

Strengthening Local Governance and Municipal Finance through Property Taxation

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FOR A BETTER URBAN FUTURE

**URBAN ECONOMY BRANCH
& SOMALIA PROGRAMME**

The United Nations Joint Programme on Local Governance and Decentralized Service Delivery in Somalia

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A view from Hargeisa, Somaliland © UN-Habitat

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-Shabelle 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.

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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.

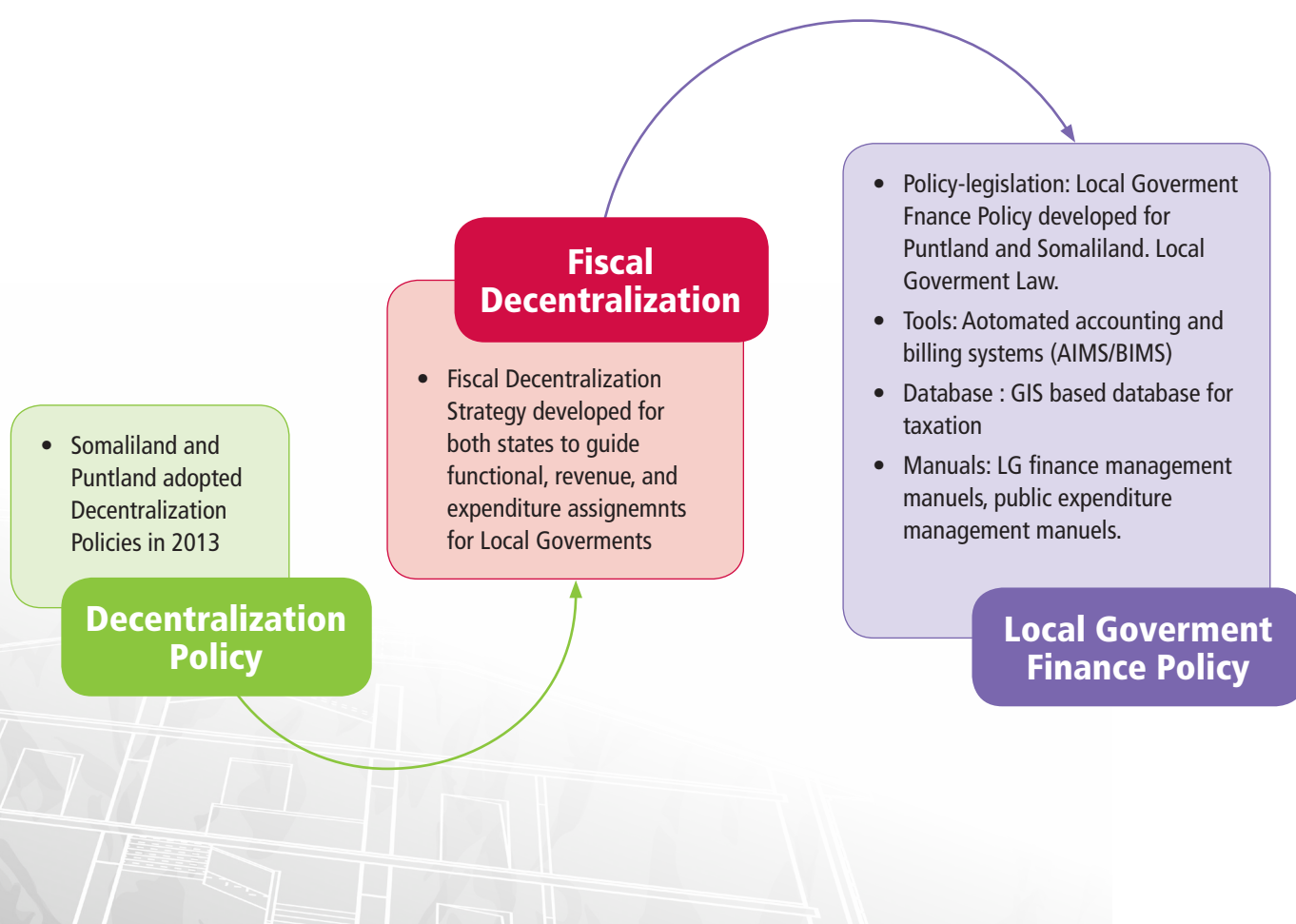
At the outset, a legal foundation for the decentralization of financial responsibilities and functions to local government authorities must be established. Somaliland and Puntland have adopted local government finance policies that provide a framework for decentralization via devolution and de-concentration 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

Function		Primary responsibility		Secondary responsibility
Polymaking	→	Central ministries	→	Local government
Strategic planning	→	Central ministries	→	Local government
Budgeting	→	Local government	→	Central ministries
Execution	→	Local government	→	Central ministries
Regulatory oversight and compliance	→	Central ministries	→	Local government

Source: Republic of Somaliland (2016). Republic of Somaliland Local Government Finance Policy Revised Final February 2016.

