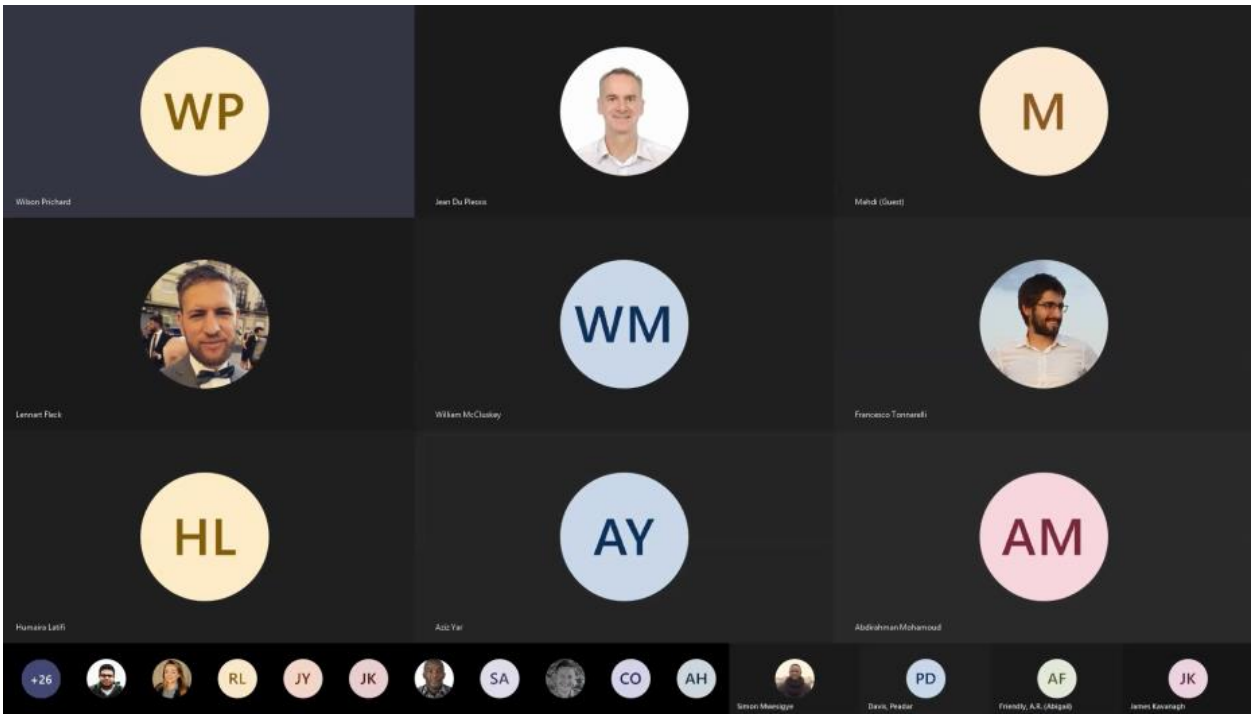
REPORT ON SESSION 4:

"Leveraging Land for Peace, Security and Building the Social Contract"

8 FEBRUARY 2021

GLTN AND UN-HABITAT LEARNING SERIES ON LEVERAGING LAND FOR DELIVERY OF SERVICES, BUILDING THE SOCIAL CONTRACT AND PROMOTING PEACE AND SECURITY



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Introduction

On 8 February 2021, the Land, Housing and Shelter Section of UN-Habitat and the Global Land Tool Network (GLTN) Secretariat held the fourth learning session of the learning series on land-based financing themed *Leveraging Land for Delivery of Services, Building the Social Contract and Promoting Peace and Security*. The session titled *Leveraging Land for Peace, Security and Building the Social Contract* consisted of three presentations and facilitated discussions supplemented by sidebar questions and comments, followed by closing observations by the presenters and the discussant. The session was attended by 79 participants representing 19 institutions (see list of participants in Annex 1).

Jean du Plessis, the session's moderator, introduced the theme, purpose and learning objectives of the series (as given below). He highlighted the importance of bringing together a community of practice which can interact, share and collaborate on the issues of leveraging land for delivery of services, building the social contract and promoting peace and security. The series' sessions are intended to serve as first steps in a longer process of learning.

Theme: Leveraging land for delivery of services, building the social contract and promoting peace and security.
Purpose: To bring together partners, experts and implementers to learn about advances, good practice, innovations and challenges, and to create opportunities for collaboration.
Learning objectives:

1. Increased knowledge of available land-based finance and land value capture tools, methods and approaches.
2. To enhance understanding of the social, economic and political challenges facing implementers.
3. To share case-specific information on ways of overcoming challenges and building good practice.
4. To formulate proposals for priority actions for improved impact.
5. To identify areas of potential collaboration.

Subject	Presenters	Date and time
1. *Leveraging Land: Why, What, How?* ***COMPLETED***	Larry Walters, Utah State Tax Commission, Rajul Awasthi, World Bank, Abigail Friendly, Utrecht University, Adi Kumar, Development Action Group	14 September 2020, 15h00 - 17h00
2. *Leveraging Land Initiatives by GLTN and UN-Habitat Partners: Purpose, Methods, Progress, Lessons* ***COMPLETED***	James Kavanagh, Royal Institution of Chartered Surveyors - RICS Enrique Silva, Lincoln Institute of Land Policy Jean-François Habeau, Global Fund for Cities Development (FMDV), Helen Rourke, Development Action Group Toril Pederson, Norad	12 October 2020, 15h00-17h00
3. *Strategies and Tools for Financing Affordable Housing and Participatory Slum Upgrading* ***COMPLETED***	Emrah Engindeniz and Joshua Maviti, UN-Habitat Christophe Lalande, UN-Habitat and Geoffrey Payne, Project Consultant Lennart Fleck, UN-Habitat Enid Slack, University of Toronto	9 November 2020, 15h00-17h00
4. *Leveraging Land for Peace, Security and Building the Social Contract* ***THIS REPORT***	Abdirahman Mohamoud and Mahdi Omar Sheik, UN-Habitat Somalia and Humaira Latifi and Aziz Ahmad Yar, Afghanistan country programme teams, William McCluskey, independent specialist	8 February 2021, 15h00-17h00

Session 4 Programme

SESSION 4: LEVERAGING LAND FOR PEACE, SECURITY AND BUILDING THE SOCIAL CONTRACT 8 February 2021, 15h00-17h00 (Nairobi time)		
Moderator: Jean du Plessis, GLTN Secretariat, Land, Housing & Shelter Section, UN-Habitat Session discussant: Wilson Prichard, Munk School of Global Affairs and Public Policy at University of Toronto, and the Centre for Tax and Development (ICTD)		
Time	**Topic / Activity**	**Process, Roles**
15h00	Welcome Agenda and process	- Shipra Narang Suri, UN-Habitat (3 min) - Moderator (7 min)
15h10	Presentation: *Results and lessons from UN-Habitat's land-based finance interventions in Afghanistan (2015-2020), and recommended steps towards improvement*	- Humaira Latifi and Aziz Ahmad Yar (20 min) *- All: questions and comments in meeting chat during presentation*
15h30	Presentation: *Results and lessons from UN-Habitat and JPLG's land-based finance intervention in Somalia (JPLG II and III, 2012-2020) and recommended steps towards improvement*	Abdirahman Mohamoud and Mahdi Omar Sheik (20 min) *- All: questions and comments in meeting chat during presentation*
15h50	Presentation: C*losing the Circle: strengthening governance, revenue optimization and service delivery at the local level.*	William McCluskey (15 min) *- All: questions and comments in meeting chat during presentation*
16h05	Key questions	Discussant, in dialogue with presenters (15 min)
16h20	Facilitated discussion	Moderator, all (25 min)
16h45	Concluding observations: *Key lessons, priority actions, areas of potential collaboration*	Speakers and discussant (15 min) *- All: final comments in meeting chat during discussion*
17h00	Closing	Moderator

Welcoming Remarks (Shipra Narang Suri)

Shipra Narang Suri, Chief of UN-Habitat's Urban Practices Branch, acknowledged the importance of this Community of Practice for UN-Habitat's work, as part of the agency's restructuring since early 2020. She said that working together within the agency and with external partners to learn and co-create tools and approaches to address challenges in the field lies at the core of UN-Habitat's new vision. Further, she observed that land is a fundamental issue for UN-Habitat in the work it does around poverty reduction, peace and stability, climate change and building more resilient communities by promoting the realisation of human rights. Moreover, land and property are fundamental assets for countries to increase local revenues to enhance service provision to strengthen communities and local governance. Leveraging land and property also allows citizens to be more engaged within their communities. By sharing experiences

on these themes, this Community of Practice will be able to develop innovative practices, approaches, tools, and norms to bring forward. Finally, she commended the good turnout for the session, and thanked the team for setting up the learning series and inviting her.

