**Municipal Revenue Generation
Through Property Taxation**
The UN-HABITAT Approach

better information
for better cities
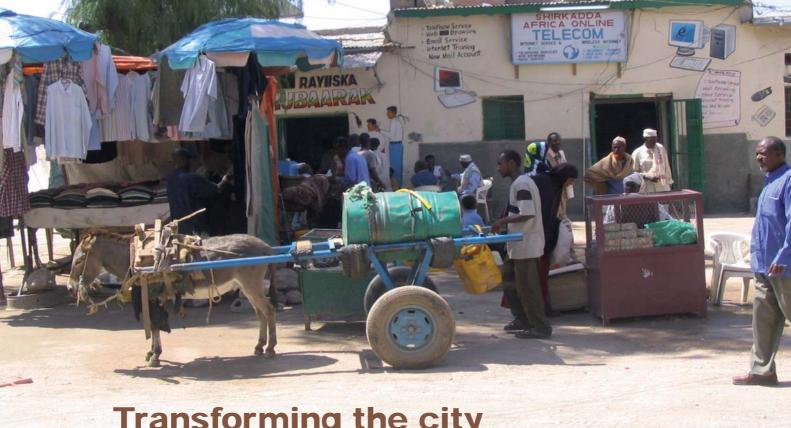
the case of Hargeisa

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Transforming the city
revenue generation through property taxation

A possible solution for neighbourhood improvement

The 1996 Habitat II conference stated that one of the most serious problems confronting cities in developing countries is inadequate financial resources. In 2006, this statement still rings true for developing cities and in particular cities in the Somali post-conflict situation.

Local and central governments require money to provide basic services – electricity, water, sewerage – and address other urban development mandates, like good roads, education and health facilities. Normally, central governments obtain funds through sales and income tax, and local governments through property taxes, development fees and central government funds. The advantage of property taxation over other types of taxation is that properties can be identified easily – this is especially relevant in developing countries where incomes are hard to determine.

The challenge is how to set up an efficient tax collection system, based on property taxation, in a country where the land information is limited, the institutional capacity of the local authorities is weak, and the capacity of the professionals needs to be built.

Hargeisa

Hargeisa is the capital of the self-proclaimed Republic of Somaliland, bordering Ethiopia and Djibouti. In the 1960s, the union of the British Somaliland Protectorate and Italian Somalia saw the creation of the Republic of Somalia. However, a political crisis in the 1980s sparked a major armed conflict in the former protectorate. Following the collapse of Somalia's central authority in 1991, the Republic of Somaliland claimed independence and formed its own government. The war caused large-scale physical destruction, and resulted in the collapse of institutional structures, the widespread displacement of people and a breakdown of the land registration system.

Development indicators rank Somaliland among the poorest and least developed regions in the world. The GNP per capita for Somalia as a whole was measured at US$ 200 in 2001, with an average life expectancy of 47 and an adult literacy rate of 17.1 percent (UNDP, 2001). Legal and institutional structures are gradually improving in Somaliland and Puntland, but the security situation in South-Central Somalia remains volatile.

Hargeisa is the capital of the self-proclaimed Republic of Somaliland

Urban properties and registration: the case of Somaliland

To implement a property taxation system, up-to-date information is needed. Ideally, a land information system such as a *cadastre** needs to be developed. At its heart is a database that records all the properties in a city, registering each structure's size, usage and occupancy. Such a database assists local governments in equitably and comprehensively collecting property tax. Further developed, it can also assist in general land management, resettling people and solving land disputes.

In developed countries, institutional stability has allowed a modern cadastral system to emerge over time. But the Somali regions have lost a generation of professionals and institutional memory, and land records and property data are outdated and incomplete. In Hargeisa, capital of the self-declared Republic of Somaliland, though there is a rudimentary property tax system, there is no cadastral system – the institutional and financial capacity is lacking, as are reliable topographical maps, clear land ownership titles and land legislation.

Because Hargeisa's local authorities lack the data and resources to put into action an effective property taxation system, their revenue is severely limited and they are unable to play their part in developing urban infrastructure. Yet private investment is high. Around the city, there is good quality housing, but roads are unpaved and water, sewerage and garbage collection services are often lacking. This means there is a real need for public work programmes. Even in poorer places like Somaliland, there are opportunities to collect revenue to pay for such neighbourhood improvement projects.