Figure 1. Overarching framework for Municipal Finance



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.

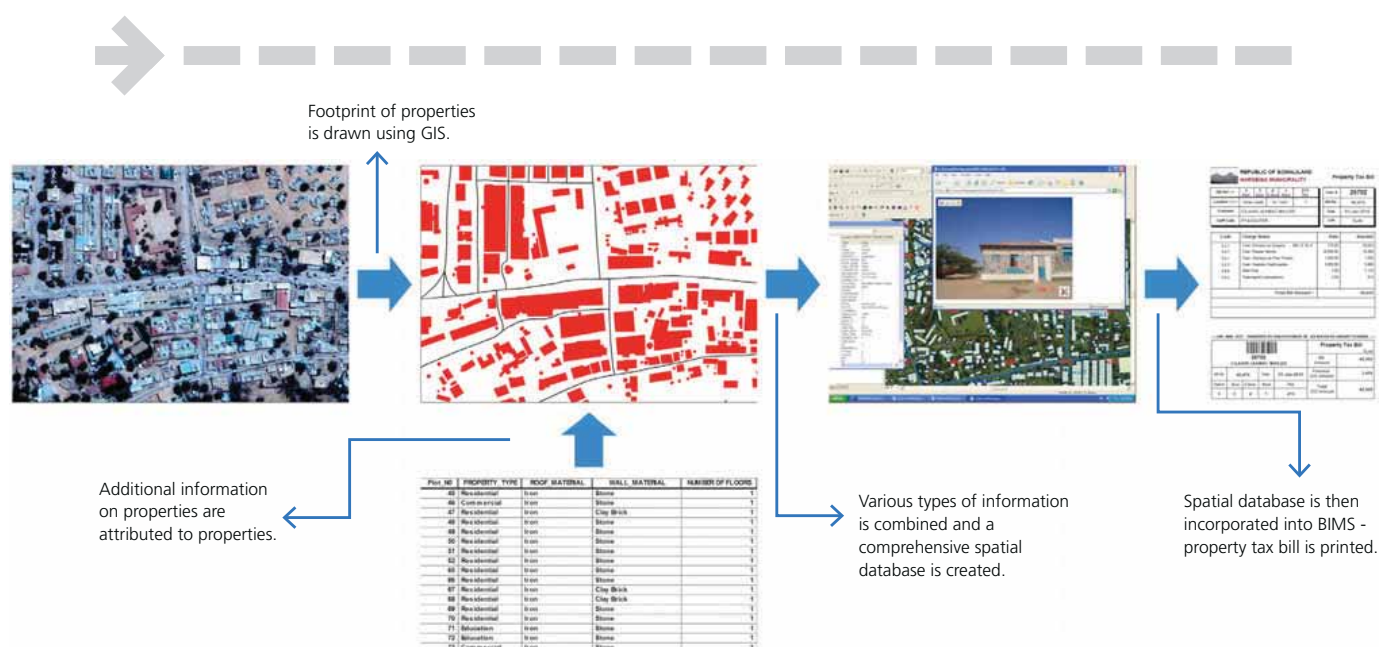
UN-Habitat has also developed procedural manuals covering key areas of LGFP as a guide for the policy's implementation. These guidance materials included manuals on local government financial management, internal audits and district audit committees.

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.¹ In addition, property taxes tend to be paid in lump sums, which increase the degree to which taxpayers are aware of them.² In turn, this enhances and strengthens political transparency and accountability in municipal budgeting.³

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.

