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Abstract

Local governments in most countries license businesses operating in their jurisdictions, whether for regulatory purposes or to generate revenue or both. These two objectives often conflict. Much regulatory activity by local governments, particularly in the developing world, imposes heavy cost burdens on local businesses. This paper examines the theoretical and practical issues relating to business licensing, in relation to both regulation, and revenue raising. It identifies some principles for reform aimed at increasing the revenue generated while reducing the cost burden on businesses. A case study of local business licensing reform in Kenya provides a practical application.

Keywords: Local Government Finance, Local Revenue Mobilization, Business Taxation, Regulatory Reform, Business License Permits, Kenya, Africa

JEL Codes: H25, H71, L51, R38

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Introduction

Local governments in most countries license private sector activities whether for regulatory purposes or to generate revenue, or both. Local government regulatory control is justified in order to overcome market failures and to protect public safety, while revenue raising is justified to finance the provision of local public services. These differing objectives inherently cause friction in designing and implementing business license fee policy. For example, licenses for regulatory purposes should be limited to cover the cost of regulation: setting fees too high will lead to evasion, undermining the regulatory objectives. Licenses for revenue purposes, on the other hand, should be structured so as to mobilize revenues equitably and efficiently within specific administrative and political constraints.

Throughout the world, governments are undergoing major reforms to free up the private sector from unnecessary government regulation and intervention in order to improve market efficiency (Government of Australia, 1996a, 1996b, OECD, 1996). At the same time, governments everywhere are decentralizing responsibilities to local government, necessitating the need to strengthen local revenue mobilization (Inter-American Development Bank, 1997; Ter-Minassian, 1997; and Litvak, et al, 1998). These two objectives can be in conflict as deregulating private sector activities can lead to a possible loss of local government revenue. These issues are often particularly acute in the developing world, where local government business licensing systems may be antiquated and poorly designed and where local governments have extremely narrow and unproductive revenue sources. The key question is whether business

license reform can be structured so as to create a win-win situation, whereby regulatory costs imposed on businesses can be reduced while local governments can maintain sufficient revenues to finance their responsibilities.

This paper addresses this question through analyzing local government licensing theory, policies and administration in an effort to identify an appropriate direction for reform. *Section One* focuses on the theoretical issues of local government licensing, first as a regulatory tool, second as a source of revenue, and third in the context of a deregulation agenda. *Section Two* provides some principles for the design of a reformed local government licensing system. *Section Three* applies these principles to the ongoing local government licensing reform in Kenya.

1. Rationale for Local Government Licensing

In most countries, local governments exercise some regulatory powers over business and other private activities to preserve and promote the health, safety and welfare of the community. These powers, delegated from a higher level of government, are commonly exercised through the granting of licenses and permits.

Licenses, permits, registrations, notifications and approvals are all terms used to describe the various regulatory instruments used by local authorities. The precise definition of these terms tends to vary within countries and between countries. Typically a distinction is made between those regulatory instruments such as notification and registration and those instruments such as licenses or permits. The primary purpose of the former is to collect information to provide the basis for ex post regulatory action while the latter allows for ex ante regulatory action by requiring prior approval and compliance with minimum standards as a condition for conducting a business. Both regulatory options are mandatory, with the possibility of suspension or

revocation of permission in case of violations. In practice, the two types of regulatory instruments are difficult to distinguish since licensing can require very minimal standards and only a cursory approval of the application (Government of Australia, 1996a; Mirel and Alegi, 1998a, 1998b).

These license fees serve as a tool to regulate private sector behavior and to finance the cost of that regulation. In principle, licensing for regulation and for revenue should be clearly distinguished, for they correspond to different powers used by local governments. While the former falls within the *regulatory or police powers* of local governments, the latter falls within their *taxing powers or proprietary powers* (Bland, 1989).

In practice, however, there is often little distinction between licensing for revenue and for regulation. Revenue and regulation motives are often hopelessly entangled. Local governments may adopt regulatory measures under their police powers that also incidentally raise revenues. In other cases, local authorities use licensing more explicitly as a tool to raise revenues. To differentiate the two forms of licensing, Mikesell suggests the following definition:

“A license ordinance which does not require inspection of the business or the articles sold or fails to regulate the conduct of business in any matter is a pure revenue license, particularly if the license applications are never denied. If such controls apply or if licenses are difficult to obtain (not just expensive), the license is of regulatory variant” (Mikesell, 1986, p. 373).

Although it is possible to try to define the difference—in practice, the distinction is often blurred—with licensing used both for regulatory and revenue purposes. This is especially true in developing countries where effective regulatory control is weak, the need for local revenue is high, and the tax instruments given to local authorities are restricted by the central government or constrained by administrative limitations. In these cases, licensing tends to be used for both regulatory and revenue objectives—often designed and administered in a manner that tends to

regulate ineffectively, while at the same time collecting revenue inefficiently and inequitably. The key is how to design the business licensing system to effectively enable the local governments to effectively regulate the private sector where necessary while mobilizing important local government revenues.

Local Government Licensing as a Regulatory Tool

Licensing is often used as a policy instrument to regulate private sector activities in order to achieve a social goal—unattainable in the absence of government intervention—by altering the behavior of individuals and businesses. In economic terms, government regulation are justified to overcome market failures in order to preserve and promote community health, safety and welfare.¹

In theory, local governments should regulate activities that involve market failures of a local nature, ensuring the internalization of the benefits and costs of such regulation (Oates, 1972). As Table 1 indicates, most local government regulatory licensing are linked to externalities or asymmetric information. Although there are some exceptions - taxicabs being a common one - regulation of monopolies tends to be performed by higher levels of government.

Local government regulatory licensing can be socially desirable under three conditions: (1) There must be a significant market failure related to an activity which is essentially of a local nature, (2) The benefits from regulating the activity should outweigh the costs of regulation and (3) the regulatory licensing should be the most effective form of government intervention.

