

# Opportunities and Challenges of Property Tax Reforms for Localising the SDGs

DeLoG Webinar

Organized by the Addis Tax Initiative (ATI), the Norwegian Agency for Development Cooperation (Norad) and the Development Partners Network on Decentralisation & Local Governance (DeLoG)

Wednesday, 19 May 2021

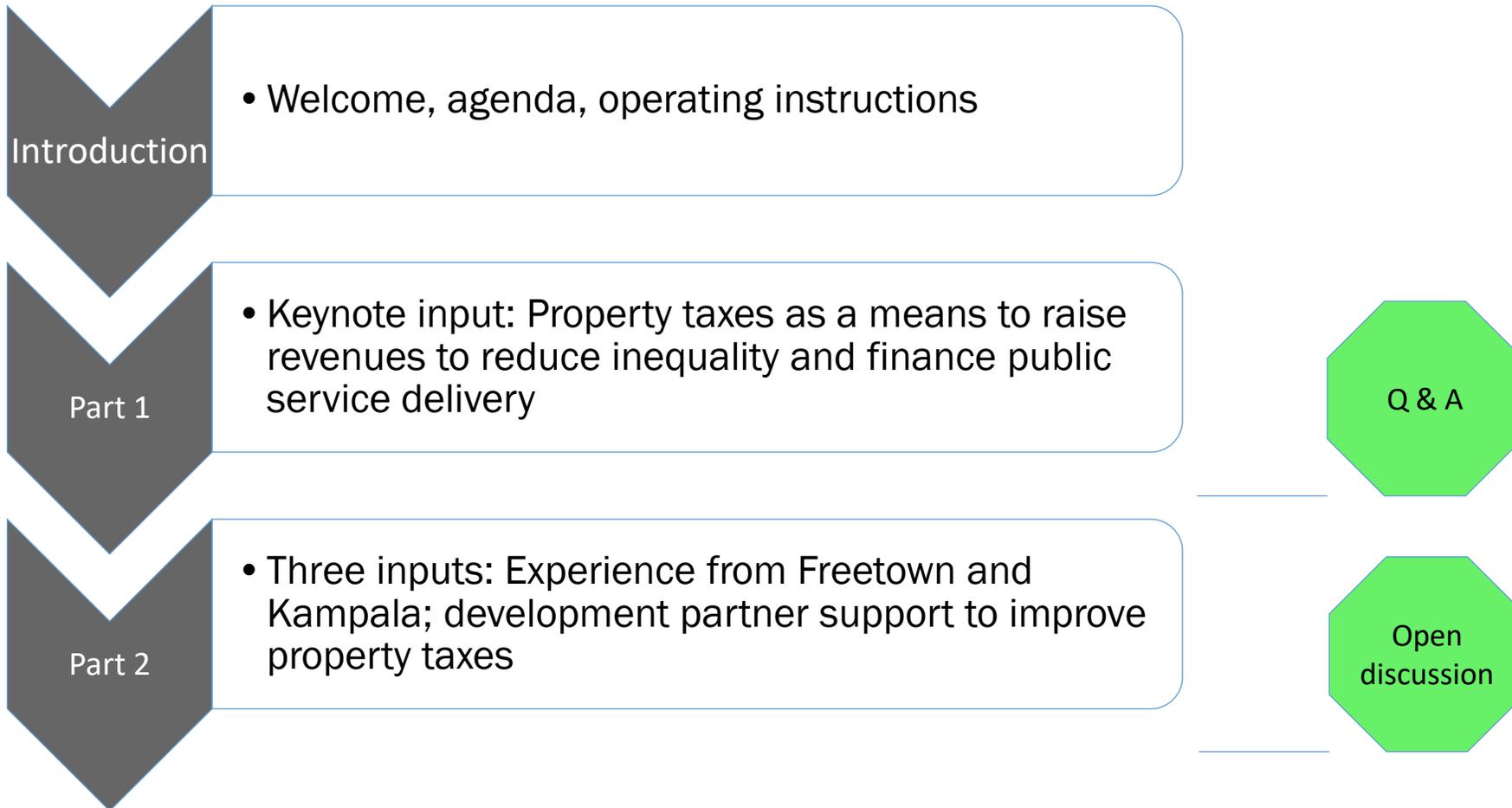


Norad



DECENTRALISATION &  
LOCAL GOVERNANCE

# Agenda



# Timetable

Agenda item	Duration
Opening	5'
Part 1: Keynote input	15'
Questions from the audience	10'
Part 2: Three different perspectives	30'
Open discussion	30'
Closing	

*Duration of webinar: 90 minutes*

## Keynote input

What role can property taxes play as a means to raise revenues to reduce inequality and finance public service delivery?

