



Land and Property Tax Reform in Puntland and Somaliland: Exploring the Connection Between Revenue Optimization and Service Delivery

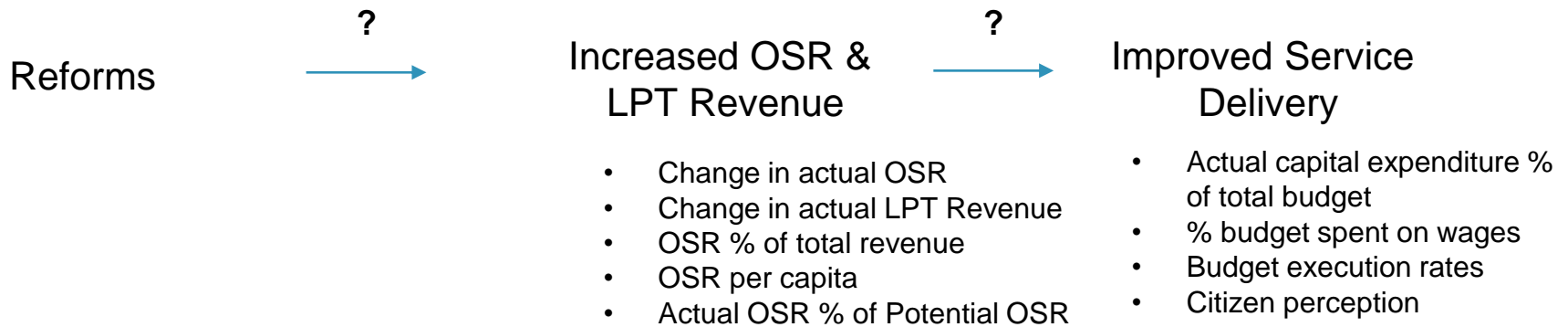
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Objective

2

- To learn from the Municipal Finance and specifically land and property tax (LPT) reforms carried out in Puntland and Somaliland since the early 2000s
- To find answers to two key questions of interest:
 - *Can decentralization of revenue authority (particularly land and property taxation) and associated building of local government capacity lead to significant increases in Own Source Revenues (OSR)*? If yes, how is it possible?*
 - *Will increases in OSR lead to more effective public expenditure and improved service delivery? Why or why not?*

* OSR – taxes, fees, licenses and other revenue sources that are locally controlled



Context

Pre-conditions

Changes in the broader context of Puntland and Somaliland

- Economy & Finance
- Security Situation

Context

4

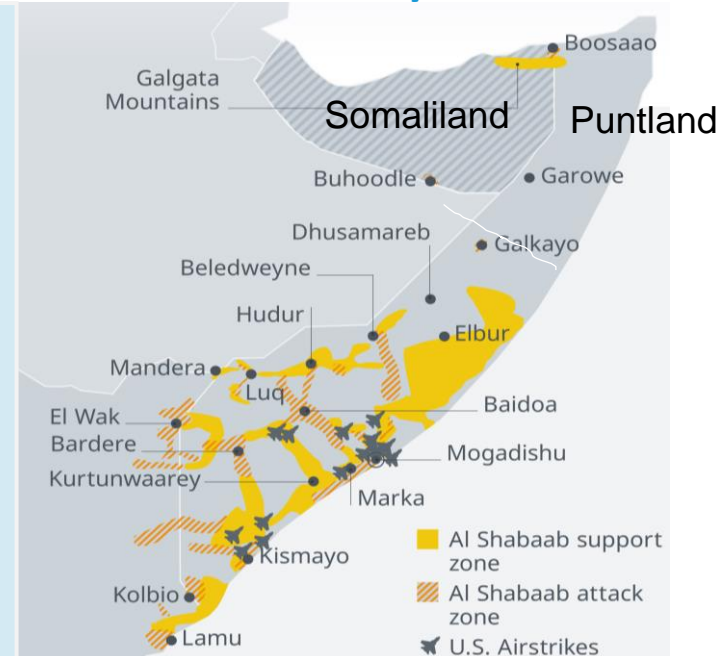
Pre-Independence

- Newly created states in 1990s
- Little prior formal local governance
- Little prior formal local revenue collection
- Strong presence of clan and community politics

Economy and Finance

- GDP/capita around \$370 Puntland, \$700, among poorest countries in world
- Slow steady economic growth
- Livestock 60% of economy in Puntland and 30% in Somaliland
- Very high donor dependency and external support (remittances)
- Very low tax revenue % GDP ratio (3- 4%)
- Hargeisa and Bosaso ports key sources of local revenue
- High current expenditure & security-related expenditure

Security



- Relatively stable compared to southern Somalia
- Al-Shabab presence in Bosaso, ongoing inter-clan rivalry
- Border disputes