The first condition stipulates that the local level should use regulatory licensing only if the market failure relates to an activity that is essentially of a local nature. To understand this condition, it is useful to look at the example of a driver's license. The objective of this type of license is to assure public safety, which is a public good. Government must make sure that

people who drive fulfill a set of minimum standards with respect to their driving ability. In the absence of licenses, too little safety would prevail in the streets. Hence, licensing drivers is clearly justified. In practice, however, driver licenses are issued by the national or state level government because the public good benefits “spill over” local government jurisdictions and because there are economies of scale in the design, issuance and monitoring of driver’s licenses. Regulating different license schemes for each local government would be prohibitively costly. A more local example would be the issuance of restaurant licenses that are justified for public safety. In this case, the regulatory benefits are almost exclusively captured within a local jurisdiction—thus, restaurant and bar licenses are normally granted by local governments. Thus, local level regulation is only appropriate to deal with market failures which affect those more purely “local goods” which are not affected by regional spillovers or economies of scale.²

The second condition really involves a case-by-case analysis of the costs and benefits involved with regulation. It can be that the benefits arising from trying to solve the perceived market failure are less than the costs of regulation itself, even if you consider all administration, compliance and economic welfare aspects. In such cases it makes no economic sense to license the activity since whatever social gains could be achieved through regulation would be eliminated by the social costs of regulation. Using this principle, the Regulatory Study Commission (RSC) in Indianapolis eliminated annual licenses for 40 different businesses including hotels, second-hand goods dealers, legitimate live entertainment theaters, and movie theaters. In 1996, the city freed almost 2,036 local businesses from the burden and expense of annual licensing by requiring a one time, no-fee registration instead of a license. This policy eliminated US\$85,000 in fee revenues to the city but is estimated to have saved more than US\$437,000 in direct and associated business costs (Moore and Rose, 1998).

The third condition questions whether regulation is the optimal way to solve the market failure problems. Alternatives to direct government regulation through licensing would include minimum codes and standards of practice, producer's insurance and liability assignment, and compulsory contracts. Notification/registration, rather than licensing, may be sufficient in some instances. For example, in Victoria (Australia) and New Zealand, the use of hazardous equipment requires only notification and assessment of site-specific hazards by the user. In New South Wales (Australia), notification has replaced health premises licensing—with inspection occurring after notification and fees being based on the health risk presented by the premises (Government of Australia, 1996b).

Although other forms of government intervention may be theoretically better, it is often the case in developing countries that more direct government regulation such as licensing is the only option since the legal, administrative and institutional framework for alternatives may be underdeveloped or lacking.

Business Licensing as a Local Revenue Source

Business licensing can also be used for revenue purposes—either indirectly or intentionally. In the first case, net revenue can be generated by setting the regulatory license fees higher than the actual cost of administration (Moore, 1995). In principle, if the primary purpose of licenses is regulation, revenues should not exceed the costs of that regulation.³ In the United States, laws typically state that license fees are set to approximate regulatory costs, and court decisions have attempted to enforce this.⁴ In the UK, too, the law limits license fees to cover costs of administration. However, because of definitional problems and limited information on costs, it is often difficult to determine the extent to which license fees are limited to cost recovery or generate net revenues.

In the second case, business license fees are set specifically for revenue purposes. In fact, when business licenses are used primarily as a local government revenue source they need to be considered within the wider context of local business taxation—taking into consideration aspects of revenue yield, efficiency, equity, administrative feasibility and political acceptability (Rosen, 1992).

Whilst taxation of business activity is normally within the purview of central government (i.e., levied through sales tax, VAT or corporate profits taxation), many countries also allow local governments to tax business in one way or another. Local business taxation can be justified as a payment for the privilege of conducting business in a locality and as a form of benefit tax to pay for local government services. Compared to the property tax—the other common tax base for local government—business taxation generally offers greater buoyancy if linked to some indicator of turnover or income. As an indirect tax, the burden from business taxation can be shifted, wholly or in part, to the final consumer, disguised in the prices charged, reducing the political sensitivity of the tax.

Local level business taxation can be levied in a variety of ways—as a flat lumpsum charge, as a fixed amount varied by type, size or location, or as a percentage of turnover, sales, or income. Although it would perhaps be ideal for local authorities to levy business taxes on some measure of turnover or profitability, this in practice presents some unique problems for local authorities. **First**, turnover or profit based taxes tend to be complex to administer. In addition to difficulties in assessing the correct tax base, there are problems assigning tax revenues to the correct local government since the point of tax collection differs from the point where the tax is borne.⁵ This can lead to the problem of "tax exporting" which is undesirable (with the exception of a true "benefit tax") as it breaks the important link of local accountability between those deciding on local

tax rates and those bearing the burden of the tax. **Second**, differential tax rates between jurisdictions can encourage companies operating in several jurisdictions to manipulate their turnover or profit figures to minimize their tax liabilities and distort locational choices. **Third**, income or turnover-based local taxes can overlap with national taxes on turnover or profits causing problems of administrative and compliance coordination and possible political jurisdictional problems. These three problems, especially in developing countries, force local governments to use simpler systems of business taxation or licenses based either on a flat unit amount per business or based on some proxy of turnover, income, or size differentiated by type of business.

What is the international experience with local business taxation and licensing?

Local governments throughout the world mobilize revenues from businesses in various ways through either specific business taxes or through business licenses. Here are some examples.

In the United States, states and local authorities levy a variety of business taxes. Many states levy a corporate income tax on businesses in addition to a franchise tax or a privilege tax for being allowed to conduct a business within their jurisdiction.⁶ Although very few local governments levy a separate corporate income tax, many use a system of business privilege taxes or licenses to mobilize revenue from the business community. The following four examples show the diversity in these local level privilege taxes or licenses which are levied either as a flat amount, differentiated by type of business, or based on turnover, income or sales. The Privilege License used by the City of Phoenix, Arizona is assessed at between 0.5 to 4.7% levied on the gross income of businesses), the Privilege License Tax used by the City of Raleigh, North Carolina is based primarily on gross receipts/sales/income to a maximum cap of \$750, plus a fixed fee per employee, per establishment, or size of establishment based on North Carolina State Laws, the Annual Privilege License Tax used by Huntsville, Alabama is levied on gross receipts,

while the Business Privilege License used in Philadelphia, Pennsylvania is levied at a flat US\$200 per establishment—although Philadelphia also has a separate business income tax based on net profits.⁷

In Europe, Germany has one of the most developed systems of local business taxation. In fact, the *Gewerbesteuer* is still the largest tax source for local governments, providing around one sixth of total local government revenue in 1995. The tax is based on a combination of business capital and profits, but in recent years has become virtually a surcharge on the corporate profit tax (Davey and Péteri, 1998). Austria, Belgium, Switzerland and Norway also have local business taxes on profits, although their importance is small.

In France all subnational government levels tax local businesses through a *Taxe Professionnelle* which is levied on payroll and business capital (land, buildings and equipment) (Prud'Homme, 1996). This *Taxe Professionnelle* provides roughly a third of local tax revenue and about 14% of total local government revenue. Business taxes are also important in a number of central and eastern European countries. For example, Hungary has a business tax that in 1997 provided over 80% of local tax revenue, financing about 3.5% of total local government expenditure (Davey and Péteri, 1998). The tax is based on business turnover, with a maximum rate of 0.3%. As an alternative, local governments in Hungary may levy a Communal Tax on businesses per employee.