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



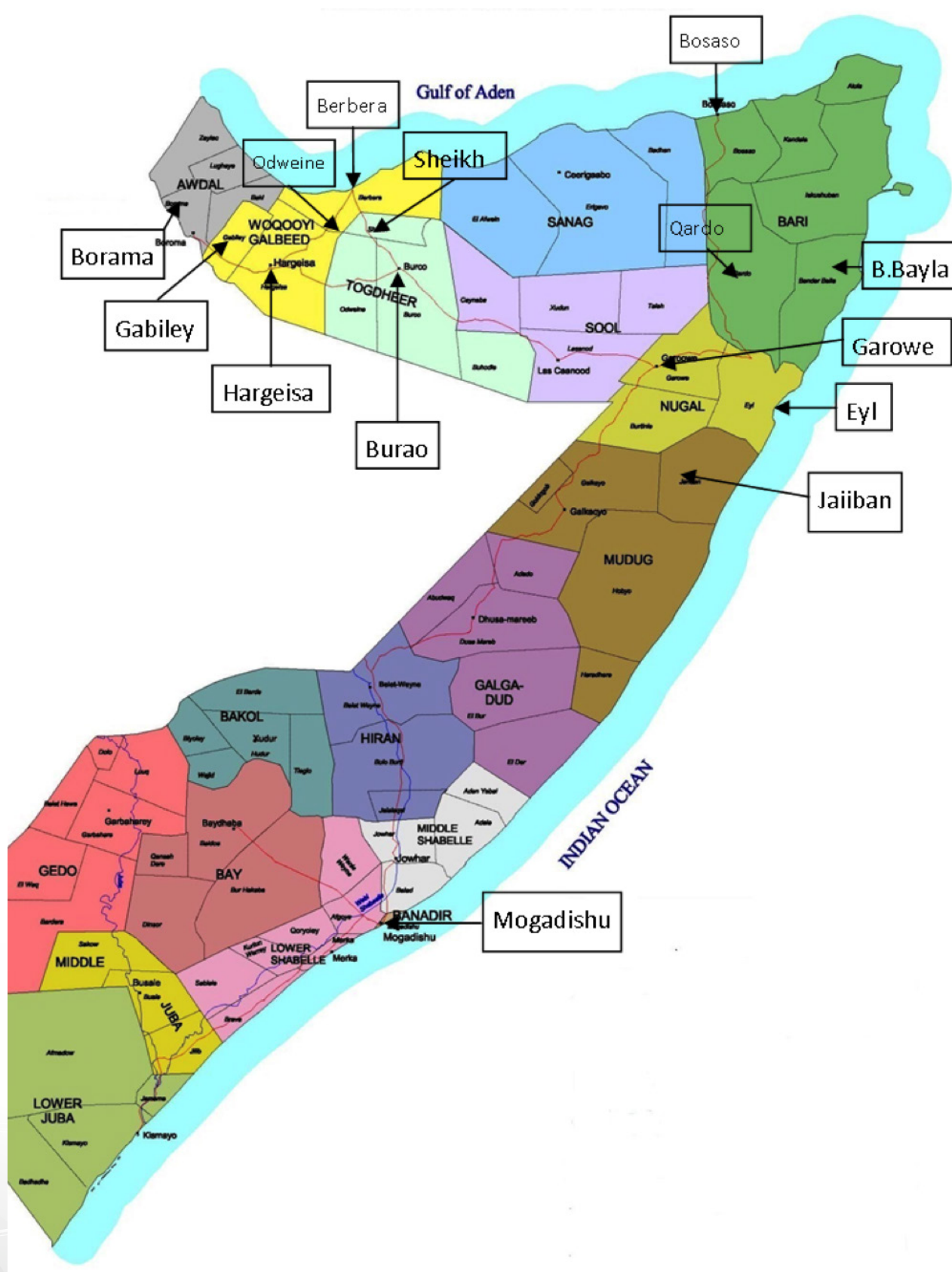
Source: *GIS Handbook for Municipality, UN-Habitat Somalia Programme, 2013*

1 United Nations Human Settlements Program Habitat (2009). Guide to Municipal Finance. The Human Settlements Financing Tools and Best Practices Series, United Nations Human Settlements Programme.

2 Bird, Richard Miller and Naomi Enid Slack. 2004. International Handbook of Land and Property Taxation. Edward Elgar Publishing. 12

3 Ibid. 12

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



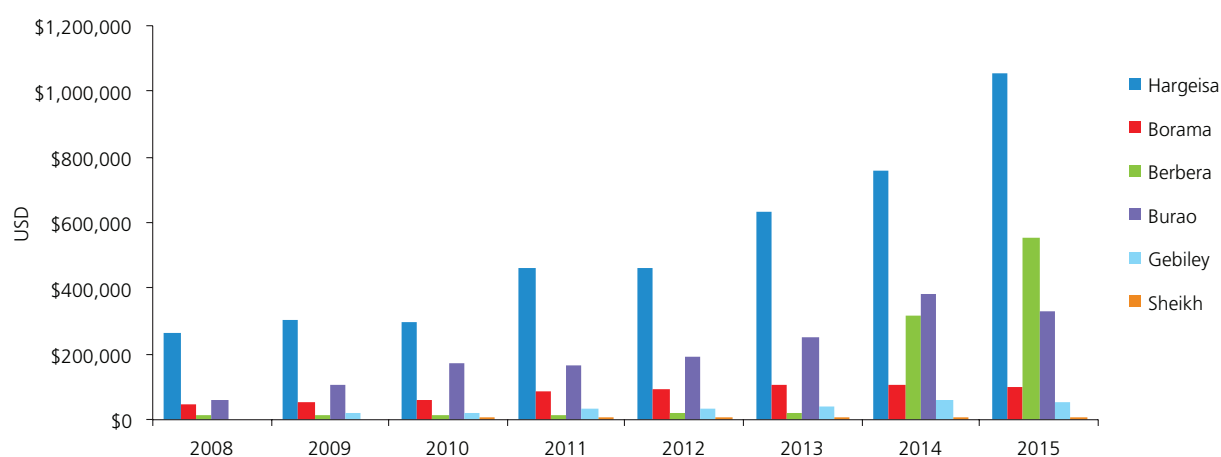
Together with local government authorities, UN-Habitat has established a Geographic Information System (GIS) property database where data on the location of properties and urban parcels are surveyed, catalogued and regularly updated. This database includes information on the quality of properties, land 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, Jariiban 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.