Decentralized Governance

- 3 levels of government
- Local level run by elected mayors
- Centrally-appointed district committees retain significant powers
- Significant expenditure assignment to local level
- Municipal elections not very regular but took place recently in Somaliland and few districts in Puntland

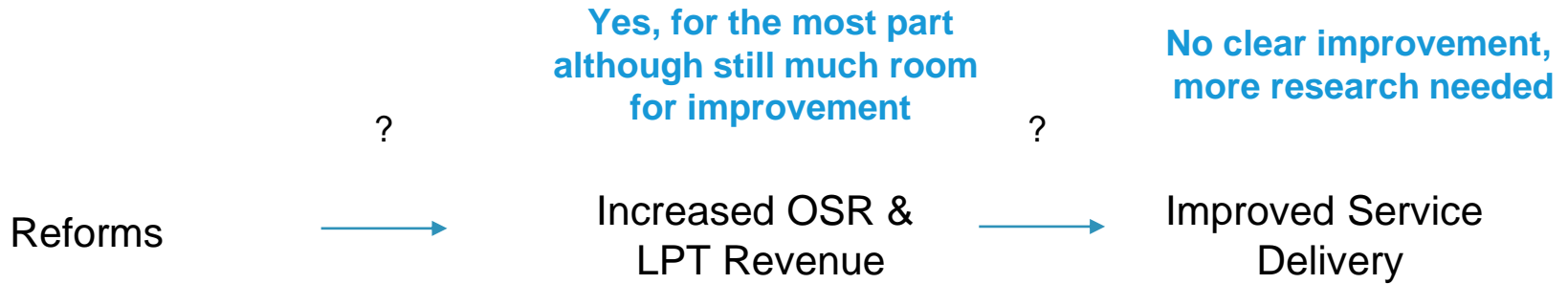
Local Revenues

- Local revenues include transfers, donor funding, debt, OSR
- Transfers not based on clear formula in Puntland
- AIMS and BIMS software introduced in 2008
- IFMIS introduced in 2017
- OSR authority substantial including LPT, service fees, business license, etc.

Land and Property Taxation

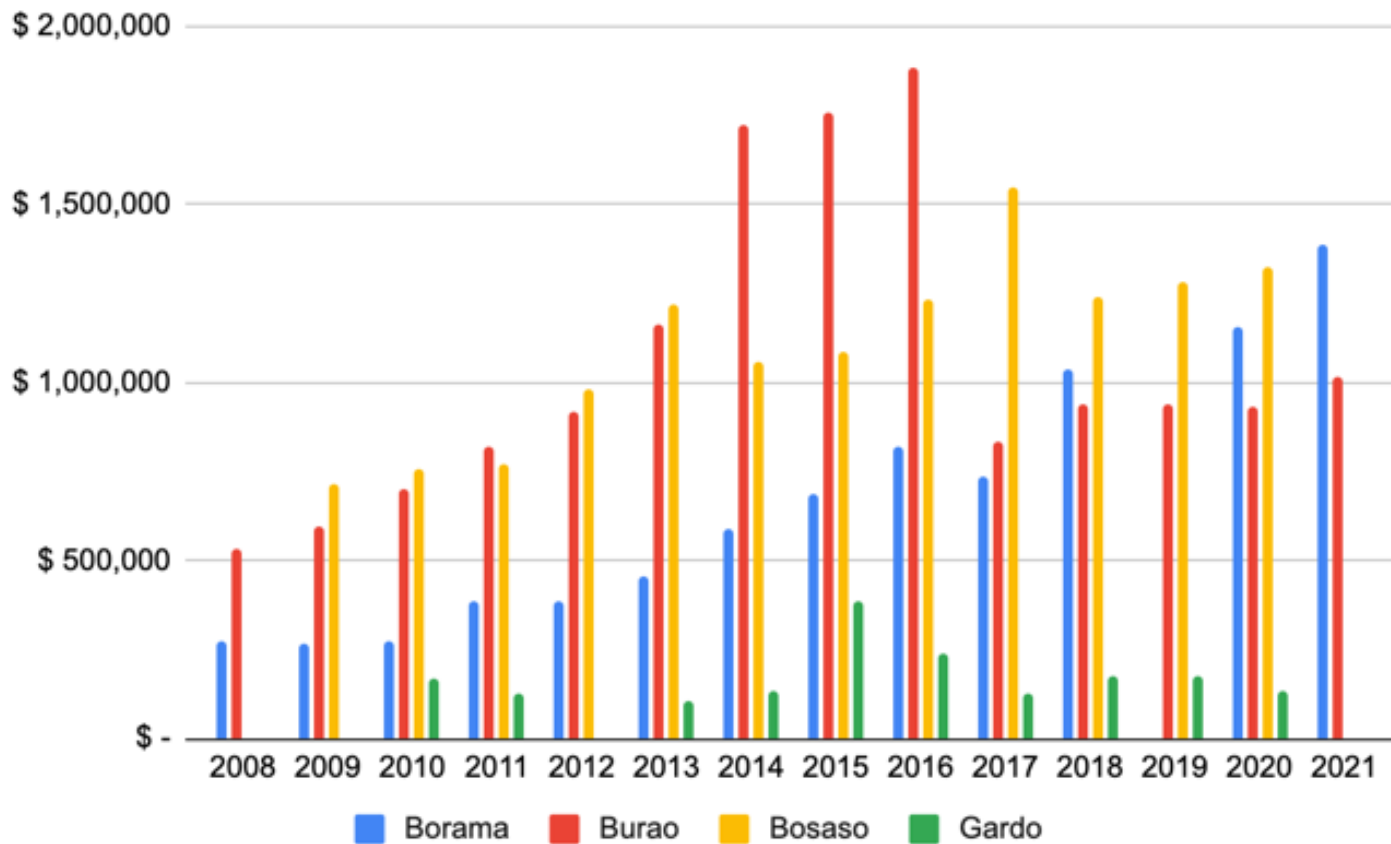
- Taxes on land and property exist separately, plus tax on land transfer
- Property tax based on size of building (plus area-based rates per m²)
- In Somaliland rate is 0.006 USD per m² at the lowest end to 0.16 USD per m² at the highest end
- GIS technology used to register properties greatly increasing database