Hargeisa *- Informal dwelling, locally known as a 'buul'.*

Hargeisa *- a neighbourhood in the Kood Buur district, where investment confidence is clearly visible, but roads, services and general public infrastructure do not match the high quality of the houses.*

* A cadastre is normally a parcel based and up-to-date land information system containing a record of interests in land (e.g. rights, restrictions and responsibilities). It usually includes a geometric description of land parcels linked to other records describing the nature of the interests, the ownership or control of those interests, and often the value of the parcel and its improvements. It may be established for fiscal purposes (e.g. valuation and equitable taxation), legal purposes (conveyancing) and/or to assist in the management of land and land use (e.g. for planning and other administrative purposes), and enables sustainable development and environmental protection.

UN-HABITAT approach to property registration

With the goal of using property taxation to generate municipal revenue for public works, UN-HABITAT and the municipality decided to implement a property survey in Hargeisa, which started mid-2004. The plan: to create a database of all the properties in the city, and a methodology for classifying them and developing tax bills.

After careful consideration, it was decided to develop a database with a limited number of variables for each property, essential for determining property tax. A satellite image was used to create a base map identifying all the buildings in Hargeisa, and through rapid field surveys

the characteristics of the structures were collected. All data were stored in a Geographical Information System (GIS) for quick retrieval and mapping. This approach has proven to be fast and relatively cheap. At a later stage the database could be expanded into a full cadastral system.
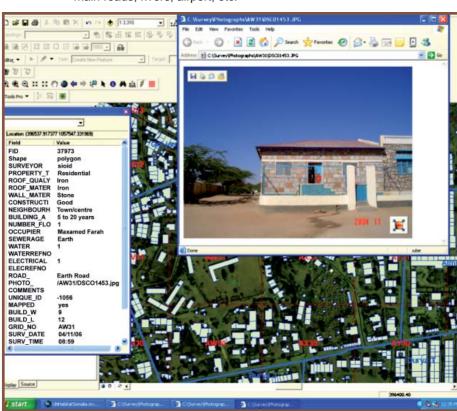
The project has illustrated how a GIS property survey to facilitate property taxation can be done rapidly and cost-effectively, allowing local governments to raise revenue that can be invested in urgently needed public works and services.

A real picture of the city
developing the property database

What is a GIS Property Survey?

The property survey consisted of three main steps:

- Acquisition of a geo-referenced high-resolution satellite image (Quickbird).
- On-screen digitising of the image to create a map showing all buildings and other features such as main roads, rivers, airport, etc.

- Field verification of the spatial database and the collection of attribute data, using pre-programmed handheld computers (PDAs).
- integration of attribute data and spatial information to form the geo-database.

The chosen variables for the property database describe the:

- physical characteristics of the property (dimensions, use, building materials, access to infrastructure)
- occupier (could be different from owner)
- number of residents living in the building

The database is hyper-linked to a digital ground photograph of each property. This photo helps staff verify the database and later facilitates communication with the owners and occupants of the properties.

Computer screen view illustrating the satellite image with the properties marked, and the attribute data, including a hyper-linked ground photo of the property.

Data outputs

The GIS property survey has produced two interlinked data sets: spatial data and attribute data. The satellite image was used as a base map simply because no other base maps were available and the classical field survey option was too expensive. This map is now used for a number of urban planning activities, and demand for prints is high. For example, it can be used to quantify buuls (informal huts), and to identify sites for urban development and the relocation of informal settlements.

Attribute data (building size, number of occupants, land use) are extremely important, essential for defining tax rates and generating correct property

tax invoices. The property database sorts and illustrates other specific information, and can be used to produce such outputs as a population density map. An estimate of the population of Hargeisa was also provided through the survey: 396,000 people (78% in formal properties, 22% in informal properties like buuls). Additional socio-economic data can easily be collected, integrated and mapped.