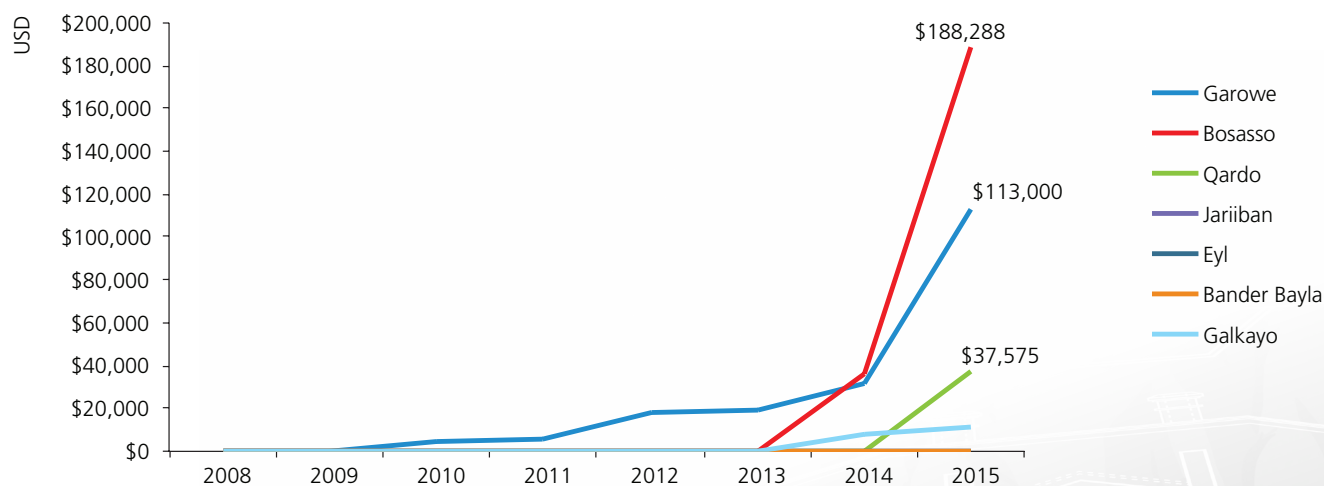
With start of JPLG in 2008, UN-Habitat introduced the Accounting Information Management System (AIMS) and the Billing Information Management System (BIMS) in order to improve transparency, accountability and efficiency of local governments in Somaliland and Puntland. AIMS and BIMS have been used in local 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



Source: Data from the Districts' Accounting Information Management System (AIMS)

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.

Ways Forward

Local government finance policy (LGFP) was adopted by the inter-ministerial committee in Somaliland and Puntland. UN-Habitat is supporting the Ministry of Finance and the Ministry of Interior in both states to have the cabinets' approval for the LGFP that will provide a solid basis for fiscal decentralization.

UN-Habitat, in consultation and cooperation with local partners, is working on a strategy for harmonizing the property tax regime for urban areas across Somaliland, Puntland and Mogadishu. The tax regime will provide a framework for ensuring a fair taxable rate for different properties, improve accountability, and enforcement, as well as condition for exemptions of the urban poor.

Initially, some districts were resistant to changes in the tax regime. However, after seeing the impact of revenue collected from the property taxation, more districts began to request support and embrace the system introduced by JPLG UN-Habitat. Through JPLG UN-Habitat has supported and established GIS unit within the partner local governments to keep database up-to-date, and provided on-the job training for local staff to effectively use AIMS/ BIMS and maintain database. This includes training videos in local language, social network page for trouble shooting and experience sharing among the local government staff as well as using ITC to remotely support districts local staff. The successful collaboration between UN-Habitat JPLG and municipal authorities is a positive sign that JPLG will be effective in other districts.

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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