**Wilson Prichard** – Chief Executive Officer, International Center for Tax and Development (ICTD)



# Property Taxes, Inequality and Subnational Service Delivery



**Wilson Prichard**

CEO, ICTD

Chair, African Property Tax Initiative/Local Government Revenue Initiative (LoGRI)

Associate Professor, University of Toronto

May 19, 2021

# Why Property Taxes?

- ▶ **Revenue shortages, regressive burdens:** Subnational governments in LICs face resources constraints for meet front line service delivery needs, often filling those gaps with regressive and often informal levies
- ▶ **Unlocking the potential of decentralization:** decentralization promises government closer, and more accountable, to citizens – but that depends on having own source revenues, and collecting taxes in ways that engage citizens
- ▶ **Around the world property taxes provide the backbone of subnational revenues:**
  - **Revenue potential:** In many OECD countries 2-3% of GDP, but less than 0.2% of GDP in most LICs. Administratively straightforward (observable, fixed location), natural buoyancy
  - **More economically efficient:** Does not distort work and investment decisions, recaptures gains from public investment
  - **More progressive:** Property owners usually richer, replace highly regressive subnational taxes
  - **Improved accountability:** Directly links taxes to infrastructure and services, can prompt popular engagement

# Weaknesses of Property Taxation

- ▶ Incomplete and inaccurate property rolls
  - Incomplete property registers
  - Ineffective and unequal valuation
  - Significant collusion and corruption
  
- ▶ Significant policy weaknesses
  - Widespread exemptions that undermine the tax base
  
- ▶ Ineffective data management and administration
  - Weak distribution, and tracking of compliance
  - Cumbersome and poorly regulated payments systems
  - Limited enforcement

# Technical Barriers

- ▶ **Property registration:** Reliance on formal cadasters *prior to* property taxation presents a major technical and political hurdle to complete property registration
- ▶ **Valuation:** *Expert driven market valuation* is high cost, time intensive, untransparent and prone to abuse and errors in contexts of illiquid and opaque property markets; *simplified area-based systems* lack equity and revenue potential; *complex CAMA models* are untransparent, difficult to understand and difficult to implement in complex urban environments
- ▶ **Data Management and IT systems:** Many systems remain manual, but transitions to automation have often been problematic: high costs, poor “fit” and change management, fragmentation, “lock-in” and poor sustainability, opaque markets
- ▶ **Legal and institutional barriers:** Existing laws sometimes erect barriers to adopting alternative approaches, while institutional fragmentation hinders coordination around reform

# Political Barriers to Reform

- ▶ **Resistance by taxpayers:** Particularly from economically and politically influential individuals, but also in particular from “property rich, income poor” groups
- ▶ **Resistance by administrations:** Reform can threaten existing roles and influence, as well as undermining informal revenue streams
- ▶ **Resistance from central governments:** Resistance to local governments gaining greater fiscal autonomy, competition for overlapping tax bases

# Potential and Opportunity



- ▶ **Political opportunity:** Post-covid governments are looking for new revenue sources, focused on those more able to pay, creating a window of opportunity.
- ▶ **Expanded technical understanding:** Recent success piloting reform strategies that are tailored to the capacity, institutional and political environments of lower-income countries, and new investments in learning, resource development and experience sharing.
- ▶ **More politically informed approaches to reform:** Growing understanding of needs, and opportunities, to navigate politics (e.g. attention to administrative incentives, strengthening revenue-services links, reform models that can mobilize popular support, reducing fragmentation)
- ▶ **Expanded donor engagement:** Historically support has been heavily informed by technical perspectives from wealthier countries, and frequently fragmented and untransparent - new engagement offers space to adopt locally-appropriate solutions and improve dialogue, coordination and transparency

**Merci Beaucoup!**  
**Thank you!**

Keynote input

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Questions from the audience

## Property taxes in Freetown

What can fellow local governments learn from Sierra Leone's capital for catalysing property taxation for local revenue generation?

