Improving Local Governance and Decentralized Service Delivery

The United Nations Joint Programme on Local Governance and Decentralized Service Delivery (JPLG) in Somalia is a joint program with UN-Habitat and four other UN agencies, including the International Labour Organization (ILO), the United Nations Capital Development Fund (UNCDF), the United Nations Development Programme (UNDP), and the United Nations International Children’s Emergency Fund (UNICEF). The first phase of JPLG began in 2008 and ended in 2012. JPLG II (2013–2017) is now being completed in Somaliland and the Puntland State of Somalia, with plans to expand to the emerging Somali states of the Juba Administration, the Galmudug Administration, the South West Administration, and the Hiran-Shabella region.

JPLG is being implemented in partnership with the Federal Government of Somalia, the Government of the Puntland State of Somalia, and the Government of Somaliland, with an average annual budget of USD $25–35 million. The objectives of JPLG II are to ensure communities have equitable access to basic services through local government entities, and to ensure that local governments are accountable and transparent. In order to ensure transparent, accountable, and efficient provision of local services, JPLG hopes to improve the legislative and regulatory framework for decentralized service delivery in Somalia, provide funding for service delivery through district councils, and build the capacity of demand-side governance at the local level.

Within the JPLG, UN-Habitat is responsible for municipal finance, participatory urban land management and planning, land governance (e.g., land dispute tribunal mechanism), solid and biomedical waste management, and local governance and the capacity building. This paper provides an overview of the progress made and lessons learned in municipal finance through JPLG UN-Habitat.
Municipal Finance Policy

Municipal finance is a cornerstone of public financial management (PFM) and a central component of JPLG. UN-Habitat’s three-pronged approach to urbanization focuses on the intersection of urban planning, legal and regulatory frameworks, and municipal finance. Under this approach, urban planners, economists, and policy experts work together to provide comprehensive guidance for municipal authorities.

At the outset, a legal foundation for the decentralization of financial responsibilities and functions to local government authorities must be established. Somaliland and Puntland have adopted local government finance policies that provide a framework for decentralization via devolution and de-concentration of financial functions to local governments. A framework for decentralization of key function related to local government financial management are defined in the Decentralization Policy of Somaliland and Puntland (see Table 1) and overarching framework is explained in the Figure 1.

### Table 1. Possible division of financial functions between local and central government bodies

<table>
<thead>
<tr>
<th>Function</th>
<th>Primary responsibility</th>
<th>Secondary responsibility</th>
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<tbody>
<tr>
<td>Policymaking</td>
<td>Central ministries</td>
<td>Local government</td>
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<tr>
<td>Strategic planning</td>
<td>Central ministries</td>
<td>Local government</td>
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<td>Budgeting</td>
<td>Local government</td>
<td>Central ministries</td>
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<td>Execution</td>
<td>Local government</td>
<td>Central ministries</td>
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<td>Regulatory oversight and compliance</td>
<td>Central ministries</td>
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<td></td>
<td>Local government</td>
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### Figure 1. Overarching framework for Municipal Finance

- **Fiscal Decentralization**
  - Tools: Automated accounting and billing systems (AIMS/BIMS)
  - Database: GIS based database for taxation
  - Manuals: LG finance management manuels, public expenditure management manuels.

- **Decentralization Policy**
  - Somaliland and Puntland adopted Decentralization Policies in 2013
Following provision from the decentralization policy, UN-Habitat has supported Somaliland and Puntland authorities in developing a regulatory framework for municipal financial management. Thus, local government finance policy (LGFP) was developed in a participatory manner and, more importantly, in compliance with the World Bank led public finance management (PFM) reform agenda in Somalia. The objective of LGFP is to provide a clear guide for the delivery of financially sustainable public services that will strengthen district finance and align it with the goals of sustainable financing, greater accountability, trust in local government administration and good governance. LGFP also provides a guiding framework on key municipal functions such as revenue generation, expenditure management, budget preparation and execution, capital procurement processes, strengthening of internal control mechanisms, asset management, debt and credit management and monitoring and evaluation mechanisms.