Results Summary



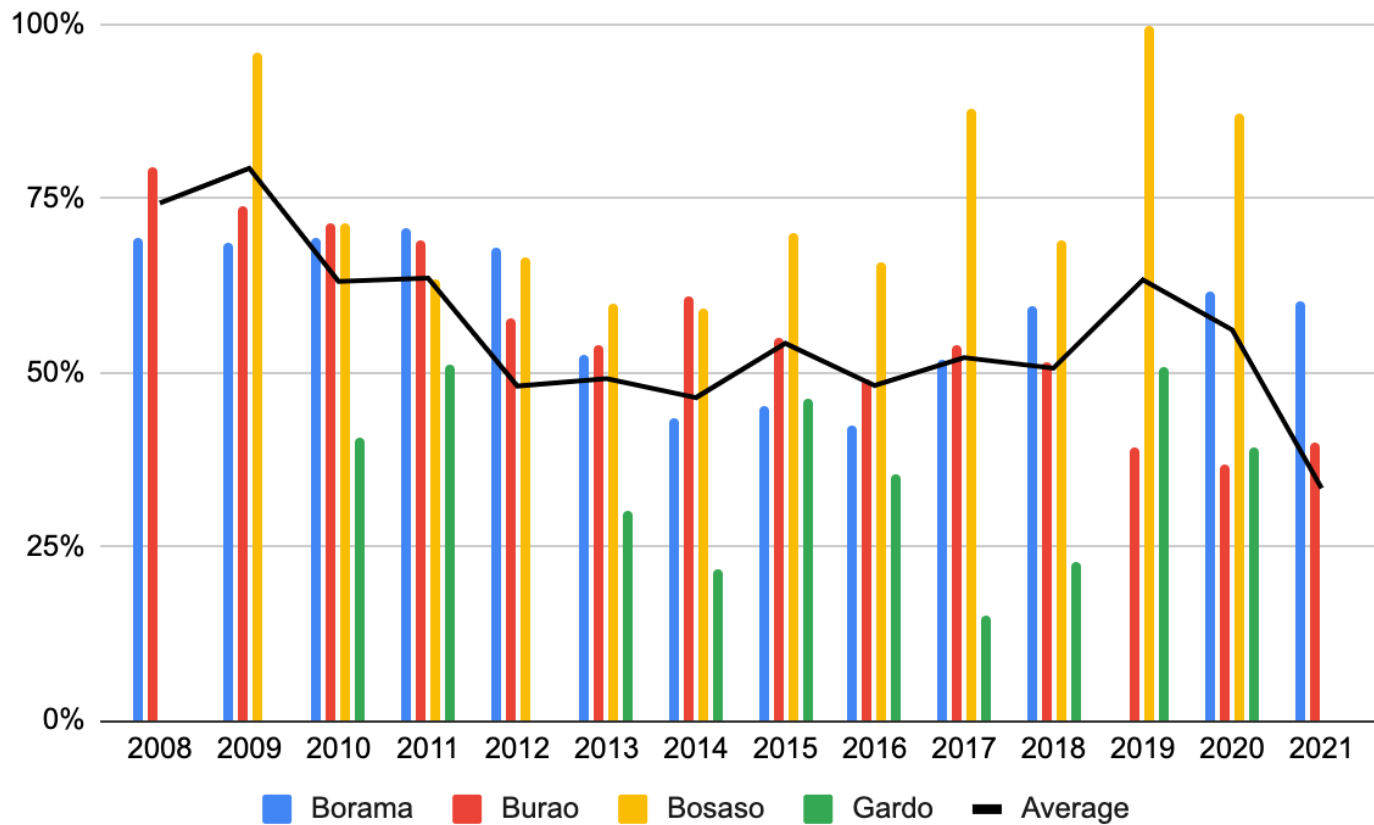
Results - Revenue

Total Annual OSR