Many developing countries also allow local governments to levy taxes and licenses on local businesses. Brazil, for example, has a Local Services Tax (ISS), introduced in 1966, which is assessed as a percentage of the cost of the service supplied - in effect, gross turnover. For individual professionals (including those employing one or two people) and the self-employed, the ISS is levied as a fixed annual rates for different types of activity which are set by the

municipalities. The ISS contributes around one third of local tax revenues (Silveira, 1989). In Venezuela, local governments levy a Municipal Business Tax, either as a percentage of gross receipts or as a flat fee depending on the class of business. There is also a minimum annual tax for those firms which do not record a sales or gross income figure for a given fiscal period and there are a wide range of tax rates (Evans, 1993).

Philippines also uses gross sales or receipts for their local Business License Tax (BLT), which generates about 10-20% of local government revenue. The tax rate varies from about 0.6% to about 4.0% based on established tariff schedules differentiated by business type. For certain types of businesses, there are fixed rates based on the type of business (i.e., a maximum of P50.00 per peddler annually). As the capital city, Metropolitan Manila is allowed to levy tax rates up to 50% higher (Nolledo, 1992). Until recently, Indonesia had a local Business Registration Tax that was assessed on the size of the business premises and the installed electricity capacity (Devas, et al, 1989). The tax, which was abolished in the rationalization of local taxes in 1996, only ever generated a small amount of money - less than one per cent of total local government revenue.

In Francophone Africa, local governments use a tax called the *Patente* which was originally based on the French Tax *Professionnelle* (Barlow and Snyder, 1992). In Cote d'Ivoire, the *patente* is the largest single local revenue source, providing around 17% of the local government budget, and rather more in the case of the capital, Abidjan (Silveira, 1990). The calculation of the tax is quite complex, being based on a number of elements that vary according to the type and size of business. These include the rental value of the premises, the number of employees, turnover, equipment employed, installed energy capacity and other size proxies. Of these, rental value is the most important, accounting for about 80% of the *patente* assessments overall, and is normally based on 10% of the rental value (either declared or assessed).

In Anglophone Africa, the standard mechanism for mobilizing revenues from businesses has been through the issuance of business licenses. Although originally designed for regulatory purposes, local governments have used business licenses as a source of local revenue because alternative revenue sources are severely limited by national governments. In practice, business licenses have simply become an annual fee. The licensing powers tend to be rather "fuzzy" in legal terms, thus providing local governments with a somewhat flexible revenue source at relatively low political cost. Typically in Africa, business licenses (however defined) provide between 5% and 30% of local budgets. Local authorities in Kenya, for example, apply a fixed annual tariff to its various businesses. Fee rates are set by the local government each year, subject to central government approval. Kenya also has a tax called the Local Authority Service Charge (LASC) which is levied partially as a local income tax on formal sector employees and partially as a lump sum tax on businesses. The annual tariff is set nationally, based on a schedule of business types.

In addition to general taxes and licenses on businesses, many countries permit local governments to levy special taxes on tourism and entertainment. These range from charges per visitor night (common in Western and Eastern Europe and the United States) to taxes on hotel and restaurant turnover (e.g. in Indonesia) and on theatres, cinemas, sporting events and other forms of public entertainment (e.g., the Philippines and Indonesia). Such taxes have quite a high degree of public acceptability, since they generally fall on the rich - and often on foreigners. They can be quite a buoyant revenue source if levied *ad valorem* but can be economically distorting, and may only benefit certain localities.

Licensing and Deregulation

Whether business licenses are seen primarily as a regulatory mechanism or as a revenue instrument, policymakers are concerned about the costs imposed on the economy. The last two

decades have seen a global shift towards deregulation. Excessive regulation, it is argued, can impose unnecessary costs on businesses, and restrain trade, particularly where it limits entry into the market and hence reduces competition. As a result, regulatory activity can impede economic growth, generate unnecessary “protection” for existing businesses, and impose severe administrative and economic welfare costs.

With freer movement of goods and capital, countries - and regions and localities within countries - cannot afford to create obstacles to trade and investment. During the 1980s and 1990s, industrialized countries deregulated a swathe of activities: public transport (buses, railways, airlines, trucking), energy, telecommunications, and financial services. At the same time, there has been a marked increase in regulation related to the environment, health and safety, as new hazards have come to public notice (Gausch and Hahn, 1997). Overall, the shift worldwide is away from blanket regulation, particularly that which limits entry to the market, and towards more targeted intervention related to particular nuisances and hazards.

At the local level, regulating local trading activities has been reduced considerably. In the UK, local authorities ceased licensing most trading activities in the 1970s; while in the US, local business licensing continues to be a target for reform in an effort to improve the business environment.⁸ These regulatory reform efforts have:

- eliminated obsolete regulations,
- integrated of different licenses into broader categories,
- adjusted fees to cover the true cost of regulation where strict regulatory licensing is warranted,
- consolidated the issuing of licenses into a "one-stop-shop", thereby reducing both administrative and compliance costs,
- simplified the licensing process, using simpler, standardized forms, allowing postal and electronic renewals, and
- co-ordinated activities between government agencies and local governments in order to eliminate duplication and minimize evasion.⁹

In developing countries, regulatory failures pose serious problems. On the one hand, failure to regulate against clear environmental health and safety hazards exposes large sections of the population, particularly the poor, to enormous risks. Similarly, failure to regulate effectively against fraudulent and damaging economic activities exposes the public to exploitation.

On the other hand, much regulatory activity is both ineffective and economically burdensome. **First**, many regulations are out of date, having been formulated in previous eras—unrelated to present day conditions. For example, trade licensing laws in some countries limit the role of certain ethnic groups - a relic of the immediate post-Independence era, while local licensing regulations on food sales such as ice cream may predate modern refrigeration systems. **Second**, regulations have been developed in an ad hoc fashion creating a system of multiple, overlapping licenses by different licensing agencies with virtually no co-ordination. **Third**, whilst formally, local business licenses are intended to regulate trading in the public interest (notably to promote and preserve public health, safety and public welfare), the reality is that licenses are usually issued to all applicants whether or not they meet the requirements. Those responsible for inspecting premises lack the resources, and often the motivation, to carry out the necessary and proper inspections which would ensure that business premises comply with the regulations. **Fourthly**, regulations all too often provide rent-seeking opportunities for the regulators. As a result, the undesirable effects are allowed to continue anyway.