Agenda and Process (Jean du Plessis)

Jean du Plessis, moderator of the series introduced the fourth session titled: *Leveraging Land for Peace, Security and Building the Social Contract*. He said the session would present the experience of UN-Habitat in Somalia and Afghanistan, followed by a presentation on strengthening governance, revenue optimization and service delivery at the local level. This would be followed by reflections from the discussants, Wilson Prichard and Astrid Haas of the International Centre for Tax and Development. Jean encouraged participants to contribute through comments and/or questions in the chat. These would be monitored by the discussants and incorporated in the questions and discussion to follow. This would be followed by an opportunity for open discussion, and closing remarks from the presenters and the discussants.

First Presentation: Results and Lessons from UN-Habitat's Land-Based Finance Interventions in Afghanistan (2015-2020), and Recommended Steps Towards Improvement (Humaira Latifi and Aziz Ahmad Yar)

This presentation was given by Humaira Latifi and her colleague Aziz Ahmad Yar, of the UN-Habitat Afghanistan country office.

Humaira presented the initial Land-based Finance (LBF) project in Afghanistan called *City for All Programme (CFA)* whose overall objective is to improve stability, stimulate local economic development and target municipalities through enhancing municipal governance, increasing revenue, improving tenure security, and the social contract between citizens and the state. The three main pillars of the CFA programme are:

1. Land management pillar focussing on property registration and tenure security.
2. Urban planning pillar which aims to develop municipal and district level strategic action plans to provide grants for infrastructure development.
3. Municipal finance and governance pillar which aims to improve and strengthen revenue collection systems and capacities through property taxes, as well as fostering the social contract between municipalities and citizens.

The second, complementary LBF project in Afghanistan is the Norwegian Agency for Development Cooperation (Norad) funded LBF project titled: *Land and Property Tax Revenues for Service Delivery, Reconstruction, Citizenship Building and Sustainable Peace in Fragile States*. This project builds on the ongoing CFA programme developing normative and operational work on land tenure and land-based financing to scale up, institutionalise, and replicate best practices in property taxes in Afghanistan and improving ways through which property taxes are managed, collected, and used. (In Afghanistan land and property taxes are referred to as *safayi fees*.)

In terms of capacity building, the CFA programme trained municipal staff within an approach of "learning by doing" in which 141 revenue mobilisers were recruited and trained to improve the capacity of the Revenue and Property Departments in regards to property registration, distribution of property taxes and collection of *safayi fees*.

The programme promoted structural changes within the Kabul municipality whereby the municipality retained 89 revenue mobilisers to continue the work to maintain sustainability of the system. The CFA programme also developed knowledge products in the form of the following operational manuals: *Safayi* Fee Invoicing and Collection Manual[1], Business Licencing Manual, Land and Building Valuation Manual[2], and *Safayi* Cycle Guideline[3]. The programme also supported procedural reforms within the municipalities without legislative amendments. At the beginning the programme proposed amendments to the regulation of property tax. These proposed amendments were put on hold because municipalities were working on a new municipal and revenue law.

The CFA programme also enhanced revenue collection through leveraging Geographic Information Systems (GIS), and partially automated invoicing and collection procedures within a system that is user friendly by introducing house-to-house invoice delivery. The programme also conducted regular awareness sessions to foster *safayi* fee payments. This resulted in enhanced capacity at the individual, institutional, and environmental levels to increase revenue collection. In 2017 there was a 26% increase in *safayi* revenue collection, 1% in 2018, and a 111% in 2019. This fluctuation is because property registration increased significantly in the last two years. The programme interventions helped to increase payment rates by 83% between 2016-2019,and surveyed 872,955 properties by registering them all by 2020. Additionally, the programme also increased the compliance rate of properties surveyed by 54%. Moreover, the proportion of property taxes as the total of Own Source Revenue (OSR) increased from 17% in 2017 to 24% in 2019.

Aziz Ahmad Yar presented another important objective of the CFA programme, namely strengthening the social contract. The activities carried out under this objective are:

- Visibility: Staff of the programme alongside with district staff conducted outreach activities and awareness raising campaigns to encourage citizen cooperation. The programme provided municipal districts and neighbourhoods grants for implementing infrastructure projects. The projects were selected by the citizens who were also involved throughout their implementation process. The programme also supported municipalities in conducting large public gatherings in district offices, mosques and other public spaces both at district and neighbourhood level to share information about revenue collected and expenditures incurred. Municipalities also contributed to programme funded infrastructure projects from their OSR to enhance sustainability of the project.
- The programme also assisted Kabul's municipality to develop a guideline to make municipal service delivery more transparent, accountable and just whereby sanitation services should be

[1] https://www.dropbox.com/s/jrhl5i1gdl4o3sw/Safayi%20inv%20final%203mm%20bleed.pdf?dl=0
[2] https://www.dropbox.com/s/zeca7pb31p479bs/LB%20valuation%20final%203mm%20bleed.pdf?dl=0
[3] https://www.dropbox.com/s/tebwvvcc41sotos/Safayi%20cycle%20final%203mm%20bleed.pdf?dl=0

provided in direct proportionality to compliance rates. This is meant to incentivise communities to pay the *safayi* fees.

Lessons learnt during implementation of the CFA programme have included:

- Value for money in terms of registering properties once, and collecting revenue, providing basic services, and urban planning, etc. multiple times. Property registration using ICT can also ensure long-term transparency and accountability as well as improving compliance rates.
- The programme focussed much of its time in increasing *safayi* revenues and less on how the *safayi* revenues are being collected and used. Revenue has been on the increase while development spending has been declining.
- Resistance to change by municipal staff was a challenge, as they were not familiar to the new technologies and did not have sufficient budget to hire staff with the necessary skills. Hence, the programme hired and embedded additional staff in municipal offices by proving training to apply new skills. When *safayi* systems were improved, it resulted in increased revenue and some of these new employees were retained and are being paid by the municipalities under its leadership.
- Infrastructure sub-projects funded by the programme and implemented and selected by the municipalities and communities were an effective tool to incentivise compliance rates.
- The programme used tools and procedures informed by local knowledge. This through the gathering of information on land value from community representatives, property dealers, and elders. Other areas where local knowledge was used were in the production of district information maps.

From June to August 2020 the Norad-funded LBF project team carried out a diagnostic assessment to study the process, outcomes, impacts, and lessons learned from the above interventions. Based on the findings of the diagnostic assessment, tentative recommendations were made to improve and enhance revenue collection and the provision of services in the country. The recommendations are categorised as follows:

Strengthen the *safayi* process

- Additional capacity building to further improve the efficiency of *safayi* fee collection and administration processes.
- Fully digitalizing the *safayi* process through possible mobile payment solutions.
- Increase visibility, transparency and accountability.

Increase *safayi* revenue

- The Norad-funded project recommends further expansion of the tax base, where properties are not yet surveyed.
- Institute an equitable assessment of property values.
- Incremental implementation of various streams of land-based taxation.

Strengthen the social contract and state legitimacy.

- Increase the use of revenue in development spending and facilitate citizens' understanding of tax spending
- Improve citizens' engagement and transparency.