UN-Habitat has also developed procedural manuals covering key areas of LGFP as a guide for the policy’s implementation. These guidance materials included manuals on local government financial management, internal audits and district audit committees.

**Property taxation and expanding municipal financial resources**

Property taxes are commonly levied by municipal authorities and often associated with enhanced public decision-making. Their role in providing financing for local services and public goods such as schools, roads, public transit, waste management, and parks make them a more transparent form of taxation. In addition, property taxes tend to be paid in lump sums, which increase the degree to which taxpayers are aware of them. In turn, this enhances and strengthens political transparency and accountability in municipal budgeting.

To support local governments revenue generation in Somaliland and Puntland and fulfill the agenda of decentralization, UN-Habitat within the framework of JPLG, has identified three key areas to support local governments: (1) develop an up-to-date database for taxation, (2) establish an automated accounting and billing system to improve accountability, transparency and efficiency, (3) design an enforceable legal framework and delegation of authority for tax collection within the established legal framework.

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**Figure 2. The process of creating the GIS property database for taxation**

3. Ibid. 12

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Figure 3. The programme supported districts for GIS based property database

Together with local government authorities, UN-Habitat has established a Geographic Information System (GIS) property database where data on the location of properties and urban parcels are surveyed, catalogued and regularly updated. This database includes information on the quality of properties, land use, infrastructure, ownership and number of occupants in order to define the tax rate for each property and notify occupants of their tax obligation to the municipality. This data is then connected to the local government finance system to generate bills and to account tax collection.

JPLG has supported the establishment of GIS databases in seven districts in Somaliland (Hargeisa, Burao, Berbera, Borama, Gabiley, Sheikh and Odweine) and six districts in Puntland (Garowe, Bosasso, Qardo, Bander Bayla, Jariban and Eyl) with plans to extend into Mogadishu. This system has been essential to establishing and monitoring not only the property tax base, but also assisted in urban planning and infrastructure development as well as the creation of informal cadastral of urban parcels and properties.

With start of JPLG in 2008, UN-Habitat introduced the Accounting Information Management System (AIMS) and the Billing Information Management System (BIMS) in order to improve transparency, accountability and efficiency of local governments in Somaliland and Puntland. AIMS and BIMS have been used in local governments’ daily operation for all financial transactions, reporting and improving tax collection particularly with property.

**Figure 4. Municipal revenue from property taxation in JPLG-supported districts in Somaliland, 2008–2015**

**Figure 5. Municipal revenue from property taxation in JPLG-supported districts in Puntland, 2008–2015**

*Source: Data from the Districts’ Accounting Information Management System (AIMS)*
The implementation of PFM, particularly with regards to property tax revenues, skyrocketed in the majority of participating municipalities, as depicted in Figure 4 and 5. For example, data extracted from the Hargeisa Municipality’s AIMS system show that the property tax collection rose from approximately a quarter million US dollars in 2008 to over one million US dollars in 2015; an average annual increase of 38 percent, equivalent to almost 300 percent in eight years. Similarly, Berbera municipality managed to collect a half million last year from the property taxation.

This significant increase in property tax revenue is largely due to the introduction of JPLG program reforms, which UN-Habitat has supported with continuous technical assistance and capacity development for local staff. Municipality started using the system to also levy other taxes that local governments are allowed.

With regards to the legal framework, local governments are relying on provisions on local government laws in Somaliland and Puntland that allow them to define tariffs and collect property taxes. It is, however, the participating districts that lack a standardized approach to defining a fair tax rate, enforcement, notification and capacity to collect taxes, which diminishes the performance and ability of local governments. To address these concerns, a forthcoming study by UN-Habitat will provide recommendations for enforcement mechanisms and bylaws, which will provide a framework for administering property taxes, assessing property values, and improving collection, enforcement and accountability.

Supported by

The success of JPLG is due, in large part, to the continued support of the program’s multi-partner trust fund contributors, which include the UK’s Department for International Development (DFID), the Swedish International Development Agency (SIDA), the Danish International Development Agency (DANIDA), the Swiss Agency for Development Corporation (SDC), the Government of Norway, and the European Commission (EC).

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