Still, the focus remains on property taxation, and the information and structures needed for this activity. For example, mapping Hargeisa's administrative divisions (5 districts, 24 sub-districts and 77 neighbourhoods) is vital for configuring the taxation system.
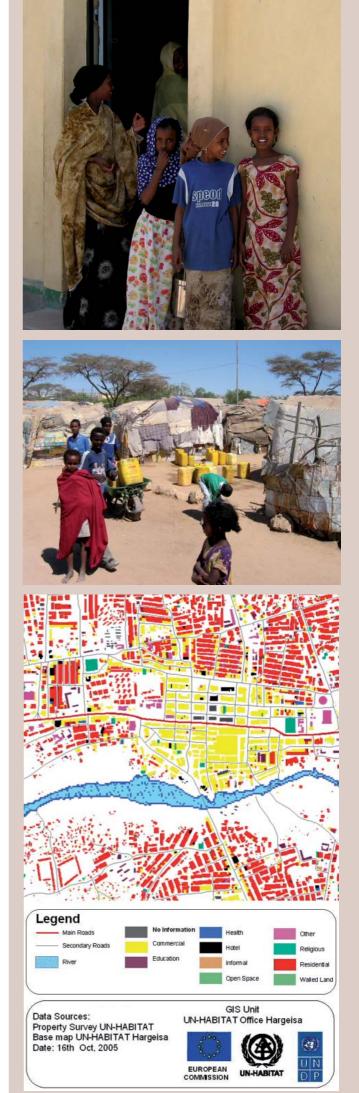
Challenges

Developing large databases is time consuming and costly. Funding for the initial survey investments was a constraint, and only donor support from UNDP made the project possible. The city is expanding rapidly, and maintaining and updating the property database is a challenge – but only a (fractional) percentage of the tax revenues should pay for these costs.

The major difficulty faced in this property survey was rooting the process in the municipal structure. Indeed, GIS projects often have a limited impact because they are not institutionally embedded. For the system to work, all the different municipal, public and private players must together develop and promote the policies and mechanisms for using the GIS data. The extent to which the new, more transparent system is accepted by the municipal staff, especially the tax collectors, is also a key element for the success.

An idea of the costs

The GIS property survey began in mid July 2004 and ended in March 2005. The costs (excluding the equipment, but including the satellite image) were US$ 48,500 (US$ 0.82 per property). The equipment costs (PDAs, office computers, software) are not included in the Hargeisa budget; these items of equipment will also be used for property surveys in other cities.

The innovative character and training component of the project meant that efficiency was initially low but increased considerably in the later stages of the project. It is expected that the cost of surveys in other Somali cities will be around US$ 0.68 per property (excluding equipment). The approach will be similar, but Hargeisa office staff will carry out the on-screen digitising.
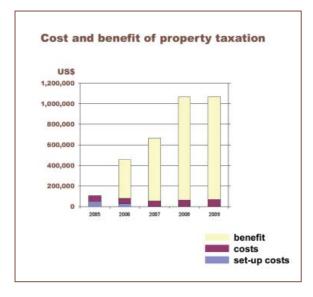

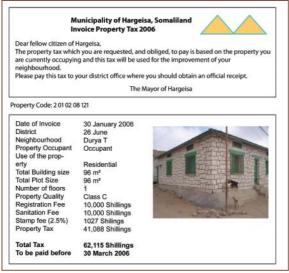Land use for each individual property in Hargeisa.

A new urban system
using the database for property taxation

Tax Rates and Property Classification

Because Somaliland's land and property records from the British colonial times have been neglected, lost or destroyed, developing a cadastre and an equitable, efficient property taxation system requires going back to the basics.

To be able to use the property survey for taxation, decisions have to be taken on who is paying how much.

Cost and benefit of property taxation

In principle, property tax is based on the value and use of the property. But Hargeisa's current tax levels are very low, based on a flat rate that does not reflect the value of the property. For example, a good quality building used as a shop in the city centre pays the same (per m³) as a low quality dwelling on the outskirts of the city.

Flat rates of taxation cannot be justified; if property taxes instead reflect quality, tax rates can be increased for certain properties. The Hargeisa project developed a property classification scheme using three variables from the property database:

- roof materials,
- wall materials,
- road type.

These divide properties into five classes, A to E. Meanwhile, certain facilities (e.g. education, health, government) are exempted from paying property tax, and owners of informal properties are excluded as being too poor.

Municipality of Hargeisa, Somaliland
Invoice Property Tax 2006

Dear fellow citizen of Hargeisa,
The property tax which you are requested, and obliged, to pay is based on the property you are currently occupying and this tax will be used for the improvement of your neighbourhood.
Please pay this tax to your district office where you should obtain an official receipt.

The Mayor of Hargeisa

Property Code: 2 01 02 08 121

Date of Invoice	30 January 2006
District	26 June
Neighbourhood	Durya T
Property Occupant	Occupant
Use of the property	Residential
Total Building size	96 m²
Total Plot Size	96 m²
Number of floors	1
Property Quality	Class C
Registration Fee	10,000 Shillings
Sanitation Fee	10,000 Shillings
Stamp fee (2.5%)	1027 Shillings
Property Tax	41,088 Shillings
Total Tax	**62,115 Shillings**
To be paid before	**30 March 2006**

Example of a tax bill - *These invoices are easily accessible in the property database. However, to physically identify the properties, each will have the property code installed on the outside wall of the property on a metal plaque.*

An idea of the rates

The Municipality of Hargeisa has a database of 15,850 properties that are invoiced for US$ 145,000 per annum, but the current flat rate of tax, applied to all properties in the new database, will generate US$ 440,000 annually.