To conclude, successful LBF systems must strive to strike a balance between administrative capacities, enforcement, and affordability. The CFA programme in Afghanistan enhanced the *safayi* fee process and strengthened the administrative capacities of municipalities. However, there are inadequate enforcement measures by the municipalities and in the regulations for citizens to pay property taxes. Nevertheless, collection of property data and the use of technology can be game changers in the administration of LBF systems and can have a positive effect on compliance through widening of the tax base even though enforcement measures are not in place. It is important to note that the socio-economic condition of the population is a factor that can affect the *safayi* revenue collection. Begging the question how can good performance of the LBF system be leveraged to improve public services? This leaves room for discussion on how to develop a positive correlation between increased revenue collection and improved public services.

Second Presentation: Results and Lessons from UN-Habitat and JPLG's Land-Based Finance Intervention in Somalia (JPLG II and III, 2012-2020) and Recommended Steps Towards Improvement (Abdirahman Mohamoud and Mahdi Omar Sheik)

Abdirahman Mohamoud presented the case of Somalia alongside his colleague Mahdi Omar Sheik. He observed that the LBF interventions in Somalia are implemented within the framework of two main programmes: The UN Joint Programme on Local Governance (JPLG) and the Norad-funded LBF project.

Abdirahman presented the objectives, geographical scope, and timeframe of the diagnostic assessment and UN-Habitat's interventions in Somalia. In addition, he summarized UN-Habitat's interventions in Somalia by assessing the overview of impacts and results. Finally, the presentation highlighted the key-take-aways and next steps and proposed actions under the Norad project.

The diagnostic assessment within the Norad project was conducted in June 2020 to take stock and assess existing policy, legislation and regulatory frameworks that govern land-based finance in Somalia, as well as describing and analyzing the impact of previous UN-Habitat interventions (JPLG) around land and property taxation. The objective of the assessment was to develop recommendations to enhance future interventions. In regard to the geographical scope of the diagnostic assessment it was agreed with Somali authorities to work within the four JPLG districts-, two in Somaliland and two in Puntland. The rational for selection of the four districts was based on two factors: they were part of previous UN-Habitat interventions and offered a good baseline to assess the improvements made, and they share common procedures regarding planning, budgeting, revenue generation and accounting. In addition, they are accessible, with local councils and basic capacities are in place.

Throughout the diagnostic assessment the Norad project evaluated the policy and legal framework, capacity, and service delivery for LBF. In terms of policy and legal framework, the assessment shed light on the relevant rules, regulations, legislations and policies that govern LBF. Broad decentralization for LBF are in place and enshrined in the constitution. Moreover, administrative and fiscal decentralization are currently ongoing. In terms of capacity development, systems and competencies for establishing LBF at the local level has been improved, particularly to improve local revenue generation and handling of land

disputes and land conflicts. In terms of service delivery, citizen participation in terms of planning and budgeting have been put in place as well as engagement with central government and non-state actors to enhance social accountability.

Furthermore, districts developed local government and urban land management laws. In terms of administrative decentralization, GIS departments within municipalities have been strengthened and internal auditing units have been operationalized. The systems and competencies for local land governance have been developed through the development of urban regulatory frameworks that covers: land use planning, building codes and standard as well as developing urban profiles and plans, and the development of District Development Frameworks (DDF) developed in a participatory process. For revenue generation, a basic accounting software integrated in a GIS system is in place in 15 districts in Somaliland and Puntland.

Moreover, the system supports the generation of quarterly reports that are sent to the relevant government authorities such as: Ministry of Finance, Ministry of Interior, Audit General and the Office of the Auditor General. With these enhancements, there is still room for further improvement in terms of quality and content of the reports. The Accounting Information Management System (AIMS) and the Billing Information Management System will gradually evolve to a Financial Management Information Systems (FMIS) jointly implemented by the World Bank-led Public Finance Management (PFM) programme and JPLG. Additionally, mobile payment systems have been tested, by which citizens can pay their taxes and which has proven to be a safe and sustainable way to ensure revenue collection even in the Covid-19 era. An e-governance platform is also currently being evaluated as a way for citizens to gain access to other government services such as generation of birth certificates. The GIS property database registers and updates property within a digitized registry by linking this to the billing system for delivery of targeted services. This has been established and is being further improved.

Management of land disputes was another major component of the diagnostic assessment. The programme supported the establishment of land dispute tribunals, specifically to handle land related litigations. These tribunals are now operational. Moreover, internal control mechanisms have been implemented to improve the capacity of districts on management of expenditure drawn from the generated land and property taxation. This has been implemented through the establishment of internal audit charters/manual for sub-national structures, which define the rules and functional responsibilities. The relevant internal auditing staff have also been trained on financial reporting mechanisms. As part of the routine audit reports, the internal audit units assess if the annual work plan is in line with expenditures and whether procurement processes have been conducted as planned. These are then shared to the local councilors. Finally, a district audit committee manual has been put in place however, the committees have not been formed yet due to the reluctance of some of the local mayors to form them as some members of the committee are supposed to come from outside local government. Other manuals such as a guide to local taxation for the new districts in Federal Member States of Somalia[4] where revenue generation capacity is being implemented have also been developed.

[4] https://www.dropbox.com/s/z2e2keq3ffa3ad0/Guide%20to%20Local%20Taxation.pdf?dl=0

In regard to property registration, approximately 15 districts have been mapped. Property databases have been put in place and are updated annually. The programme is currently implementing urban land management laws according to which, for any new development project 30% of the newly urbanized area will be preserved for public space and facilities. In terms of the impact of the project, property revenue collection has increased, particularly in Hargeisa where revenue generation increased to 300% since project implementation. Moreover, land and property taxes have become key resources for OSR whereby land and property taxation is becoming imperative to OSR streams. OSR compared to central government transfers is also becoming more significant for district budgets. Furthermore, budget allocation is moving towards capital investment and service delivery, and less on recurrent expenditures such as salaries, which is considered healthy and important to ensure sustainable urban development in the future. Finally, government legitimacy and ownership of land and property management has improved which enhances its commitment to service delivery to the local communities.

Mahdi Omar Sheik presented the key take-aways from the interventions in Somalia. He observed that property tax has become a key element in OSR for local government. He also mentioned that understanding such new systems is critical for efficiency and for the collection and use of property taxation. The GIS database/ systems have been used to develop property records as well as for urban and infrastructure planning, road construction, and service planning however, there is a gap in mechanisms for systematically updating of the GIS database. Moreover, property valuation is done through flat area-based tax, which causes inequity in the property taxation systems as location, property characteristics and use of the property is not being considered in terms of valuation. The key actions proposed under the Norad-funded project and other initiatives include:

a) Planned sustainable solution for updating GIS database through building permit implementation and connection to property registry
b) Planned streamlining of valuation methods for better managing property and land taxation. This is through a formula-based tariff that is unified across the country, a fair tariff for property with different value and taxation of walled properties.
c) Enhanced property taxation, collection and management , through an ongoing mobile payment system and increased training and link to local government institutes.

To conclude, Mahdi observed that the diagnostic assessment focussed on the work done by UN-Habitat in Somalia, particularly in four districts, two in Somaliland: Burao and Borama and two in Puntland Qardho and Bosaso. These were chosen as they are secondary cities and have done major increases in system build-up.

Third Presentation: Closing the Circle: Strengthening Governance, Revenue Optimization and Service Delivery at the Local Level. (William McCluskey)

Introducing William McCluskey's presentation, Lennart Fleck, who is based in UN-Habitat HQ and supports the Afghanistan and Somalia country teams on substantive issues of the projects presented, highlighted the connection between the previous presentations and what William would present.. He observed that

the two previous presentations showcased the past interventions of UN-Habitat around land and property taxation. From UN-Habitat's interventions, many interesting insights have emerged however, there are still questions that remain unanswered. For instance, while there were significant gains on revenue collection, improvements were not clear on how these revenues were converted to improve service delivery. One other issue is that compliance was not always increasing, while inequity in the collection systems remains. In the second phase of the Norad project therefore, the project will examine how to iron out some of the identified challenges by introducing global best practices and contextualising them to the local realities to enhance results and ultimately identify scalable best practices for other fragile states. To draw inspiration from global good practices William had conducted a literature review to extract key lessons around property taxation in fragile states and how it can be used to enhance good governance and service delivery.