The overall effect is to place burdens on legitimate businesses considerably in excess of the official costs, while at the same time failing to prevent the undesirable activity. The whole process of complying with the licensing requirements can be time consuming and costly, involving visits to repeated several offices, often far from the applicant's place of business, filling in multiple application forms, producing various supporting documents, and waiting for the paper work to be

processed. However, the risks of failing to obtain a license can be considerable, as enforcement officers or the police may take drastic action against those found without a license. Thus, for the most part, local business licensing in developing countries achieves little for the community while imposing substantial costs on businesses. Most of the benefits accrue to the regulating agents rather than to the local government. Hence there is justifiable pressure to deregulate local trading activities in many countries, but the consequences for local government's financial resources may be adverse. The challenge is therefore to develop a licensing reform which can simultaneously achieve effective regulation, provide adequate revenues to the local authority, while minimizing adverse economic, administrative and compliance costs to the business community.

2: Principles for Local Government License Reform

Any reform of local business licenses must be based on some clear policy and administrative principles.

First, a decision must be made whether the licensing system is primarily for regulatory purposes or for revenue purposes. If the sole purpose is regulation, the emphasis should be on overcoming market failures effectively, at least cost to the economy. The level of regulatory fees should be limited to the full costs of administering and enforcing the regulations. On the other hand, if the primary purpose is to generate revenue, the fees should be designed to raise yield while taking into consideration aspects of efficiency, equity, administrative feasibility and political acceptability.

Second, licensing reform must be outcome focused. Regulatory licensing may not be the optimal means to obtain a specified social outcome. Thus, it is important to evaluate the objective and the cost and benefits of each regulatory option. If licensing is for regulatory purposes, is the licensing instrument achieving the regulatory goal? Is the license correcting a

market failure or is it primarily restricting entry, creating opportunities for “economic rents?” In cases of genuine market failures, is the cost of the regulatory license less than the costs of the market failure? Is regulation the most effective tool to correct the social costs (e.g., can the same social objective be served by notification/registration rather than licensing per se)? If there are revenue objectives, is the specific license the most effective way to mobilize revenues? A careful cost/benefit analytical approach is an essential component of any license reform effort.

Third, successful licensing reform must be comprehensive—focusing on the complete inventory of existing regulatory and revenue licenses, and on both the policy and administrative aspects. Simple licensing systems which cover a broad base but which are narrowly focused tend to have fewer unintended economic and administrative consequences.

Fourth, licensing reform requires strong and sustained political will since those who benefit under the current system may oppose policy and administrative changes. Opposition may be strong, coming from a minority of businesses who currently gain while the benefits of reform would accrue to the general public. Widespread political support is essential, requiring the reform effort to be systematic and transparent, with an effective program of public education.

Policy Reform Aspects:

Licenses used solely for regulatory purposes should be narrowly targeted to achieve the specific regulatory objective, with the fees set only to cover the cost of administration and regulation. For licenses used primarily for revenue purposes, there are three main policy design considerations, namely: the definition of the revenue base, the valuation of that base, and the rate structure applied to that base.

The final license fee structure must be evaluated in terms of the five traditional taxing principles: revenue, efficiency, equity, administrative feasibility and political acceptability.

First, a business license tax should generate significant, stable and buoyant revenues. Ideally the revenue yield should be responsive to inflation, population changes, and growth in real incomes.

Second, a business license fee should be structured to be economically neutral, minimizing the consumption, production and location distortions and hence economic and social welfare costs.

Third, the business license fee should be evaluated on equity grounds: both in terms of the ability to pay and the benefit principles. In terms of the ability to pay principle, this involves both horizontal equity (that is, giving equal tax treatment of individuals in the same economic situation) and vertical equity (that is, taxing the rich more than the poor). In terms of the benefit principle, the tax should be levied in proportion to the benefits that are received.

Fourth, the business license fee must be evaluated in terms of its ease and cost of administration. Complex tax policy that cannot be administered ultimately fails.

Fifth, the business license fee must be politically acceptable to ensure the long-term sustainability of the revenue source. In practice, taxes which can be disguised in some way (in payroll deductions, or incorporated into the price of the price of something else) are generally less politically sensitive. Table 2 sets out an analysis of these five components related to the three basic policy aspects of revenue base definition, revenue base valuation and the type of rates applied to that base.

Administrative Reform

Efficient administration of business license fees is vital. The administration must be structured appropriately to allow local government to identify the business, classify or value the tax base, assess the liability, bill the fee, collect and enforce the payment, and provide customer service. In most countries, licensing activities are administered by a large number of agencies under a variety of different procedures, in some cases with parallel systems of central and local

government licensing. This fragmentation and duplication can dramatically increase both administrative and compliance costs.

Administrative reform for business licensing is likely to involve:

- consolidating the various license issuing agencies into a “one stop shop”, thereby greatly reducing the compliance costs for applicants who would otherwise have to visit each agency separately.¹⁰ Public education campaigns, and working with the business community, will be important.
- streamlining procedures, simplifying application forms and minimizing documentation requirements, so that licenses can be issued rapidly and with minimum compliance costs. In practice, license renewal can become virtually an automatic process, without requiring a visit to an office. The frequency of license renewal can also be reduced.
- removing the requirement to demonstrate compliance with various regulations before any license can be issued. Whilst the core regulatory function of licensing must remain, this can be achieved more effectively through routine and random inspections, with the right to withdraw a license at any time if there is a breach of the regulations. The requirement to demonstrate compliance in advance of licensing can present insuperable obstacles to the applicant, and provide rent-seeking opportunities to the licensing officer.
- Simplifying the license fee collection procedures, with a single payment rather than multiple payments, and easy payment arrangements (e.g. through banks and other accessible payment points), to reduce collection and compliance costs. Simplifying tariff structures, and increasing transparency through publicizing tariffs, is also important.
- Privatizing some of the administrative procedures—information campaigns, licenses billing and payment processing can improve efficiency, and hiring collection agencies for bad debt may be effective.

Certain administrative actions will be required in order to improve the effectiveness and efficiency of the license fee system:

- compiling an accurate register of businesses, with the information required to properly assess the fee liability; these registers need to be constantly updated,
- cross-linking this business-register information with other relevant third-party business data (e.g., telephone, electricity, water, tax departments, business association directories, trade organizations and chamber of commerce) to ensure full coverage of the revenue base.