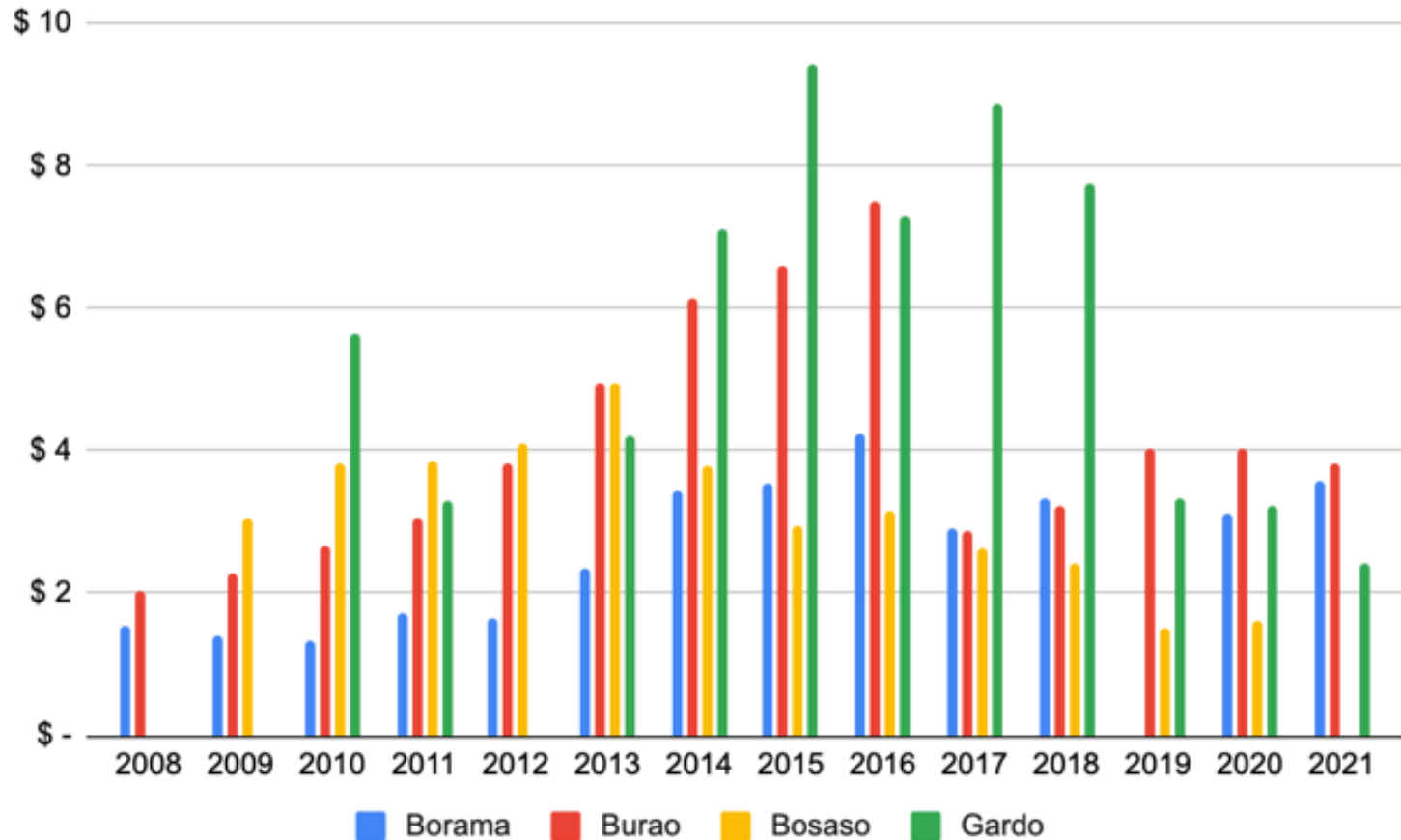
Results - Revenue

Total Annual OSR % of Total Revenue



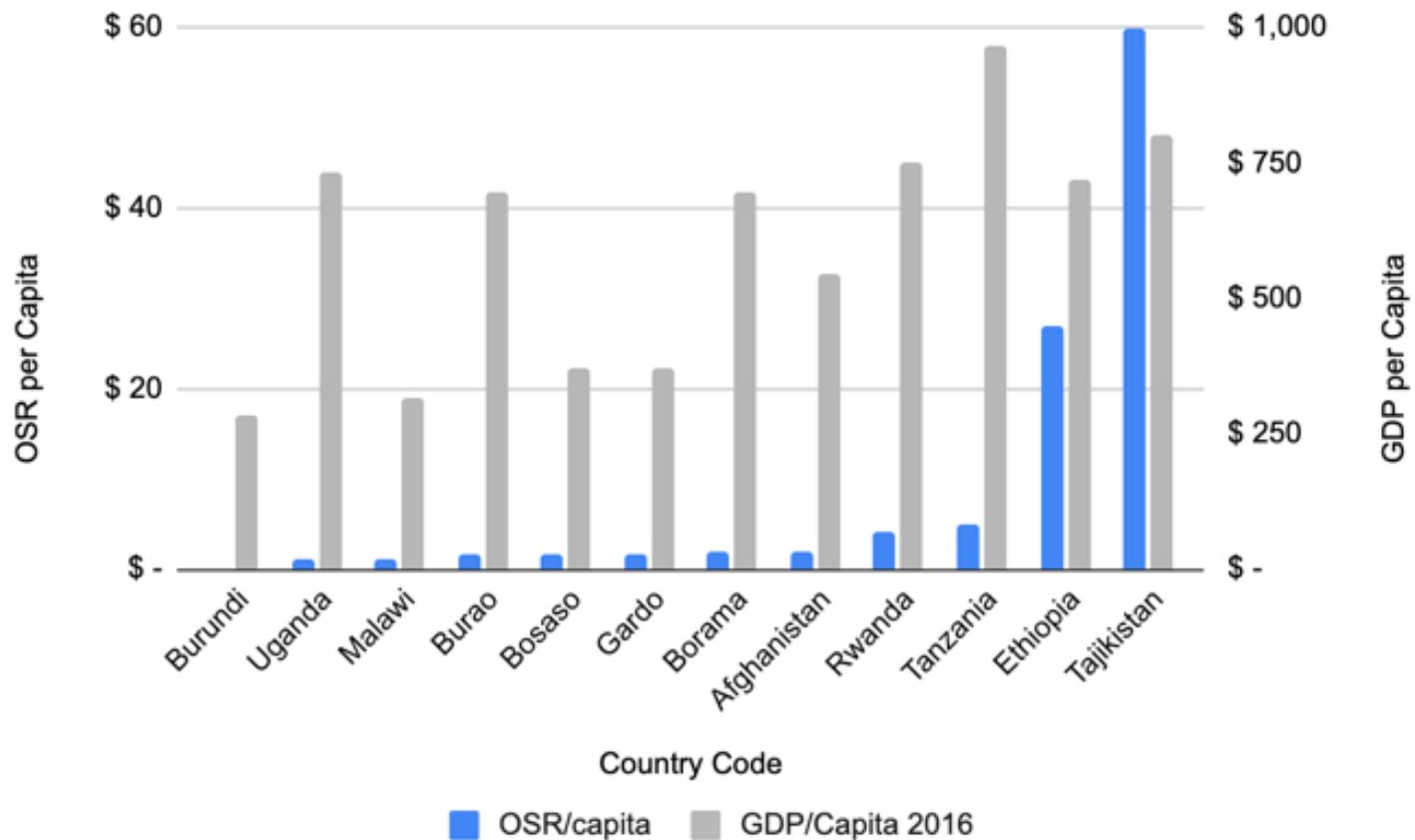