William introduced his presentation by acknowledging that OSR is a critical source of revenue for sub-national governments alongside the main sources of revenue such as taxes, transfers and grants. On average for many developing and fragile states, taxes represent about a third of OSR. 52% come from transfers from central governments while OSR represents about 15%. Hence, OSR is a critical part of the ability for local governments to meet some of the expenditures that are required within their jurisdiction. Donor organizations seeking to improve local government revenue typically recommend strengthening OSR, maximizing collection, improving overall performances, and enhancing administration all of which are essential to mobilizing critical areas of finance.

Part of the initial work under the literature review/analysis was to assess the most significant corrections and improvements to be made. These include: compliance- in terms of improving voluntary compliance; collection of property tax- specifically in terms of equitable collection; and enforcement to ensure equality and fairness, which is part of the overall idea that OSR, particularly property tax should be fair and equitable. Other improvements may be in terms of communication and citizen engagement by providing education, sensitization, and meaningful participation. Hence, the vast literature speaks to many of the theoretical aspects that can improve revenue collection.

Statistics show that property tax is an important part of sub-national revenue and is important for accountability. Nevertheless, it is often the case that local governments have difficulties in setting up their tax rate, and are constrained to collect revenue. Moreover, local governments often tend to have many revenue streams-up to 80-90 different ones. Hence, the question that begs is how local administrations deal with so many revenue streams. William observed that he looks at it in terms of recurrent and non-recurrent revenues. The recurrent revenue streams like property taxes are yearly revenues for local governments compared to non-recurrent revenues. The downside of recurrent revenues is that arrears can occur thereby the full potential of revenue collection is not 100% effective.

Looking at property tax and relating to the issues assessed, there is a difference between whether a property tax should be value based, i.e. on market value or whether a property tax should be non-value based e.g., using the size of the building/parcel with or without adjustment, location, and use. Hence the question that should be raised is where the revenue buoyancy is in a value based and non-value based system.

inexperience from Africa shows that many African countries have a value-based property tax however, many of the countries do not have a mature and transparent property market. This therefore creates a challenge in aligning value-based property tax systems when the markets needed to evaluate property tax is not sufficiently mature enough. Additionally, William presented other evaluation approaches such as points-based assessment, unit area method, adjusted area, and prescribed tables.

In locating revenue buoyancy, one needs to take into consideration that the revenue neutral tax rate might be small if re-evaluation of property is not frequent. This is often the case in developing and fragile countries where property markets and systems are not mature enough.

William also shared about the "scale of the problem", i.e., how many properties should be valued. This is not an easy exercise particularly in developing and fragile countries that work in a manual environment with outdated registers, and revenue collection leakages. The solution, he proposed, is to use GIS solutions such as integrated GIS systems that allow for revenues to be collected for all sorts of OSRs.

William referenced a recent publication, *Property Tax Diagnostic Manual*, launched in December 2020 by the World Bank, which provides a good basis on the interventions at the various stages when conducting a diagnostic analysis for property tax. To conclude, he observed that the idea of OSR is to provide better services within an environment of weak governance thus, there is need to increase accountability, fairness, equity and transparency in a property tax system.

Key Questions: Discussants (Wilson Prichard and Astrid Haas), in dialogue with presenters

Wilson Prichard, from the International Center for Tax and Development (ICTD) introduced himself and his colleague Astrid Haas. He mentioned that ICTD is in the process of building an African Property Tax Initiative, hence the session was an opportune moment to start the conversation and the beginning of a broader engagement in this regard.

Wilson observed that the projects in Afghanistan and Somalia have been well conceived as they are not only looking at how to raise revenues but also how to strengthen the social contract through service delivery and accountability. He also noted that the programmes have a strong emphasis on establishing integrated GIS technology systems and the broad push on property identification and registration. The challenge, he observed, is to try and increase the tax base more equitably and consequent mobilizing of improved services. The bigger challenge lies in grappling with very specific challenges of improving property tax systems and delivery of services in practice knowing that the answers to these challenges are context specific reflecting the particularities in different contexts. Considering that, he highlighted three aspects that are of interest to look deeper into. He mentioned that the aspects are also drawn from the comments and inputs from the chat:

1. **Technology and the challenge of data and property registration.** Wilson mentioned that self-sustainability without external support to use new technological systems is critical in the long term. The question is whether the projects strike a good balance between adopting simple systems that are locally administrable and easier to sustain over-time and adopting more sophisticated systems that

can deliver on a broader front but might be more difficult to sustain without external support. Experience shows that hand over sophisticated software and technology to local control can be very challenging in ensuring long-term sustainability and use of these systems. In this regard, therefore, the conversation about capacity building should include how to simplify systems to the most essential tasks and how to design them in ways that are user friendly to local teams over the long term and remain adaptable for future scaling up. Furthermore, experience has shown that in places where there is low formal registration, it is difficult to raise local revenues for land and property tax because of the absence of clear land titles and high prevalence of land disputes, which become an excuse to not pay the tax on property. The general view has been to try and separate the two processes of land and property registration and land and property taxation. Obviously, formal land registration is critical, however, properties even when not formally registered should be brought into the tax net.

2. **Valuation and the overall revenue that is generated.** Wilson mentioned that there was much talk about compliance in the presentations but less about how much people are paying. In some instances, there can be high compliance without raising a lot of revenue. The reason for that would be that high value properties are not compliant and are not valued accordingly. To maximize revenue, a valuation system that captures high value properties and provides mechanisms to ensure compliance is needed. However, in a situation where compliance is high for low value properties and where high value properties are undervalued revenue may be low. Towards that goal then there are two elements: one is the valuation process and the other is the compliance process. In terms of the valuation process, both projects highlighted the importance of getting a more progressive and equitable valuation system. William's presentation highlighted the basic challenges of implementing a progressive valuation system whereby property markets are hugely underdeveloped and opaque to drive a more equitable valuation process. As gathered from William's presentation the ICTD work has been a big proponent of points-based evaluation processes whereby one develops a small list of easily observable and easily collectable features of properties by sending teams to the field with basic enumeration software or paper to record various basic property characteristics that can be used in the development of a basic formula to translate these property characteristics into values. That formula may simply be how big the property is, how many stories the property has, what neighborhood the property located in, and some basics characteristics like the quality of the roof, walls, windows, etc. Through a basic formula and basic indicators, a progressive system can already be built in which more valuable properties will be valued much more highly and pay more than lower valued properties. Systems like that simplify evaluation by capturing key elements of what drives value across properties. Doing this effectively depends on the relationship between local and central governments. In many countries, central governments maintain control over the valuation process and that can be a barrier to implementing simplified processes. Understanding the legislative scope is critical for implementing simplified processes of evaluation.
3. **Compliance challenge:** The presentation on the Afghanistan case highlighted that there is no enforcement in place which is a huge challenge because the real driver of revenue from property taxation comes from taxing the relatively rich. However, it is challenging to tax the rich if there is no enforcement procedure in place- which brings about the discussion of political will to pursue enforcement. In the presentations, compliance rates where quite high relative to the lack of enforcement. A reference from the chat is that in Afghanistan the government may deny access to

certain services if people have not paid their property taxes. It would be interesting to know which services are being denied, the implications of non-compliance for the poor and the rich. Moreover, the presentations assumed that consultation with citizens took place by communicating what services will be delivered as a result of the revenue collected. This can be upscaled by designing a revenue collection system that explicitly aims to empower and engage taxpayers such that they will be better placed to hold the government accountable in terms of how collected revenue is spent. This is because strengthening local demand is critical to building effective service delivery. To do this effectively, there is need to make sure that taxpayers have a sufficient understanding of the overall budget, and the collection strategy to be employed and the intended use of the revenue collected. Furthermore, concrete deliberation over revenue allocation through participatory budgeting processes, where people can vote on and monitor spending priorities to increase broader transparency and ensure accountability in service delivery. Finally, there was a lively discussion in the chat on the possible scenario in cases where a landlord is not present, and whether tenants could be taxed instead. This is because often times, owners of large land parcels are not locally present and are hard to reach. The popular proposition in this case was to tax the tenants who would then deduct the deduct the amount from their rent.

