

Local Shopping Markets and Public Revenue Collection

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1 Importance

Given the rapid urbanization in developing countries, the revenues of city governments for providing urban amenities are crucial — yet scarce. In 2020, low- and middle-income countries collected about 18% of their GDP in taxes on the national level compared to around 28% in high-income countries (UNU-WIDER/GRD, 2022). The shortage of domestic resource mobilization is even more pronounced on the subnational level (Gadenne and Singhal, 2014). This leads to insufficient budgets for (local) governments, limiting their ability to invest in infrastructure and public services. It also restrains their state capacity (e.g., Besley and Persson, 2009) and manifests reliance on other sources like aid flows.

At the same time, local shopping markets centralize economic activity in many developing countries, where compliance among vendors with market fees is high anecdotally. Thus, economic activity in these markets could provide a critical revenue source for local authorities. Today, vendors in those markets typically pay market fees and rental rates in addition to other fees (e.g., storage fees).

However, despite the importance and ubiquity of these city shopping markets in developing economies, the taxation of economic activities on these markets remains understudied (section 2). Shedding more light on this topic can promote local tax capacity and provide insights into important issues like fiscal decentralization (e.g., Gadenne and Singhal, 2014), the organization of tax administrations (e.g., Basri et al., 2021), and informality and development (e.g., La Porta and Shleifer, 2014).

2 Gap in the Literature

While a large academic literature studies how governments in low- and middle-income countries can strengthen their tax collection capacity, these studies mainly concern taxes collected on the national level (e.g., Pomeranz and Vila-Belda, 2019; Slemrod, 2019, for overviews). Notable exceptions include Olken and Singhal (2011) who show that individuals make substantial local contributions through informal taxes (in-kind or monetary). Moreover, several recent studies focus on property taxation, a major revenue source for local governments (e.g., Jibao and Prichard, 2015, 2016; Bergeron et al., 2021, 2022; Balán et al., 2022).

However, there is almost no systematic, quantitative evidence on the role of local shopping markets in public revenue collection. Evidence is limited to individual case studies primarily based on qualitative interviews with local officials, tax collectors, and market traders. Still, these studies highlight essential aspects of this type of revenue collection and showcase the potential for future research.

Prichard and Van den Boogaard (2017) provide a case study of market taxation in two districts in Northern Ghana. They find that informal practices and social norms influence the collection of these taxes. They also find that daily market fees and monthly stall rents are sizeable relative to

taxpayers' income and have a regressive effect overall. [Siebert and Mbise \(2018\)](#) and [Ligomeka \(2019\)](#) study market taxation from a gender perspective in Tanzania and Zimbabwe, respectively. While women do not pay more presumptive taxes than men, they pay disproportionately more tax relative to the income they generate on the market. Also, they are disproportionately affected by toilet and storage fees. [Resnick \(2021\)](#) studies revenue collection in the markets of the capital city of Zambia. The author finds that compliance increases with service provision and trust in market officials in cooperative markets but increases in collection capacity in markets run by the city council. The paper also finds that compliance is positively associated with policy preferences for investment in market infrastructure rather than enhancing public services like education and health.

3 Research Strategy

The scarcity of evidence on public revenue collection through local shopping markets and their potential to elevate local authorities' revenues calls for a multipronged research agenda.

1. **Data collection:** Systematically collect data across and within a set of representative countries. This data can be gathered from official government records, adding questions to existing surveys (e.g., [World Bank LSMS](#)), or gathering data through collection teams in the field. The data may include the types of taxes and fees, design and scope, amounts collected, the statutory tax burden, and vendors' income. The data should also include general information on local authorities' budgets and expenditures.
2. **Descriptive analyses:** The collected data can be leveraged to depict the current practice of revenue collection in local markets. For example, what type of taxes and fees are collected in practice? How relevant are these revenues for (local) budgets? What is the (statutory) tax burden for vendors? The comparison across and within countries can help identify common patterns and shed light on underlying factors driving this form of revenue collection.
3. **Theoretical framework:** The descriptive analysis can help formulate a theory on local shopping market taxation. The theory may include the types of taxes and fees observed in the data, collection capacity constraints, and the general market environment (especially supply and demand in and outside the local market). The theory helps inform questions such as: What taxes or fees maximize government revenue? What are their incidence and welfare costs? What are the effects on competition, especially with vendors outside the market?
4. **Impact evaluations:** Finally, impact analyses can test the predictions from the theory and identify the revenue potential and adverse effects of local shopping market taxation. The interventions should be planned jointly with local authorities and be implemented in RCTs. Interventions could include modifications to the taxes charged, strengthening collection capacity, and running information campaigns. Moreover, policy or administrative changes may provide quasi-experimental variation that can be exploited for causal analysis (e.g., fiscal decentralization reforms). Outcomes of interest are: (i) tax compliance and payments, (ii) incidence and effect on prices, (iii) tax burden on sellers and buyers, and (iv) supply response and seller performance.

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