- establishing an effective system for classifying and measuring businesses in order to assess liability; this needs to minimize the scope for under-declaration or collusion; having assessment registers available to the public can help in this.
- establishing an effective system for billing and bill delivery.
- developing accountable payment collection system, using banks and convenient payment points
- providing sufficient powers to enforce payment (e.g. through fines, penalties, cancellation of business privilege, and ultimately through closure of premises); enforcement action is often easier for licenses than for the property tax, where the owner may be absent and the occupier may be mobile
- computerization offers enormous opportunities not only for cost saving but also for accurate record keeping, billing, accounting, crosschecking and reporting. The use of a system of taxpayer identification numbers, ideally coordinated with the national tax system, offers considerable potential for crosschecking liabilities.

These policy and administration reform principles are the fundamental building blocks for successful local business license reform. These principles will now be applied to the particular legal, institutional and economic situation within Kenya as an example for successful local government business licensing reform.

3. Reforming Local Business Licenses for Kenya

Local authorities in Kenya, like many Anglophone African countries, use a system of business licensing for regulatory and revenue purposes (Government of Kenya, 1972, Sections 148-165). Under the business licensing system, each local government identifies various categories of businesses in their jurisdiction and determines a fixed tariff for each business type. Local authorities are allowed to set these fee rates annually, subject to the approval of the central government. These license fee schedules are publicly gazetted and collected on a calendar year basis. Revenue from license fees accounts for about 10-30 percent of local revenue, depending on location and the status of the local government.

In practice, Local authorities have established their license fee schedules by borrowing gazetted license fee schedules from neighboring jurisdictions, adding business categories and adjusting the fee schedules as desired. Local councils then make periodic adjustments to these categories and related fees through a sometimes cumbersome and lengthy process of negotiation with the central government. At each stage of the approval process, the license fee schedule is subject to review and possible ad hoc modification. Overtime this process created unique sets of business categories and fee rates for each local authority—complex fee schedules seemingly without any logic or rationale. Fee rates may be much higher for one type of business than for another for no obvious reason and the fee rate patterns can vary considerably between local governments without any logical reason.

Some local authorities issued multiple licenses for a single business. For example, a hotel may be required to pay a separate license fee for lodging, restaurant, bar, disco, and the sundry shop. A retail store may be required to pay for multiple licenses based on the type of goods sold (e.g., a separate license for food, electronic goods, clothing, and office supplies); while a retail store which also sold on a wholesale basis occasionally would require a separate license for retail and wholesale. The ad hoc nature and complexity of business category definitions and fee rate differentials led to problems of classification and assessment. Depending on the interpretation by individual licensing officers, it was possible for two identical businesses to be charged completely different license fees. These complexities in the business license schedule created a number of administrative problems, affecting the equity and efficiency of the system and generating high levels of administrative and compliance costs. Furthermore, in most cases, the whole system was duplicated by central government licensing.

The previous licensing system faced a number of problems in terms of revenue adequacy. Due to the complex approval process and constraints of the electoral cycle, the adjustments in fee levels tended to lag with respect to inflation. In addition, most local authorities administered the business licensing system without a proper business register—with no systematic record of businesses. Fees were collected from businesses that complied voluntarily by coming to the council offices or from those businesses that were netted during random field audit procedures conducted in the business trading centers. Thus, the low average fee levies were applied to an incomplete revenue base generating little revenue. In practice, therefore, the business licensing system generated little local revenues and faced problems of equity, efficiency, administration and political reaction.

In addition to these revenue aspects, the old licensing system faced many regulatory problems. The obligation to satisfy a range of regulatory requirements before a license could be granted often created the scope for rent seeking--all this greatly increasing the burdens to businesses of obtaining licenses, while at the same time usually failing to protect public health and safety.

To address these various problems, the Government through the Budget Speech FY1997-1998 announced a major business licensing reform initiative—eliminating the central government collection of license fees under the Trade Licensing Act and announcing that the local authority licensing structure would be rationalized and simplified. In 1998, changes were made to the Local Government Act (Cap 265) to allow local authorities to shift to a Single Business Permit system. Based on these legal changes, the Ministry of adopted a local business licensing reform strategy that will be fully operational by the year 2000. (Government of Kenya, 1998).¹¹

The local level license reform strategy involves the following elements:

- de-linking the regulatory aspects from the issuance of the business permit,
- eliminating multiple licensing of the same business,
- streamlining administrative procedures for issuing licenses,
- defining a more rational tariff structure, and
- giving local authorities discretion to select from a range of pre-approved fee schedules.

A. De-linking Regulatory Control from the Issuance of the Business Permit

Recognizing that the current regulatory aspect of local business licensing is not functioning satisfactorily in Kenya, the local license reform strategy has de-linked the license fee payment from the issuance of the business permit. Legally, the Local Authorities and other regulatory agencies have sufficient powers under separate relevant legislation to regulate land use, health and safety, and to take enforcement action where required. Thus, rather than intervening simply at the time when licenses are renewed, regulatory action and inspections should be carried out on a routine and random basis, with enforcement action taken where required. The regulatory system has thus shifted from an ex ante control based system to an ex post performance based system.

Businesses for their part have a duty to ensure that their activities comply with planning, public health and safety requirements, just as much as with any other laws. There is therefore no need to encumber the business license system with pre-requisites to demonstrate that other regulations have been satisfied. The regulatory control is therefore exercised not as a precondition of the license. Rather, regulatory control is to be exercised on an ongoing basis and on an exception basis in cases of violation—the law provides for the cancellation of the business permit based upon receipt of a written report stating that the business is jeopardizing the community health and safety under any relevant government act.

B. Eliminating the Issuance of Multiple Licenses

Multiple licensing was a major problem under the old system. Businesses were required to obtain licenses from both the central and local governments. In addition, businesses were required to have various licenses from the local authority to cover each of their activities.

Under the new system, the need for multiple licenses has been eliminated. In addition to central government withdrawal from issuing trade licenses, the local authorities are shifting from the current multiple licensing systems to the new Single Business Permit—a permit per premise to be issued immediately upon payment of the appropriate fee. Compliance and administrative costs would thereby be reduced. To emphasize the change in approach, the title of the business license was changed to a “Single Business Permit”.

C. Administrative Simplification

One major objective of the local business license reform was to reduce the administration costs to the Local Authority and the compliance costs to businesses. Priority was therefore placed on simplifying the business registration and permit issuing process. **First**, the tariff structure was simplified, the number of business categories was reduced, and the overall tariff schedule was reorganized making it easier for the local authority to administer the business permit system and for the businesses to comply. **Second**, the reform introduced a standardized business registration form for all local authorities, which on one page collects all of the relevant information for business permit assessment. This simplified form serves as the basis for the construction and maintenance of the business register and serves also as the data entry form for a computer-assisted business registration information management system (BRIMS) which is now operational in two local authorities and which will be phased-in across the country beginning in January 2000.¹² **Third**, the reform placed priority on improved customer service through the introduction of “One

Stop Shops (OSS)” to reduce the compliance costs to businesses, allowing the businessman to resolve all business permit issues simply.