To conclude, Wilson expressed hope that this would be the beginning of a longer conversation to delve more into the details on technology, valuation and compliance of the two country projects as this is where the real action lies in trying to achieve success over time.

In response to the discussant, Aziz Ahmad Yar responded on the sustainability of the process in terms of functionality of the system without external support over the long term. In Afghanistan, this was discussed with the Kabul municipality at the inception of the programme which encouraged them to retain the additional staff of the programme under their leadership.

Abdirahman responded on the concern about introducing technology that is simple to use and easy to understand for administrators and taxpayers rather than sophisticated technology. He mentioned that mobile payment systems will be introduced as it was becoming the norm since the private sector was introducing this for all other services in Somalia. On the sustainability side of the technology being introduced, he mentioned that the programme worked closely with the government training institute to provide local staff the necessary skills thus, government authorities were gradually producing local expertise to maintain the system.

Bill responded on the issue of taxing a property only when it is registered. He mentioned that as the property tax is a fiscal cadaster and not a legal registration process, non-registered properties should be taxed as they are seen, available and can be assessed and also because one cannot wait on a land registration to be comprehensive as many developing countries have a registration system that is lagging.

Open Discussion, Facilitated by the Moderator

Other session participants provided their reactions as summarised below:

Anthony Lamba: Property taxes are preferably paid by the owner because registration of the property is in the owner's name. In cases where the owner is unknown or absent, the occupant's name will be registered and the municipality expects the safayi tax to be paid because the property exists and the occupant enjoys services. Moreover, taxation should be based on a fiscal cadastre so if a property enjoys services being delivered taxes should be paid for it even though it is not formally registered. In Afghanistan, occupancy certificates were introduced coming from the from the survey and registration process. However, the occupancy certificate is only provided once property taxes have been paid for the first year, after the survey and registration has been done. In Afghanistan, the property certificate is a quasi-ownership document and can be upgraded into an ownership document.

Jean du Plessis: Given the fact that most of land and properties in sub-Saharan Africa are not registered or recorder properly, while at the same time its residents are not formally registered, failure to pay taxes is not an option because residents will be left out in receiving adequate service provisions. It is also being said that there might be a way of increasing the security and willingness to invest in property development without being formally registered, while paying some kind of fee. The question that begs is how this will play out in the different contexts to make it fit-for-purpose and the laws that need to be in place to support such processes.

Lennart Fleck: As regards compliance, it is critical to further assess the compliance rate of the population (by income group) to understand who is complying or not. This is to specifically understand if compliance is skewed towards the wealthier properties or not. This can support governments to increase their revenue base and discuss matters of compliance. This could easily be figured out by looking at the land cadastre but may also require more surveying and more costly interventions.

Current financial models are draining the fiscal state of cities as informal settlements are not developing sustainably due to a lack of revenue generation to provide services. Authorities need to incentivize paying of property taxes as well as introducing incremental forms of registration processes to collect land and property taxes under the physical cadastre.

Margin comments: During the discussion, additional margin questions and comments were made by the participants in the chat. Most of the comments acknowledged that:

- Collecting property taxes is best done at the lowest government level as that is where the state-citizen interaction happens. This is best to maintain the social contract.
- Property regulation should outline the rates of property taxes.
- If there is no enforcement under the law to comply, governments may deny some services to defaulters as a way of enforcing payment or can expect to be summoned to court. Affordability is a key reason among defaulters. Moreover, defaulters are often individuals from the political class.
- Land based finance helps to unlock additional resources to facilitate capital investment through Local Development Fund (LDF), by which a donor/government transfers grants to districts that perform well.

- To ensure and enhance compliance, residents need a good reason why they should pay any property tax. This can be depicted through visible benefits.
- Floor area and market area identification (perhaps with some banding) can proxy value quite well.
- Property taxes should be paid by all properties including those that are not formally registered. Occupancy certificates can be granted once property owners pay registration fees.
- Owners should pay property tax. If taxes are paid by the occupier, it should translate into lower rents.

Concluding Observations

William McCluskey: Often one finds that when property taxes are devolved to local governments, the accompanying legislation is usually not that strong. This is an issue in many countries for instance, in the case of Tanzania and Kenya some local governments are passing the collection of property tax and enforcement thereof to national revenue authorities because they have more experience in collection and have more powers.

Aziz Ahmad Yar and Antony Lamba: To strengthen LBF systems, interventions must reinforce the capacity for municipalities and districts to carry out their day-to-day activities effectively. At the institutional level, the processes should be improved through ICT by increasing the tax base to strengthen institutional capacity. Moreover, municipalities need a strong legislative system to deliver services against revenue collected and plan their budget inclusively to respond to the needs of citizens. Additionally, the issue of who pays property taxes- renters or owners- depends on what works better for the municipality and what arrangements are made between property owners and renters. Compliance is critical and there is need to disaggregate compliance and non-compliance data to further assess who is paying. It is possibly the case in many places that most of the revenue collected is from poorer properties, which is an issue of equitability within the system. In Afghanistan for instance, defaulters are mostly politicians, militias and their affiliates. Finally, paying taxes for service delivery is critical no matter the legal status of the property.

Francesco: For Somalia, there is need to strike a balance between simplicity and complexity in the systems being developed especially when working in fragile contexts where the problem often lies at the local level since authorities do not have the full capacity to understand and maintain the system. On the other hand, for systems to be more equitable, they become more complex hence, one needs to strike a balance to know exactly what the system requires without overwhelming the administration. The diagnostic assessment will allow for further improvement of the system based on the needs and understanding of the country with the present capacities on the ground.

Astrid Haas: The projects in Afghanistan and Somalia are impressive as they are successful reforms in difficult contexts. Much of what has been mentioned is how to create property tax systems and make reforms more resilient. Digitised systems have been introduced through GIS and developing digitised payment systems to increase revenue and resilience. However, it is important to note that for systems to maintain their resilience, simplicity and incremental approach is key through capacity development. The World Bank diagnostic manual is a fantastic way to assess the technical merits and challenges within a system, caveated that the data is available to undertake the full diagnostic manual. The diagnostic manual could be strengthened through complementary approaches in understanding the politics and institutions

of reform. This because what is technically feasible is determined by politics while at the same time technical successes can help drive the political willingness for reform. Finally, the very extensive literature review on property tax presented by William shows that there is still a lot to learn about the technical side of what reforms can and should entail however, the devil is in the details regarding how to increase expenditure to strengthen development, participatory budgeting to strengthen accountability and enhance compliance to better create a system that is equitable.