**Rosetta Wilson** – Financial Management Advisor, Mayors Delivery Unit, Freetown





# **Property Tax Reform as Part of the *#TransformFreetown* Agenda**

**Rosetta Wilson**

*Financial Management Adviser to the Mayor of Freetown  
and Sector Lead for Revenue Mobilisation*

19<sup>th</sup> May 2021



# Transform Freetown Through 11 Priority Sectors Using an Inclusive Approach

WHAT

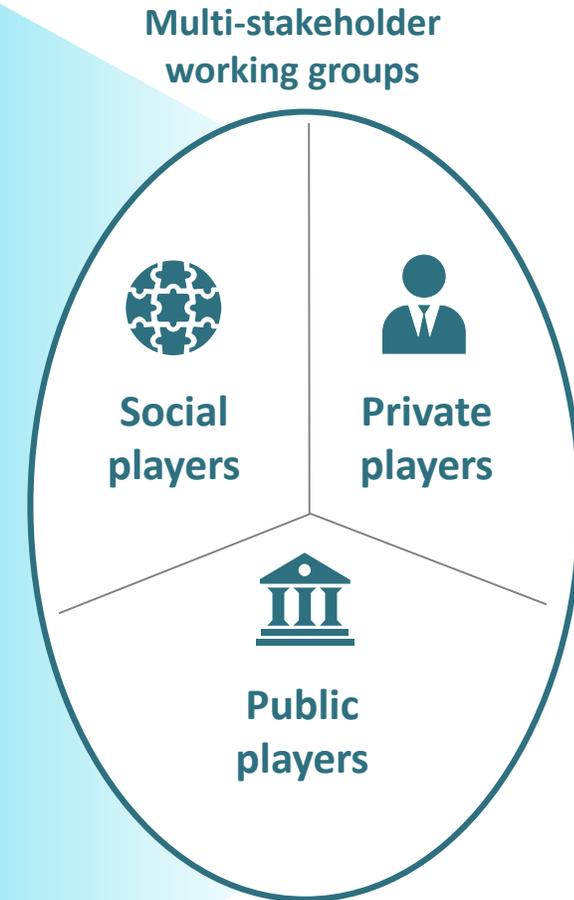
HOW

WHO

4 Clusters 11 Priority Sectors



Transform Freetown!