Results - Revenue

Total per capita OSR



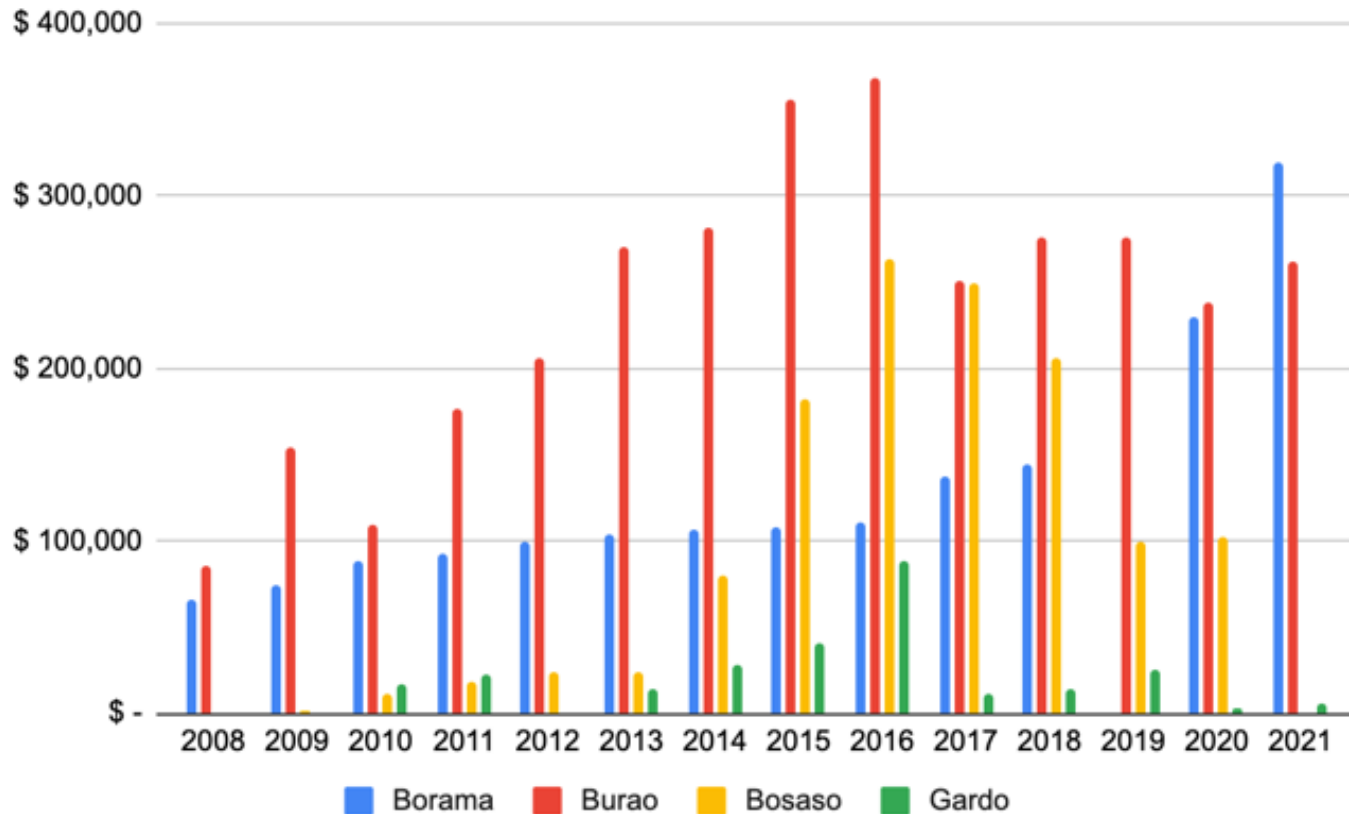
Results - Revenue