D. Developing a rational tariff structure

Previous license tariff structures were designed by each Local Authority based on business type (e.g., barber, baker, butcher), rather than on the business size or profitability. As noted above, these fee structures varied considerably between Local Authorities and between business categories with no apparent logic: the fee for a butcher might be three times as much as that for a barber in one town, but half as much in another. There were thus both horizontal and vertical inequities.

In order to avoid arbitrary discrimination in the classification between different business types, the Single Business Permit uses a tariff structure based on a generic classification of businesses and applies some indication of the scale and profitability of the business.¹³ For the sake of equity, the new tariff system is more progressive than previously, generating some needed local level revenues without over-burdening low-income and informal sector traders--who are usually individual entrepreneurs operating under a single permit.

The new Single Business Permit tariff structure classifies businesses into broad categories based on easily identifiable and objective criteria that reflect scale and profitability. Thus, for example, informal sector traders operating in the open air can be clearly distinguished from those operating in temporary buildings, and these can in turn be distinguished easily from a small shop in a permanent building. Where size classification is used, the categories are broad and easily ascertained (e.g. small trader: up to three employees and with premises up to 25m²; medium trader: 3-10 employees and premises of 25-100 m²; large trader: over ten employees and premises over 100 m²).

Using these new categories, the Single Business Permit tariff structure was designed as a set of 16 consistent fee schedules from which Local Authorities can choose one for implementation (See Table 3). The Ministry of Local Authorities sets the relative tariff weights between business categories, while the Local Authority chooses the base level value for the tariffs (see section on local discretion below). There are about 20 relative tariff rates, ranging from 2 for an informal sector trader to 100 for a large five-star hotel or a large manufacturer employing more than 50 people. These relative tariff weights, when multiplied with the base level value chosen by the Local Authority, determine the absolute amount of the tariff. For example, if the Local Authority chose a base level value of Ksh 100, the absolute tariff for an informal sector trader would be Ksh 200 (e.g., 100 base rate multiplied by a relative weight factor of 2) while a large manufacturing firm would be Ksh 10,000 (e.g., 100 base rate multiplied by a factor of 100).

Tariff bands include businesses from different sectors that are regarded as being comparable. For example, a medium size retail trader with 4-10 employees pays the same as a small transportation company with 2-5 vehicles or a small restaurant/bar with space for up to 10 customers, or a health clinic/doctor's surgery. The tariff list is arranged by the major eight sectors, so that it is easy to locate each type of business.

There will always be a trade-off between simplicity and equity. The system must be understandable and capable of easy classification. At the same time, the system must achieve some rough equity based on ability to pay and benefit. Inevitably, a simplified fee structure will not achieve ideal equity. But this new Single Business Permit classification system has enabled the range of tariffs to be extended and made more progressive. Whereas the previous tariff structure typically had a range from top to bottom of 20:1, the new fee structure has a range of 50:1. Of course, even a range of 50:1 nowhere near captures the difference in profitability between major

international businesses and informal sector traders, but in the end this is a business license system not an income or profits tax. Income redistribution has to be left to other parts of the fiscal system. What the progressive tariff system will do is to enable local authorities to generate more revenues more equitably than was possible in the past while at the same time obtaining the information needed for achieving its regulatory objectives.

Classification will be based primarily on self-declaration. Inevitably there will be some under-declaration, but by-and-large, the classifications are broad enough to make it obvious when there is under-declaration. Under-declaration will be revealed by site inspection and would be subject to penalty.

E. Local discretion over tariff rates

The published tariff structure gives local authorities a choice of tariff sets. Although each tariff set has the same relative structure between business categories to ensure horizontal equity and consistency across the country, the actual absolute tariff levels can vary since Local Authorities must choose the base level of the fees. The lowest base level equates roughly to the tariff level currently being applied by a Local Authority in a poor region. The 16 base levels range from Ksh. 100 to Ksh 1600, each level rising roughly in 25% increments. Local authorities are given discretion to choose any set of tariffs that they consider appropriate for their conditions. Large municipal councils, which provide more services and have higher per capita incomes, would be expected to select a higher tariff set than a small town or rural county council: indeed, they would need to if they were not to end up with less revenue.

These tariff sets are pre-approved by the central government, obviating the need for time-consuming tariff negotiation with the central government each year. Local Authorities wishing to adjust their business permit revenue yield will be able to select the appropriate tariff schedule. The

only requirement is that they formally adopt the selected tariff set by a council resolution, that they publish it in the government gazette, and that they display the tariffs at the council offices. The control on the level of the tariffs, which used to be exercised by the central government, is now left to the local citizens through the political process. Overall, the system seeks to achieve some consistency in treatment of businesses throughout Kenya combined with a degree of local discretion over the revenues generated.

4. Conclusion

The Single Business Permit reform was enacted effective January 1999. This reform is being phased-in over a two-year period, giving Local Authorities the option to adopt the system either in calendar year 1999 or by January 2000 at the latest. As of April 1999, there were thirty Local Authorities that have adopted the new Single Business Permit system. These Local Authorities are very diverse representing small and large counties, towns and municipalities from virtually every province in Kenya. Since the system has only just been introduced, it will take time to become fully established. But the expectation is that the local business community will benefit from reduced compliance costs while local authorities will be able to save on administrative costs and generate significantly more revenue from this source. At the same time, the fees will be more equitably distributed and less distorting on the local economy.

As the experience in Kenya suggests, streamlining and simplifying the business licensing system systems can reduce compliance costs on business and administrative costs to the local government. Restructuring tariffs to correspond better with the ability to pay of the business can make the system more equitable and more politically acceptable while at the same time increasing revenue. Separating out the regulatory aspects can reduce unnecessary obstacles to conducting business while at the same time providing local authorities with the necessary

information about business activities for regulatory monitoring. This Kenyan experience will provide an implementation testing ground to see whether the restructured business licensing system can produce a win-win situation—whereby the regulatory costs imposed on businesses can be reduced while local governments can maintain sufficient revenues generated in a simpler, more equitable and efficient manner.