ANNEXES

Annex 1. Attendance list

	Name	Organization	Email Address
1.	Lawrence Walters	Utah State Tax Commission	larrycwalters@gmail.com
2.	Rebecca Ochong	Habitat for Humanity	ROchong@habitat.org
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27.	Gianluca Crispi	UN-Habitat, PLGS	gianluca.crispi@un.org

28.	Lennart Fleck	UN-Habitat	lennart.fleck@un.org
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32.	Danilo Antonio	UN-Habitat, LHSS, Land	danilo.antonio@un.org
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60.	Helen Yu	UN-Habitat	helen.yu@un.org

Annex 2. Presenters

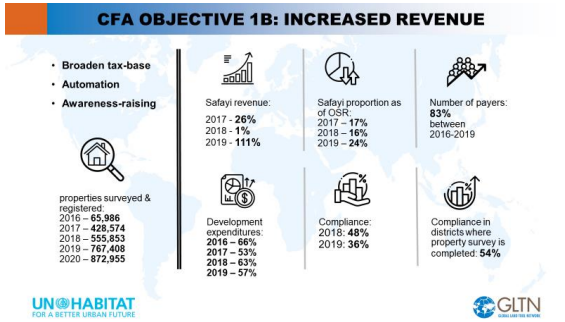
SESSION 4: PRESENTERS AND FACILITATORS		
Name and Institution	**Role and Topic**	**Brief Bio**
Humaira Latifi, UN-Habitat	Presenters: *Results and lessons from UN-Habitat's land-based finance interventions in Afghanistan (2015-2020), and recommended steps towards improvement*	Humaira Latifi is Programme Officer at the UN-Habitat Afghanistan Office. Humaira has around seven years of demonstrated history of working with UN, private and public organizations in the field of finance and administration, and governance. Humaira holds a Bachelor Degree in Business Administration, with a finance major and law minor from American University of Afghanistan.
Aziz Ahmad Yar, UN-Habitat		Aziz Ahmad Yar is Programme Officer at the UN-Habitat Afghanistan Office. Aziz has eleven years of professional experience in community development, municipal finance and governance, and general operations. He has held positions in NGOs, UN, and private companies, and has contributed to the development of several municipal finance and land and property valuation-related tools. Aziz holds a bachelor's degree in Business Administration from the Dunya University of Afghanistan, and an MBA with specialization in management and leadership from Kardan University.
Abdirahman Mohamoud, UN-Habitat Somalia Programme	Presenters: *Results and lessons from UN-Habitat and JPLG's land-based finance intervention in Somalia (JPLG II and III, 2012-2020) and recommended steps towards improvement*	Abdirahman Adan Mohamoud is a Local Governance Program Manager, UN-Habitat Regional Office for Africa, currently based in Nairobi, Kenya. Abdirahman has 18 years of professional experience in the areas of local governance, public finance management, institutional development, land administration, capacity development and decentralization. For the past three years, Abdirahman is leading UN-Habitat's contribution to a joint program of 5 UN agencies in Somalia with a view to enhance local governance and delivery of equitable service delivery. Prior to that, he has contributed to UN-Habitat's programs in the region with different capacities, most notably in the areas of municipal finance and institutional development. Before he joined UN-Habitat, he was engaged with civil society organizations, private sector, and institutions of higher learning. Abdirahman has a bachelor's degree in Business Administration and a master's degree in Development Studies. He is currently pursuing a Post-Graduate Diploma in Public Finance Management.

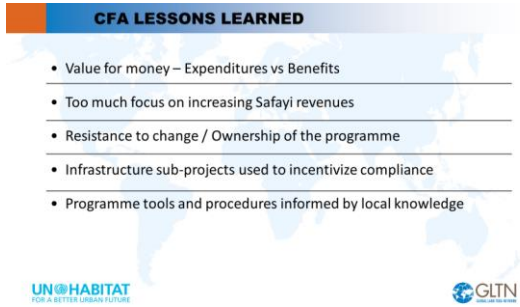
Mahdi Omar Sheik, UN-Habitat Somalia Programme 		Mahdi Sheikh is a land-based finance officer, based in Hargeisa Somaliland. Mahdi has 14 years' experience in local governance and decentralization in Somalia/Somaliland. Once, a Planning and Policy Advisor to the Ministry of Planning, his core function was to technically support the senior management of the ministry in planning, monitoring and evaluation of the functions of the Ministry and assist them in the operationalization of National Development Plans and the district development plans. He was a 5-year local area manager for the UN Joint Programme on Local governance and Decentralized Service Delivery (JPLG) in Somaliland. He was responsible for increasing the revenue of eight local governments through GIS and financial databases and for supporting districts to develop their Districts' Development Frameworks, Annual plan & budgets by using Public Expenditure Management tools .In addition to this, he contributed to community development work, training district councils on land revenue generation. He has worked with UNICEF, UN-HABITAT and UNDP in different roles and holds BBA in Business Administration and master's degrees in Diplomacy and International Relations (Hons.)
William McCluskey, Project consultant 	Presenter: *"Closing the circle" - Strengthening the social contract through effective collection, equitable allocation, local expenditure*	Dr William McCluskey is currently Professor at the African Tax Institute, University of Pretoria, South Africa. His main professional and academic interests are in the fields of real estate valuation, property tax administration, computer assisted mass appraisal modelling and geographic information systems. He is a technical adviser on property tax issues with the International Monetary Fund, World Band, United Nations Development Program, European Union and Food and Agriculture Organisation and has been involved in a number of missions advising on ad valorem tax issues including Albania, Bermuda, Botswana, China, Ethiopia, Gambia, Georgia, Jamaica, Kazakhstan, Kenya, Kosovo, Lesotho, Northern Ireland, Philippines, Poland, Mauritius, Republic of Ireland, Slovenia, South Africa, Tanzania and Uganda. He is a Fellow of the Royal Institution of Chartered Surveyors.
Wilson Prichard, Munk School of Global Affairs and Public Policy, University of Toronto, and the Centre for Tax and Development (ICTD) 	Discussant	Wilson Prichard is Associate Professor of Global Affairs and Political Science at the University of Toronto, CEO of the International Center for Tax and Development, and Research Fellow at the Institute of Development Studies. His work focuses on the political economy of tax reform and connections between taxation, governance and development, particularly in Africa. He is the author of Taxation, Responsiveness and Accountability in Sub-Saharan Africa (Cambridge University Press, 2015), and Taxing Africa (Zed Books, 2018) – the latter was named a Foreign Affairs best book of 2019 – along with a variety of academic articles. He regularly engages with donors, civil society and governments about their tax reform programs.

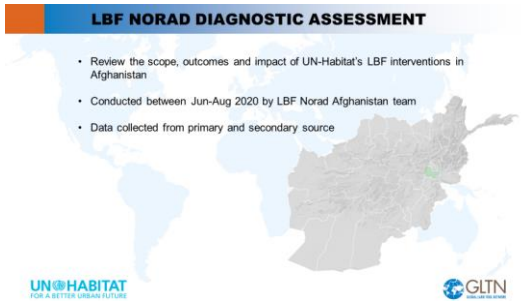
Shipra Narang Suri, UN-Habitat 	Welcoming words	Dr. Shipra Narang Suri is an urban planner with a Ph.D. in Post-War Recovery Studies from the University of York, UK. She leads UN-Habitat's Urban Practices Branch, which is the hub for UN-Habitat's normative work and the home of its portfolio of global programmes. The work of the Branch covers all major areas of UN-Habitat's work such as national urban policies; legislation and governance; urban planning and design; planning and health; public space; urban regeneration; land, housing and shelter; urban economy and finance; urban basic services; safer cities; human rights and social inclusion. Shipra is also the senior advisor within UN-Habitat for local governments and their networks. Shipra has extensive experience in advising national and local governments, as well as private sector organisations and networks, on issues of urban planning and management, good urban governance and indicators, livability and sustainability of cities, urban safety, women and cities, as well as post-conflict/ post-disaster recovery. She has worked with the United Nations, specifically, UN-HABITAT, UNDP, and UNESCO, as well as international NGOs such as World Vision, and private sector organisations, for over two decades. She is a regular public speaker at national and international fora, and has several publications to her credit.
Jean Du Plessis, UN-Habitat 	Moderator	Jean du Plessis is a land specialist based in the Land, Housing and Shelter Section of UN-Habitat, Nairobi. He draws on more than 25 years of experience in the areas of land, housing, human rights, forced evictions and development. He has previously held positions in local, national and international NGOs, the South African government's land restitution programme, and the UN Land and Property Unit in Timor-Leste. He has country experience in South Africa, Namibia, Zambia, Zimbabwe, Botswana, Rwanda, Ghana, Uganda, Kenya, Tanzania, Egypt, Palestine, Timor-Leste, Cambodia, Thailand, Indonesia, Haiti, Nepal and Iran; and has produced a variety of reports and publications on land-related issues. Jean has been with UN-Habitat since 2011, leading on the continuum of land rights, land-based finance, land readjustment and capacity development. Jean holds an MA with Distinction in Political Philosophy from the University of Stellenbosch.