Annual OSR per capita peer comparison



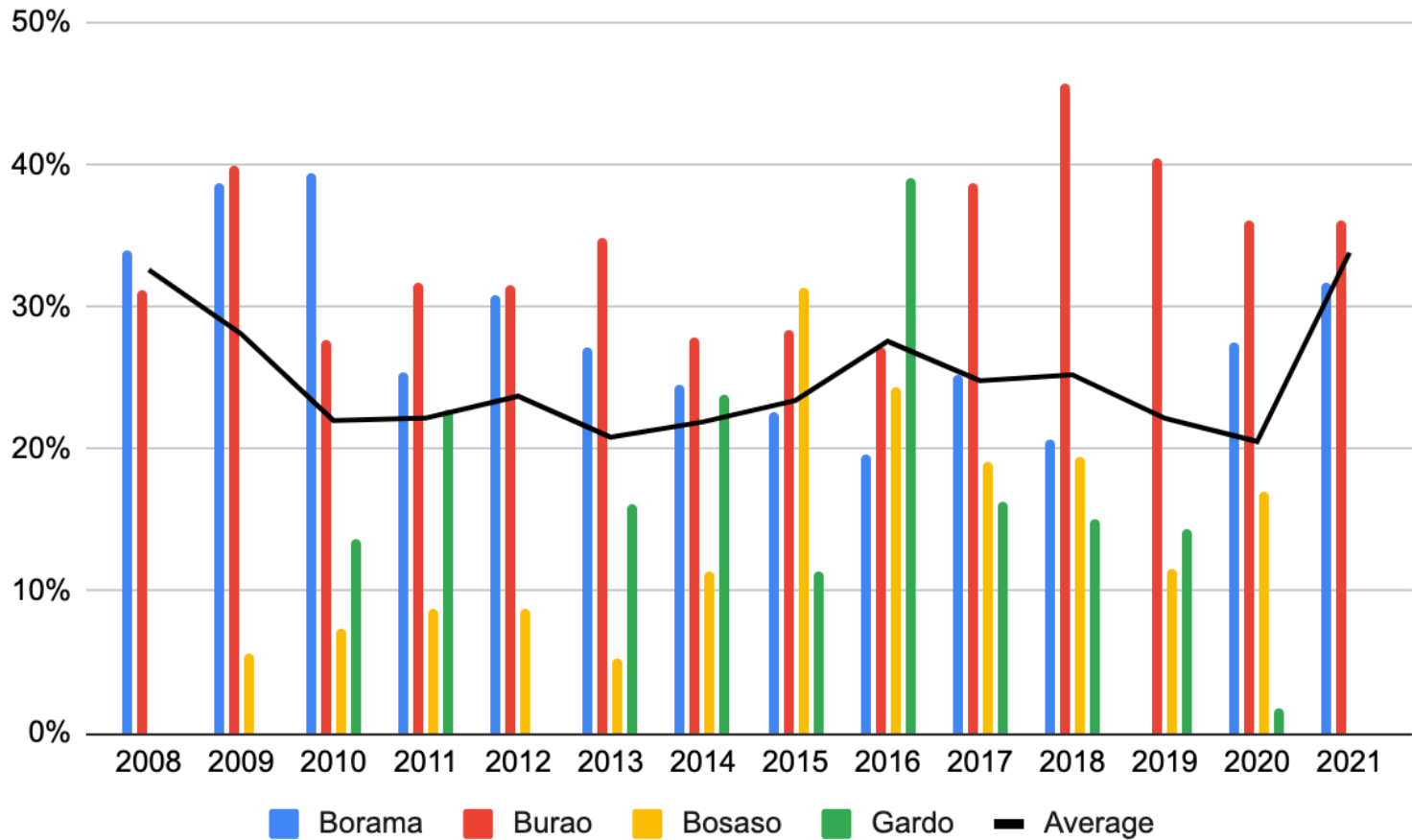
Results – LPT Revenue

Annual Property Tax Revenue