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Table 1: Activities Commonly Licensed by Local Governments

Regulated activity	Objective of Regulation	Economic Rationale
Food Service	Public health and safety Minimum standards	Public good (safety) Asymmetric information
Building Construction	Public safety Homogeneous/compatible buildings Minimum standards	Public good (safety) Externalities Asymmetric information
Amusements	Public safety	Public good
Liquor sale, production and distribution	Public health and safety Limiting noise and disorder	Public good Externalities
Solicitation	Assuring Probity	Asymmetric Information
Street Vending	Orderly street occupancy	Externalities
Transportation	Public health and safety Price competition or regulation	Public goods. Monopoly
Lodging	Minimum standards	Asymmetric information

Table 2. Business License Tax Evaluated

	Revenue Base Definitions	Valuation of that Revenue Base	Fee Rate Structures
Revenue Potential	A business license tax levied on all activities tends to generate more revenue than one on a selective base. A broader base will tend to provide more stability than a narrow base. Buoyancy depends on which activities are actually taxed, how they are valued and the revenue base structure.	Weighting the tax base by a measure of the business activity such as gross receipts or profitability will increase the tax base and potentially its revenue generation. With a flat rate, the yield will be severely limited by the ability to pay of the smallest/ poorest taxpayer.	Flat fees can be eroded by inflation and hence periodic adjustments are necessary. In contrast, <i>ad valorem</i> rates tend to avoid the problem of erosion by inflation.
Equity	A business tax that covers all business activities tends to be more equitable than one levied only on a few activities. If the business license is seen as a levy for the privilege of engaging in an activity, all activities must be taxed according to the horizontal equity principle.	Equity is affected dramatically depending on the definition of the tax base “weight.” In general, based on the ability to pay principle, the tax base weight should be a reflection of profitability or ability to pay. Businesses that generate more sales/income should be in a position better able to pay the tax. However, the weight used on the tax base can also create equity problems since: a per unit flat unit tax discriminates against small firms or those with low profitability; a tax based on gross receipts discriminates against businesses that have a low ratio of net profits to sales; a tax based on property value or the number of employees may also bear no relation to profitability, while a tax based on the number of employees will discriminate against labor-intensive businesses.	In general, flat fees can be very inequitable since they bear no relation to income levels or profitability. A rate structure graduated according to business category or size can increase vertical equity. However, business licenses or taxes should not be used as the primary equalizing mechanism. Concepts of equity should be focused on the entire public finance system, not on a specific tax in isolation.
Efficiency	If a tax is imposed only on certain activities and the tax is high, it can be economically distorting, discouraging businesses in the taxed sectors and encouraging evasion.	Business taxes based on gross receipts, property value or number of employees can create problems of overlap with sales taxes or VAT , property taxes and payroll taxes. This will affect the final equity of the tax system. Efficiency is always affected by taxation—the extent of the inefficiency depends on the rate structure and the demand and supply elasticities within the particular market. In general, a lump sum flat tax would be the most efficient since it would not tend to discourage the production decision at the margin. On the other hand, a tax on gross receipts may discourage sales at the margin.	See comments under “Valuation of Tax Base”
Administration	Broad coverage, particularly where this includes small businesses and the informal sector, is likely to increase the costs of administration. However, exemptions can also increase the cost of administration.	A lump sum flat tax is the easiest to measure and administer. The difficulties of estimating the gross income and gross receipts increase the administrative complexities. With many businesses in the informal sector, obtaining accurate information on turnover or profitability is practically impossible.	Flat fee structures are simple, implying low cost of administration and compliance. This is important when the taxing government has limited administrative and technical capacity. Graduated tariff structures do increase complexity but can increase revenues; thus the cost to revenue ratio may not increase.
Political Acceptability	A narrow definition of tax base will reduce the scale of opposition but may encourage the intensity of those objections. A broader base will spread out the tax burden, potentially minimizing the intensity of the opposition. Perceived fairness by taxpayers will affect the political acceptability of the tax base definitions.	Depends largely on the perceived fairness of the system and the extent to which the tax can be disguised in the price to the final consumer.	See comments under “Valuation of Tax Base”

Table 3. Single Business Permit Fee Structure (Examples from Categories 100-300)

