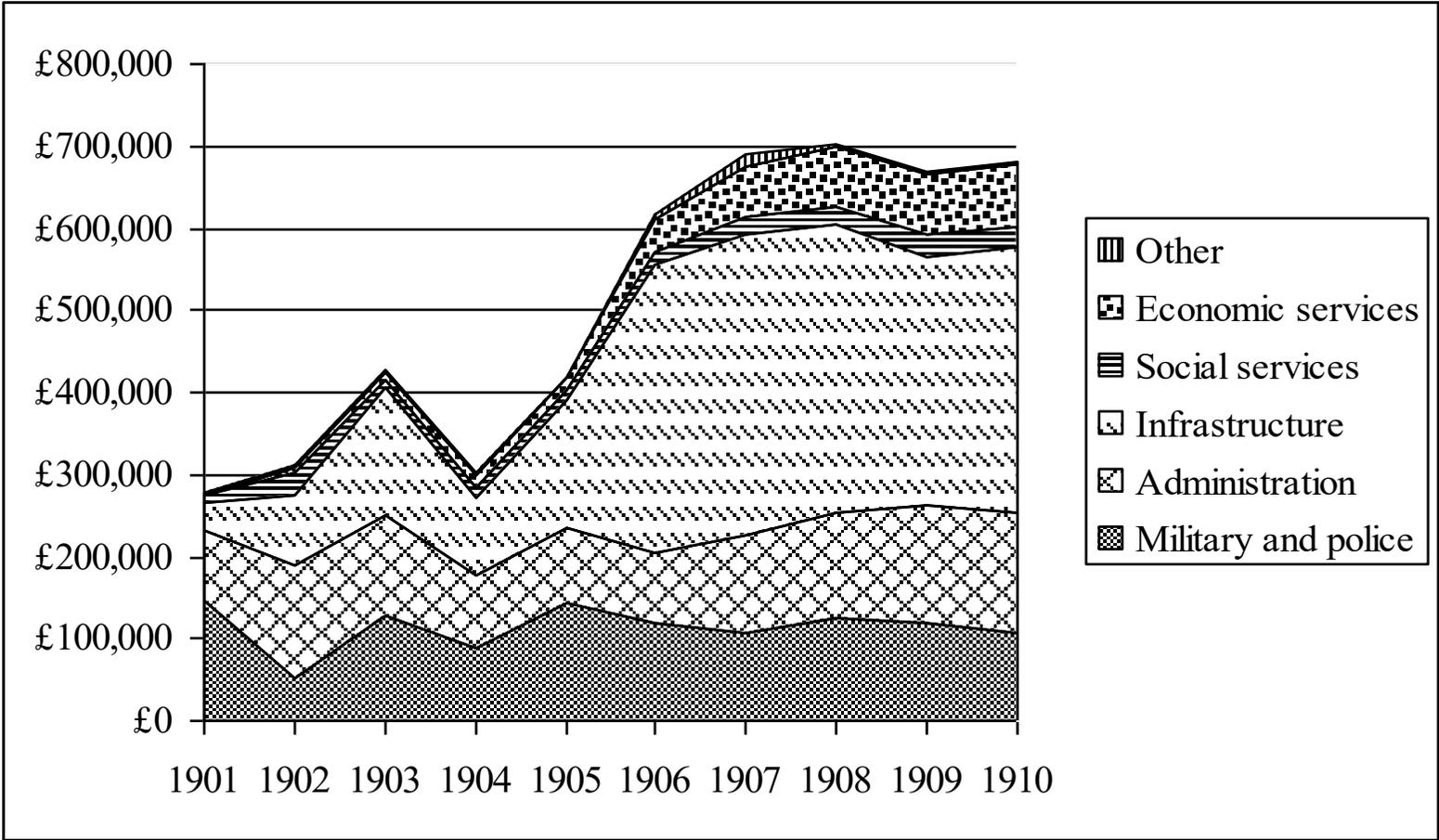
	Direct tax	Courts	Fees	Resource	Grants	Other
Kenya	9	4	1	2	4	4
Gold Coast	15	7	8	10	14	3

Local authority revenue by source (pence per capita), c. 1950

‘We want to tell you what is hardest on us Africans. About £250,000 is collected in this Province in the hut and poll tax every year... Every year this money goes out of the reserve in taxes and every [sic] little comes back to Africans to be spent by Africans in the reserves. This keeps us poor.’

Kavirondo Taxpayers Welfare Association submission to Financial Commissioner, 13 November 1935

# Public spending in Kenya



# Changing imperial policy: 1929 Colonial Development Act

- Established a fund for colonial development projects. Colonial administrations could submit applications
- BUT
  - Primarily funded infrastructure projects
  - Required that rolling stock and equipment be purchased from Britain
- Often accused of being a measure to assist British industry at colonial expense

# Changing imperial policies: 1939 Colonial Development and Welfare Act

- Eliminated requirement that development schemes should benefit the British economy
- Expanded scope of schemes to include social services, research, agriculture, etc.
- Increased funds available for colonial development (in theory)

BUT

- WWII broke out while bill was being debated, so actual funds were limited

# Decentralization and development

- From 1930s, pressure to expand provision of healthcare and social services but resources limited
- Officials hoped that decentralization would make people more willing to pay increased taxes