Results – LPT Revenue

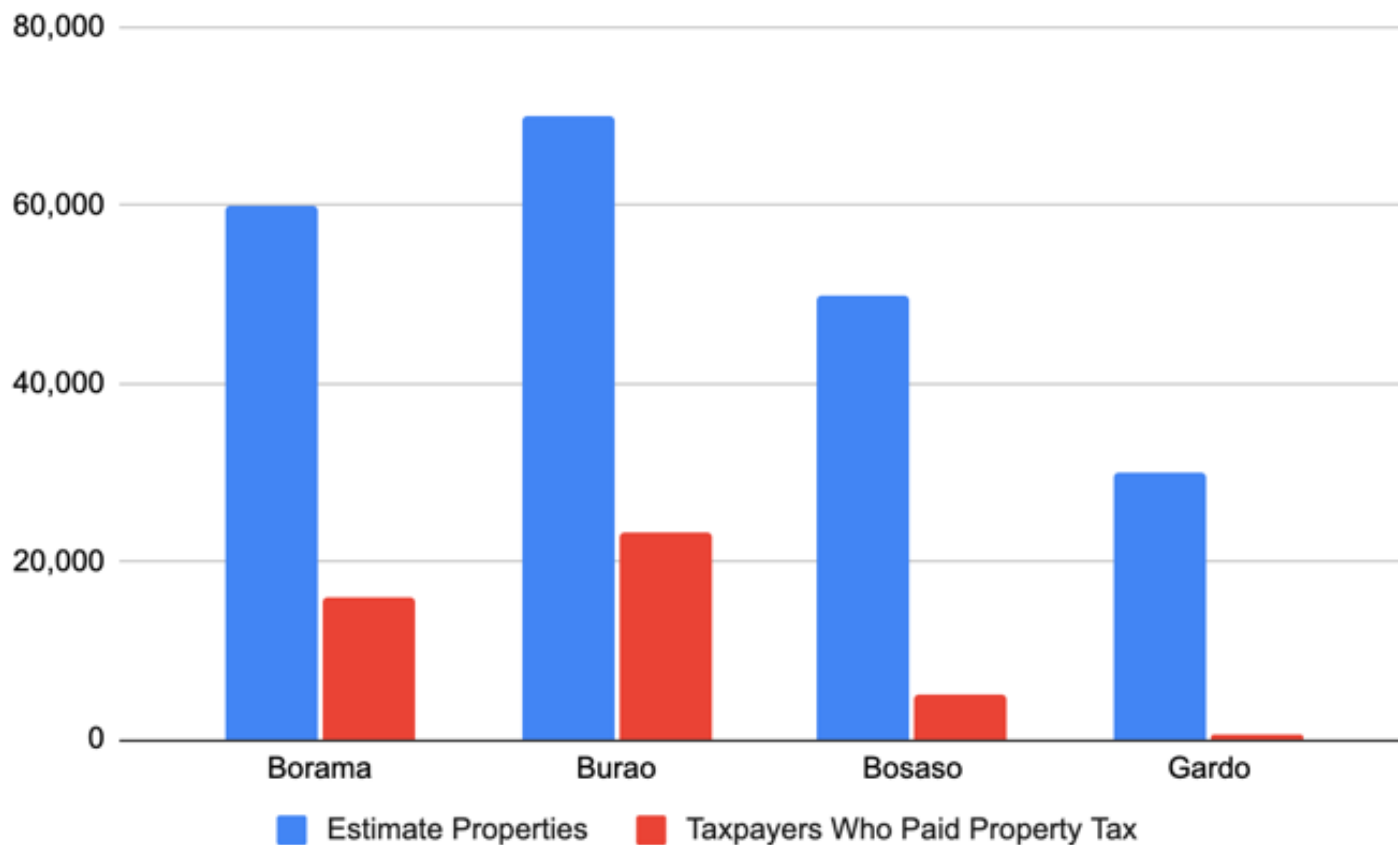
Annual Property Tax Revenue as % of Total Revenue