	CATEGORIES OF BUSINESS	Ksh.	1 100	2 125	3 150	4 175	5 200	6 250	7 300	8 350	9 400	10 500	11 600	12 700	13 850	14 1000	15 1200	16 1500
100	General Trade, Wholesale, Retail, Shops and Services																	
105	Large Trader, Shop or Retail Service Over 20 employees &/or premises over than 300 m2. Prime Location.	20	2,000	2,500	3,000	3,500	4,000	5,000	6,000	7,000	8,000	10,000	12,000	14,000	17,000	20,000	24,000	30,000
110	Medium Trader, Shop or Retail Service From 4 to 20 employees &/or premises from 50 to 300 m2. Fair Location.	10	1,000	1,250	1,500	1,750	2,000	2,500	3,000	3,500	4,000	5,000	6,000	7,000	8,500	10,000	12,000	15,000
115	Small Trader, Shop or Retail Service Up to 3 employees &/or Premises less than 50 m2. Far away Location.	5	500	625	750	875	1,000	1,250	1,500	1,750	2,000	2,500	3,000	3,500	4,250	5,000	6,000	7,500
120	Kiosk Light or Temporary construction less than 5 m2	4	400	500	600	700	800	1,000	1,200	1,400	1,600	2,000	2,400	2,800	3,400	4,000	4,800	6,000
195	Other General Merchant, Shop and Retail Service	4	400	500	600	700	800	1,000	1,200	1,400	1,600	2,000	2,400	2,800	3,400	4,000	4,800	6,000
200	Informal Sector																	
205	Hawker with motor vehicle 1 person with motor vehicle	5	500	625	750	875	1,000	1,250	1,500	1,750	2,000	2,500	3,000	3,500	4,250	5,000	6,000	7,500
210	Hawker 1 person without a motor vehicle	4	400	500	600	700	800	1,000	1,200	1,400	1,600	2,000	2,400	2,800	3,400	4,000	4,800	6,000
215	Small Informal Sector Trader / Service Provider Shoeshine, Shoe repair, Street Vendor (newspapers, sweets, soda, cigarettes, etc)	2	200	250	300	350	400	500	600	700	800	1,000	1,200	1,400	1,700	2,000	2,400	3,000
220	Semi Permanent Informal Sector Trader Up to 2 persons operating in verandah or temporary building	3	300	375	450	525	600	750	900	1,050	1,200	1,500	1,800	2,100	2,550	3,000	3,600	4,500
295	Other Informal Sector Operation	2	200	250	300	350	400	500	600	700	800	1,000	1,200	1,400	1,700	2,000	2,400	3,000
300	Transport, Storage and Communications																	
305	Large Transportation Company Over 30 vehicles	80	8,000	10,000	12,000	14,000	16,000	20,000	24,000	28,000	32,000	40,000	48,000	56,000	68,000	80,000	96,000	120,000
310	Medium Transport Company From 6 to 30 vehicles	30	3,000	3,750	4,500	5,250	6,000	7,500	9,000	10,500	12,000	15,000	18,000	21,000	25,500	30,000	36,000	45,000
315	Small Transport Company From 2 to 5 vehicles	10	1,000	1,250	1,500	1,750	2,000	2,500	3,000	3,500	4,000	5,000	6,000	7,000	8,500	10,000	12,000	15,000
320	Independent Transport Operator 1 vehicle	5	500	625	750	875	1,000	1,250	1,500	1,750	2,000	2,500	3,000	3,500	4,250	5,000	6,000	7,500
325	Large Petrol Filling Station Over 6 pumps or with garage-workshop & retail shop	20	2,000	2,500	3,000	3,500	4,000	5,000	6,000	7,000	8,000	10,000	12,000	14,000	17,000	20,000	24,000	30,000
330	Medium Petrol Filling Station From 4 to 6 pumps or with garage-workshop or retail shop	10	1,000	1,250	1,500	1,750	2,000	2,500	3,000	3,500	4,000	5,000	6,000	7,000	8,500	10,000	12,000	15,000
335	Small Petrol Filling Station Up to 3 pumps and without garage-workshop or retail shop	7	700	875	1,050	1,225	1,400	1,750	2,100	2,450	2,800	3,500	4,200	4,900	5,950	7,000	8,400	10,500
340	Large Cold Storage Facility Over 1,000 m2, insulated walls, cold production equipment	55	5,500	6,875	8,250	9,625	11,000	13,750	16,500	19,250	22,000	27,500	33,000	38,500	46,750	55,000	66,000	82,500
345	Medium Cold Storage Facility Between 100-1,000 m2	25	2,500	3,125	3,750	4,375	5,000	6,250	7,500	8,750	10,000	12,500	15,000	17,500	21,250	25,000	30,000	37,500
350	Small Cold Storage Facility Up to 100 m2	12	1,200	1,500	1,800	2,100	2,400	3,000	3,600	4,200	4,800	6,000	7,200	8,400	10,200	12,000	14,400	18,000
355	Large Storage Facility Over 5,000 m2. Godown, Warehouse. Liquid Storage Tanks Complex	50	5,000	6,250	7,500	8,750	10,000	12,500	15,000	17,500	20,000	25,000	30,000	35,000	42,500	50,000	60,000	75,000
360	Medium Storage Facility From 1,000 to 5,000 m2	20	2,000	2,500	3,000	3,500	4,000	5,000	6,000	7,000	8,000	10,000	12,000	14,000	17,000	20,000	24,000	30,000
365	Small Storage Facility Up to 1,000 m2	10	1,000	1,250	1,500	1,750	2,000	2,500	3,000	3,500	4,000	5,000	6,000	7,000	8,500	10,000	12,000	15,000
395	Other Transport, Storage and Communications	7	700	875	1,050	1,225	1,400	1,750	2,100	2,450	2,800	3,500	4,200	4,900	5,950	7,000	8,400	10,500

Notes:

¹ Another popular economic explanation for regulations links to the interest of individuals or businesses to restrict competition, limiting the number of firms in an industry or by making entry into the market expensive. This protects existing businesses, providing the opportunity to charge higher than normal prices to the detriment of the consumer public. Economists constantly struggle to design regulatory measures that can counteract the problems of market failures while minimizing the anti-competitive environment.

² See Fisher (1996) for theory and application of economic principles determining the optimal allocation of government functions by size of government.

³ Although most courts stipulate that the license fee should not exceed the administration costs of regulation, the actual cost of the fee should be set to equal the "economic" marginal cost which would account for the social cost of the regulated activity. Once this marginal cost pricing is identified, governments must decide whether the activity should be subject to an additional "revenue levy" for revenue purposes.

⁴ This is illustrated in the case of Idaho under the authority of Section 2, Article XII, of the States Constitutions, where the license fee demanded must bear some reasonable relation to the cost of such regulation. As cited by Moore (1995).

⁵ This can be a problem for income taxes or turnover taxes which are collected from the headquarters of a business, but which are to be passed on to a consumer residing in a different taxing jurisdiction.

⁶ See www.state.tn.us for specific information on the franchise tax used in the State of Tennessee. In addition, the State of Tennessee has a "Professional Privilege Tax" which is levied on the privilege of having an active license to practice certain professions, businesses or occupations such as lobbyist, broker, accountants, engineers, physicians and attorneys which is assessed at a flat rate of US\$200 regardless of the number of licenses per individual (see T.C.A. Section 67-4-1701 et seq.).

⁷ See Phoenix, Arizona (1999), Raleigh, North Carolina (1999), Huntsville, Alabama (1999) and Philadelphia, Pennsylvania (1999) for further information on these privilege licenses and privilege license taxes.

⁸ Local authority licensing in the UK is now limited to street trading (essentially to prevent obstruction of streets and public nuisance), places of entertainment (essentially for fire safety), taxis (ostensibly on the grounds of public safety, but in practice there is a residual element of restraining "excessive" competition). Licensing of premises to sell alcohol is also a local matter, but is done through a judicial process rather than by local government. Local authorities retain considerable regulatory powers, particularly in relation to public health, but these are exercised through systems of inspection rather than through licensing.

⁹ See Schnuer (1997), Mirel and Alegi (1998a, 1998b) and Moore and Rose (1998) for further discussion on ongoing regulatory reform efforts in the United States.

¹⁰ There are various attempts to use computerized information systems to streamline and consolidate licensing processes. One pioneering effort was the State of Washington's Master License Service (MLS) which started in 1976 as a pilot effort to consolidate and streamline licenses for grocers and grocery-related businesses. By the early 1980s, the system was expanded to virtually all licenses issued by the State, financed through the licensing fee structure. The Australian Business License Information Service (BLIS) is another example offering free registration services for national and state level licenses. Attempts are now being made to integrate local level licensing into the system. (Government of Australia, 1996a).

¹¹ See Government of Kenya (1998) for a complete description of the new Single Business Permit system, including the legal changes to the Local Government Act, the reform background, the reform strategy and the Single Business Permit tariff schedule.

¹² See Montes (1998) for detailed information on the Business Registration Information Management System (BRIMS) being implemented in the Municipal Councils of Nyeri and Mavoko.

¹³ The new tariff schedule distinguishes between eight basic types of businesses: traders and service providers; informal sector; communication and transportation; agriculture; accommodation and catering; professional and technical; education and health ; and industry and manufacturing.