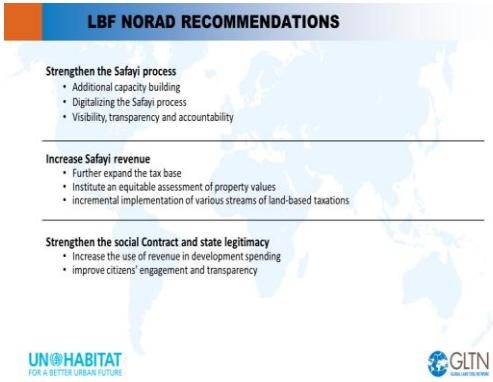
Annex 3. Presentation slides

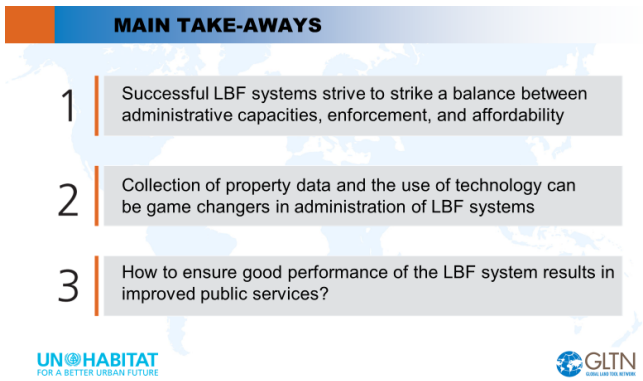
First presentation: Results and lessons from UN-Habitat's land-based finance interventions in Afghanistan (2015-2020), and recommended steps towards improvement (Humaira Latifi and Aziz Ahmad Yar – UN-Habitat)



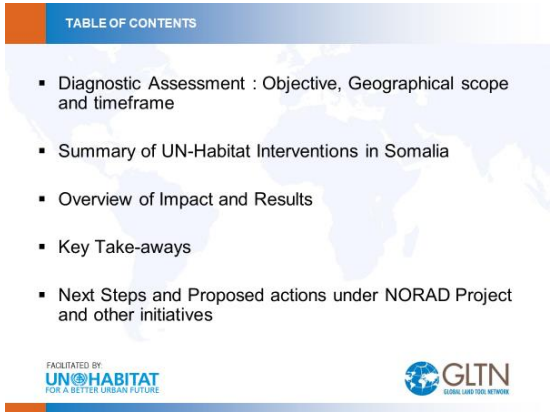


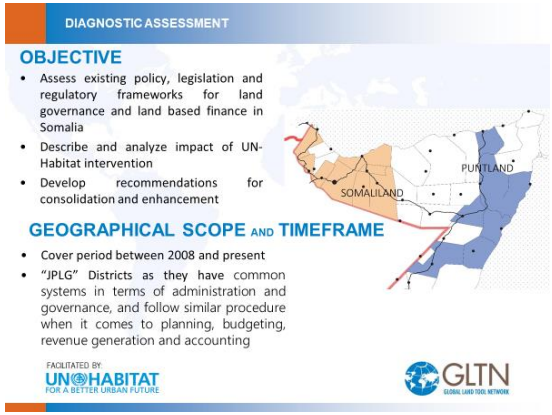


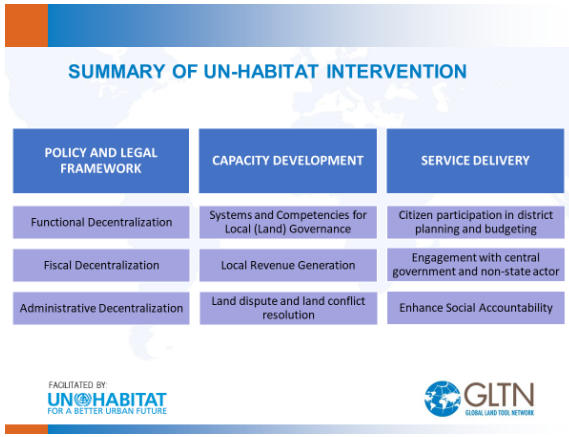




Second presentation: Results and lessons from UN-Habitat and JPLG's land-based finance intervention in Somalia (JPLG II and III, 2012-2020) and recommended steps towards improvement (Abdirahman Mohamoud and Mahdi Omar Sheik – UN-Habitat)







KEY ACTION OF UN-HABITAT INTERVENTION

REVENUE GENERATION

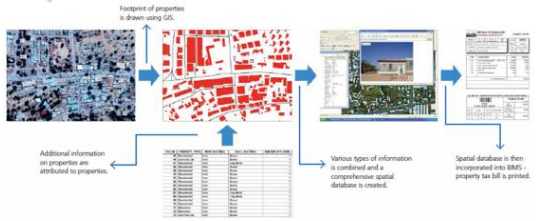
Financial Management Software Systems

- Basic accounting software is put in place in 15 districts in Somaliland and Puntland;
- System-generated quarterly reports are sent to MOF, MOI, AG and office of the Auditor General;
- A billing component that used for property taxation, business licencing and others revenue collection developed and attached to accounting system.
- AIMS/BIMS will graduate to FMIS within the WB-led PFM programme

KEY ACTION OF UN-HABITAT INTERVENTION

REVENUE GENERATION

GIS Property database and link to billing system



KEY ACTION OF UN-HABITAT INTERVENTION

LAND DISPUTE TRIBUNALS AND HARMONIZATION OF THE LEGAL SYSTEMS RESOLVING LAND DISPUTES

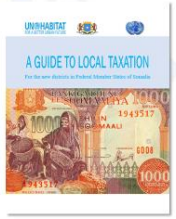
KEY ACTION OF UN-HABITAT INTERVENTION

INTERNAL CONTROL MECHANISMS

- Internal audit charter for sub-national structures developed and adopted;
- District audit committee manuals in place;
- Relevant staff trained on improved and standardized financial reporting;
- Internal audit trainings conducted.

KEY ACTION OF UN-HABITAT INTERVENTION

MANUALS, TRAININGS AND SUSTAINED CAPACITY BUILDING



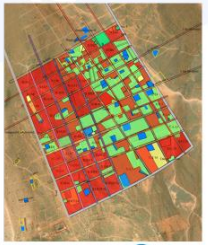
IMPACT

15 CITIES MAPPED, PROPERTY REGISTERED AND DATA UPLOAD FOR TAX BILLING AND COLLECTION

PROPERTY SURVEYED- SLD : 109,000 - PLD : 42,028

GIS database also support urban planning and implementation

e.g. Participatory, inclusive land readjustment in Gorowe:
30% of the newly urbanised area is being acquired into public property – to be later allocated for public space and facilities



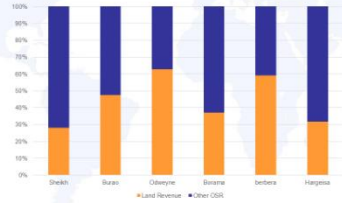
IMPACT

INCREASE IN PROPERTY REVENUE COLLECTION

Actual revenue from Property Tax, Somaliland

IMPACT

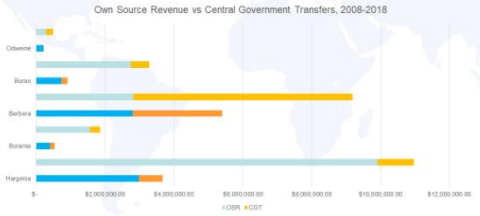
LAND AND PROPERTY TAX KEY ELEMENT IN OSR



Budget OSR and percentage of Land Revenue, Somaliland

IMPACT

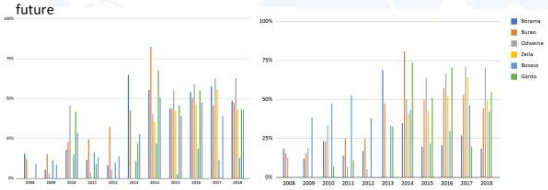
OSR OUTGROWING TOTAL BUDGET GROWTH



IMPACT

EXPENDITURE

Budget allocation moving towards larger percentages to capital investment and service delivery, and less for salaries, which is in general considered healthy and it is Important to ensure sustainable urban development in the future