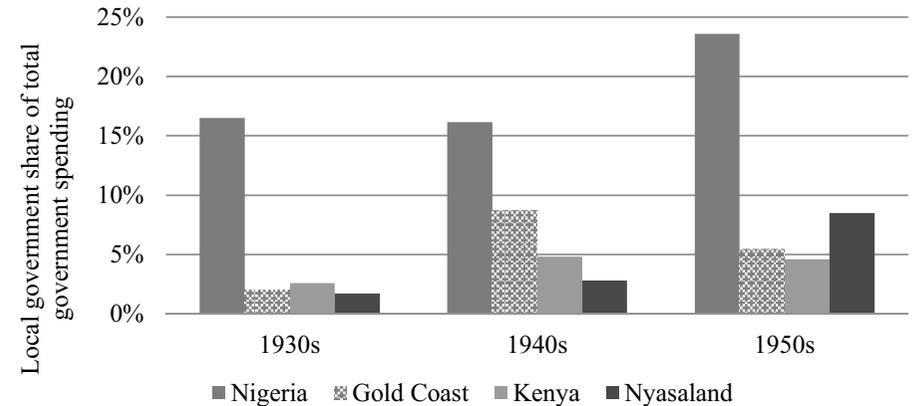


FIGURE 2  
FISCAL DECENTRALIZATION

Source: Bolt and Gardner (2020)

# Allocation of fiscal powers varied

## MURDOCK JURISDICTIONAL HIERARCHY SCORES FOR NIGERIA NATIVE AUTHORITIES

	Northern Nigeria	Southern Nigeria
Organized NA	2.25	3.6
Unorganized NA	1.85	1.96

*Source:* “Native Treasuries Estimates,” 1936–7, in CO 657/43. Lower scores for northern Nigeria reflect the practice of giving centralized emirates control over less centralized societies in the area. For example, see Paden (1970, p. 172).

Source: Bolt and Gardner (2020)

# Inequality between local governments: Nigeria, early 1930s

Largest (Kano)

- Water and electricity supplies (£300,000)
- Several schools
- Hospital plus village dispensaries (£30,000)

Smallest (in Owerri prov)

- Highest priority: school
- At time of writing had saved £130 pounds towards the goal (over several years)



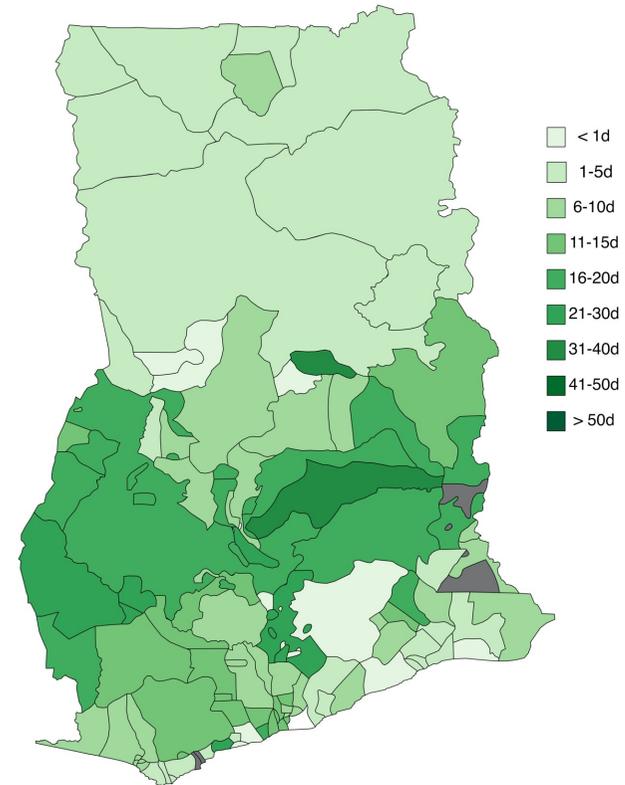
*The Native Administrative Treasury, Kano*

‘A distressing feature, accentuated during the war, is the lack of uniformity in the rate of progress between the semi-sophisticated and backward tribes in the colony. The inhabitants of Nyanza and Kikuyu areas of Central Province might be living in a different world from the Masai and Elgeyo, for example.’

1948 report by Kenya colonial government

# Education spending

- Responsibility for education delegated to local governments (as well as missionaries)
- Native Authorities varied substantially in their resources and capacity



Native Authority per capita education spending in the Gold Coast, 1950

# NA structure and public spending

	DV: Administration %		DV: Public goods %	
	(1)	(2)	(3)	(4)
Gazetted council	-0.152*** (0.0251) [0.0483]	-0.0800*** (0.0277) [0.0408]	0.113*** (0.0217) [0.0291]	0.109*** (0.0273) [0.0477]
Logged population		0.0298*** (0.00950) [0.0135]		-0.00596 (0.00937) [0.0140]
Intercept	0.585*** (0.0198) [0.0260]	0.229** (0.115) [0.163]	0.116*** (0.0171) [0.0182]	0.187 (0.113) [0.168]
NTs	156	141	156	141
Provinces	26	26	26	26
R-squared	0.191	0.212	0.150	0.156

# Conclusions

- Taxation provides a window into the economic and political institutions which made up the colonial state in Africa
- Economic resources and pre-colonial institutions influenced who could be taxed and how
- While central governments tended to prefer tariffs if they could, adding local government revenue into the story shows that direct taxation was important everywhere
- Decentralization was intended to help support expanded development spending, but compounded local inequalities