Results – LPT Revenue

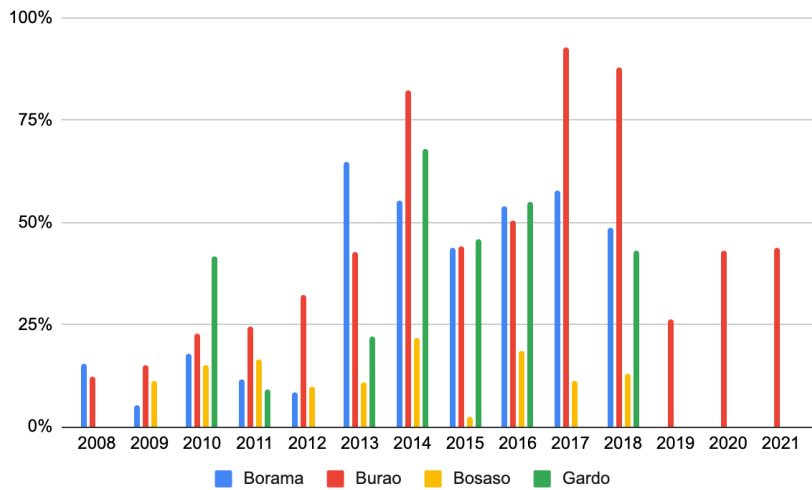
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Compliant vs Estimated Total Property Tax Payers

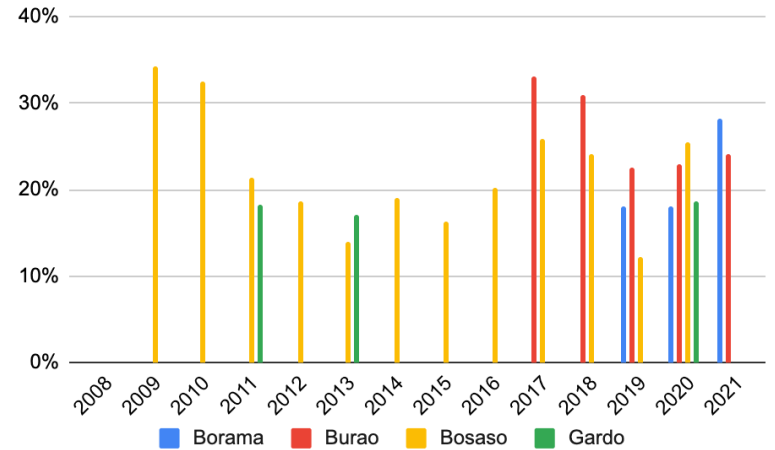


Results Expenditure

Planned Capital Expenditure % of Total Expenditure



Municipal Wages as a % of Total Expenditure



3 Main Explanations

3 Minor Explanations

Revenue increases did not require improved service delivery

- Improvements based primarily on technological changes, more demand notices, larger taxpayer database
- Compliance remains low (below 50%), harsh enforcement measures still needed

Covid

- Covid had an effect on the overall economy
- Covid does not need to break-down the revenue expenditure link

Public expenditure efficiency is not just a determinant of revenue increments

- The way OSR is raised matters. In some districts OSRs like checkpoints were very important (8x higher than LPT revenue) which do not strengthen the social contract
- Fiscal Decentralization system is complex for citizens
- Many factors impact government perception (where overall issues of corruption exist with government, difficult for revenue alone to strengthen social contract)

Local Government Capacity

- Capacity issues were present
- Capacity issues cannot explain ongoing challenges

Improved governance is not always a dominant regime survival strategy at the local level

- Enhancing service delivery is only one of many regime survival strategies
- Service delivery may not be as important as securing key partnerships, appeasing national politics, local elites
- Serious political push-back to improving revenue system in such a way that it would really improve local government perception

Reform Issues

- Reforms issues were observed but these did not have to impact the revenue expenditure link

Policy Recommendations

16

- Strengthen the political incentives for local governments to raise OSR and land and property tax authority
 - Address issues of corruption within tax administration as a priority for local government revenue reform
 - Design simpler fiscal decentralization systems with cleaner distinction between revenue and expenditure assignments of different levels of government and a small but powerful range of OSRs.
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Thank You



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