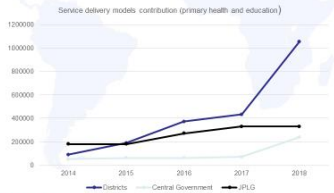
Capital and development expenditure as % of budget, Somaliland Districts, 2018

Service Delivery expenditure as % of budget, Somaliland Districts, 2018

IMPACT

IMPROVED GOVERNMENT LEGITIMACY AND OWNERSHIP

Government and stakeholder ownership increase and commits more to service delivery models



KEY TAKE-AWAYS

- **Property tax key element in OSR for local government**
- **Need to understand efficiency of collection and use this as a basis for consolidation**

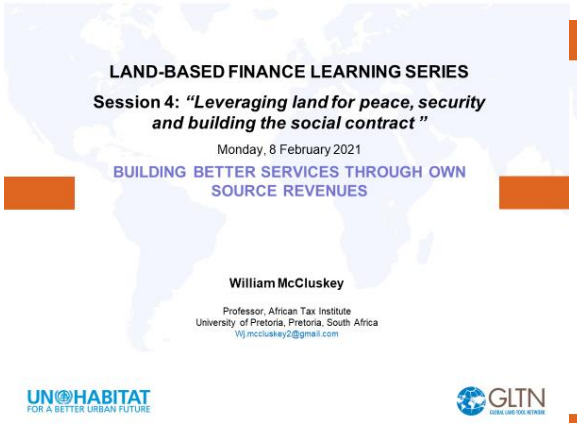
Property records

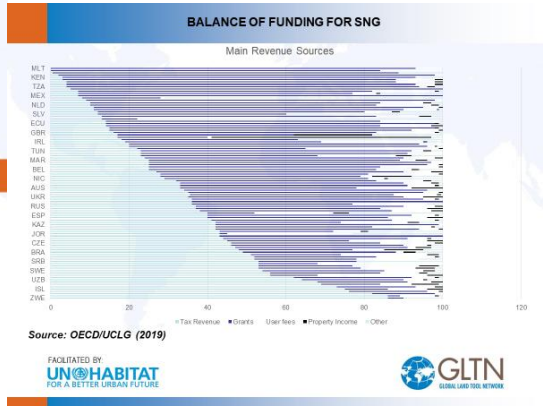
- GIS database used for multiple purposes, i.e. urban planning, infrastructure planning, road construction, service planning
- Lack of mechanisms for systematic update of GIS database

Property valuation

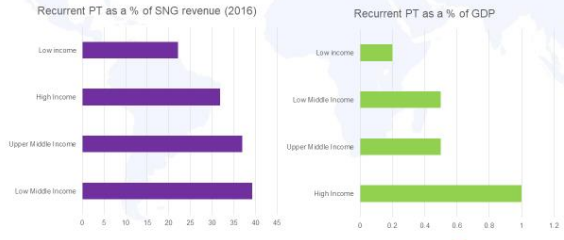
- "Flat" area-based tax simple and direct system for property taxation
- Flat rates cause inequalities: no link to location, value or use of the property

Third presentation: Closing the Circle: strengthening governance, revenue optimization and service delivery at the local level (William McCluskey - Independent Expert)





SOME STATS ON THE RECURRENT PROPERTY TAX



Source: OECD/UCLG (2019)

Basis of Valuation: the Options

Value Based

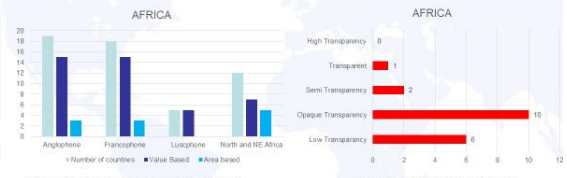
Typically uses presumptive estimates based on market evidence

Non Value Based

Typically uses the size of the building/parcel as the basis
With adjustments

Where is the revenue buoyancy?

BASIS OF VALUATION: THE OPTIONS



Source: Franzsen and McCluskey 2017. Property Tax in Africa

Source: JLL Real Estate Transparency Index 2020

Methodology	Countries
Points Based Assessment	Slovenia, Sierra Leone, Malawi
Unit Area Method	Ahmedabad, Bangalore, Bengaluru, INDIA
Adjusted Area	Czech Republic, Slovakia, Hungary, Poland, Kazahstan, Uzbekistan etc etc
Prescribed Tables	Laos, India, Nigeria, Pakistan, Tanzania

REVALUATION SHIFTS - KIAMBU SUB-COUNTY, KENYA

VR 1991 OLD VALUE	Tax @ 1%	VR 2014 NEW VALUE	Tax @ 1%	Revenue Neutral Tax Rate
226,000	2,260	8,835,000	88350	0.0002558
208,000	2,080	9,146,000	91460	0.00022742
296,000	2,960	10,488,000	104880	0.00028223
291,000	2,910	10,327,000	103270	0.00028179
37,000	370	1,242,000	12420	0.00029791
158,000	1,580	70,910,000	709100	2.2282E-05
26,000	260	882,000	8820	0.00029478
151,000	1,510	21,730,000	217300	6.9489E-05
22,000	220	726,000	7260	0.00030303
36,000	360	1,600,000	16000	0.000225
36,000	360	1,470,000	14700	0.0002449
93,000	930	1,395,000	13950	0.00066667
600,000	6,000	33,415,000	334150	0.00017956

THE SCALE OF THE PROBLEM

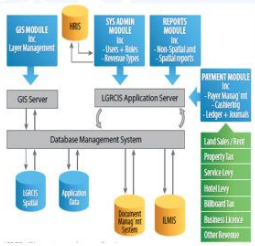
City	Number of properties on the property tax roll
Ahmedabad, INDIA	2.1m
Bengaluru, INDIA	1.6m
Cape Town, South AFRICA	900,000
Dar es Salaam, TANZANIA	est 480,000
Jakarta, INDONESIA	3.9m
Johannesburg SOUTH AFRICA	812,000
Karachi, PAKISTAN	est 2m
Kuala Lumpur, MALAYSIA	800,000
Lagos, NIGERIA	900,000; estd 2m
Quezon City, PHILIPPINES	550,000

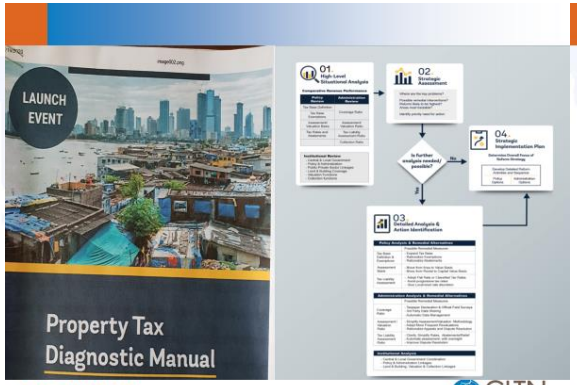
SOME PROBLEMS

ADMINISTRATIVE SOLUTIONS

JAKARTA - INDONESIA

LGRCIS - TANZANIA





IN SUMMARY

Local government own source revenues really matter for many different reasons

- Providing better services
- Generating accountable government and transparent decision making
- Focus on recurrent revenue streams
- Investigate new streams such as other land-based options
- Improve the administration
  - Tax base
  - Assessment
  - Collection
  - Enforcement