Starting in 2007, a new tax rate will be applied using the new property classification scheme. The new database has 59,000 properties. Of these, 50,000 can be taxed, generating a tax income of US$ 710,000 annually.

These 2007 rates are still well below international rates and could be raised for the following year, but this depends on political will and the support of the community.

Community and Government Roles

For a property taxation system to be sustainable, it is essential that it be linked to area-based policies for the development of public works – the inhabitants of a property want to see their taxes resulting in a visibly improved environment. Citizens must not only support the idea of taxation, but also participate in deciding how their money is used. At the same time, a legal system should be in place (municipal by-laws) to provide enforcement.

A small portion of the collected taxes must be used to pay for staff salaries and for the administrative system that will maintain and update the database, and collect, register and enforce the payment of taxes. The challenge is to have the system established as a continuous and cost-effective process, run by municipal staff without dependence on external expertise or funding. There must be a constant cycle: database maintenance → billing → tax collection → public works investments

A transparent, centralized accounting system has been installed, and operational and hard copy invoices are being generated. Crucially, districts receive and distribute the tax bills, register taxpayers and generate official receipts (people will pay at district offices, rather than to field tax collectors).

Municipal staff and UN-HABITAT staff working on the taxe bills

Delivering of the tax invoices to one of the 5 Hargeisa District Offices

Explanation of tax bills and property codes to the tax collectors

Into the future

The GIS property survey and database of Hargeisa as described above covers only part of a land administration system or cadastre. It facilitates the levying of property tax but cannot be used for legal applications and land disputes (it is a fiscal cadastre, not a legal cadastre). It can be seen as a first step; the next steps will similarly require political will, institutional maturity and a willingness to cooperate and exchange information.

Our overall approach focuses on a long-term process embedded in local institutions rather than a short-term project. The challenge ahead is to expand the property database with additional land information (parcel size, ownership, value) and to disseminate information on tenure, value and use of land. These actions will lead to land policies for good land management, ultimately enhancing development.

UN-HABITAT activities in the Somali region

UN-HABITAT has been active in the Somali urban sector since the late 1990s. Project approaches have evolved from targeting immediate needs at the local level to more systematic attempts to address sustainable urban development, with an emphasis on more open, participatory and consultative urban governance. In parallel with the *Support to Priority Areas in the Urban Sector* (SPAUS) *Programme*, UN-HABITAT implemented the *Good Local Governance and Leadership Training Programme*, a capacity-building programme in 16 towns and districts designed to improve the leadership and management skills of local authorities. The SPAUS programme is being integrated into the new *Urban Development Programme* (SUDP), which started in April 2005.

The **SUDP** functions as an umbrella programme for all interventions in Somali cities. UN-HABITAT is the lead agency, and its partners are UNA, ILO, WFP, Novib and UNICEF, each of whom contributing in their field of specialization. The three main components addressed are (1) governance, including legal and institutional reforms, strengthening municipal governance and the role of civil society; (2) urban management, including strategic planning and development controls, land management, municipal finance, delivery of basic services and local economic development; and (3) the implementation of local projects by local consortia, building on the two capacity-building elements already mentioned. The programme is funded by European Commission, and co-funded by UNDP, Government of Italy, Government of Japan, UNICEF, DFID and WFP.

contacts

The UN-HABITAT Regional Office for Africa and Arab States, Nairobi

Mr. Alioune Badiane, Director
alioune.badiane@unhabitat.org; Tel: + 254 20 762 3075

Mr. Mohamed El Sioufi
Senior Human Settlements Advisor
mohamed.el-sioufi@unhabitat.org; Tel: + 254 20 762 3219

SUDP
Mr. Maurizio Pieroni, Chief Technical Advisor
sudp@unhabitat.org; Tel: + 254 20 762 5030

UN-HABITAT Hargeisa
UN-Habitat.Hargeisa@unhabitat.org; Tel: + 252 252 8695

UN-HABITAT Garowe
UN-HABITAT.Garowe@unhabitat.org; Tel: + 252 5 846709