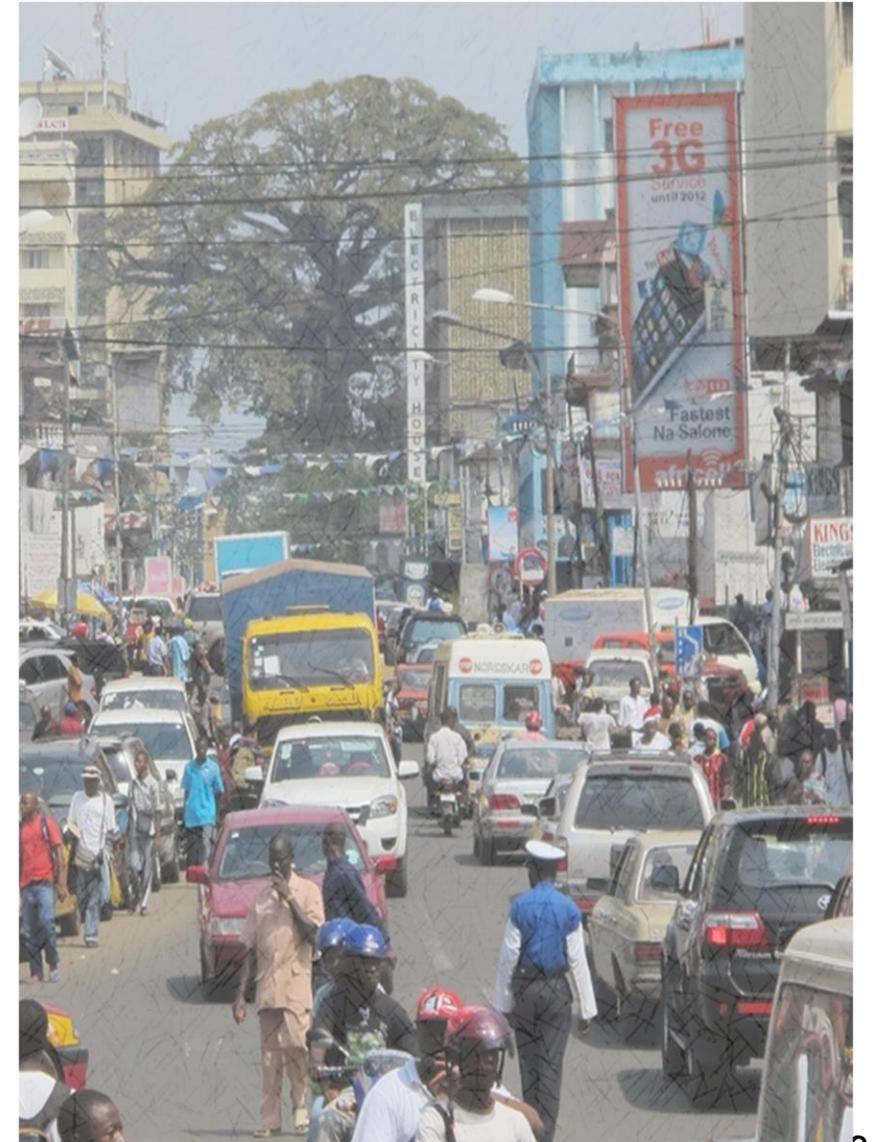




# Background on the Reform: *The Target*

In order to deliver essential services for Freetown, Transform Freetown has **two targets** for revenue mobilization:

1. Increase tax revenue five-fold from Le 7 billion to **Le 35 billion** by 2020
2. Double non-tax revenue from Le 3 billion to **Le 6 billion** by 2020





## Background on the Reform: *The Baseline*

- Under **50%** of properties were captured in the database and even fewer were being taxed
- Valuation of properties were **hugely out of date and mainly** area based
- **Primarily manual** property tax administrative system and process
- Lack of a comprehensive **address system**
- Need for a transparent and equitable basis for property assessment
- **Sustainability and resilience** in generating **own source** revenue to improve service delivery.



# Property Tax Reform: *The Approach?*

Geo-mapped the city and referencing of properties using PlusCodes



**PROPERTY RATE DEMAND NOTICE 2020**  
To the Owner,  
Mrs. Amin Theresa Macarthy  
You are hereby served this Demand Notice for the payment of the Freetown City Rates Property Rates for the year January 2020 to December 2020. This notice is pursuant to the Local Government Act 2004 Part VIII Section 69. Please read this notice carefully.

Property ID	FCC007646	Address	Hal Street 19
Ward	433	Plus Code	KCV95Q24-35
Property Class	Domestic		
Roof Line Measure (sq ft)	2800.63		
Number of Floors	1.75		
Total Rateable Surface Area	4,901.10		
Surface Area Value (square root of rateable surface area) [A]	70.01		
Base Value [B]	231,859.13		
Initial Assessed Value [C] = [A] x [B]	16,231,864.00		
Total Adjustments [D]	678.37%		
Assessed Annual Value [E] = [C] + [D]	159,483,284.00		
Mill Rate [F]	3%		
Property Rate Payable	Ls. 4,754,006.00		
Payment Made	Ls. 0.00		
Penalty	Ls. 0.00		
FY2020 Balance Owed	Ls. 4,754,006.00		
Past Arrears (upward amounts from previous years)	Ls. 0.00		
Total Payable (rounded down)	Ls. 4,754,006.00		



\*Payments Made: If you made an interim payment towards your property rates for FY2020 you are required to bring your receipt to the FCC in order to have it credited to your new account.

\*\*Penalties: Because RDNs are being distributed later than usual in FY2020, to allow the introduction of the new system, quarterly payments are not required this year. Property Rate Payable is due on or before September 30, 2020, after which the Owner is deemed to have refused or neglected to pay. After that date, late payment charges are applied at 5% of the unpaid amount, and rate payers will be subject to default actions directed by the Local Government Act 2004. This year, early payments are encouraged. For RDNs paid in full before July 31<sup>st</sup> 2020 the FCC will provide a credit to your account worth 5% of the payment. This amount will be deducted from your FY2021 RDN.

\*\*Arrears: Note that any arrears owing under the previous property rates system remain valid and will again appear on rate demand notices next year—please consult your FY2019 rate demand notice or contact the Rates Department at FCC for arrears owing for this year.

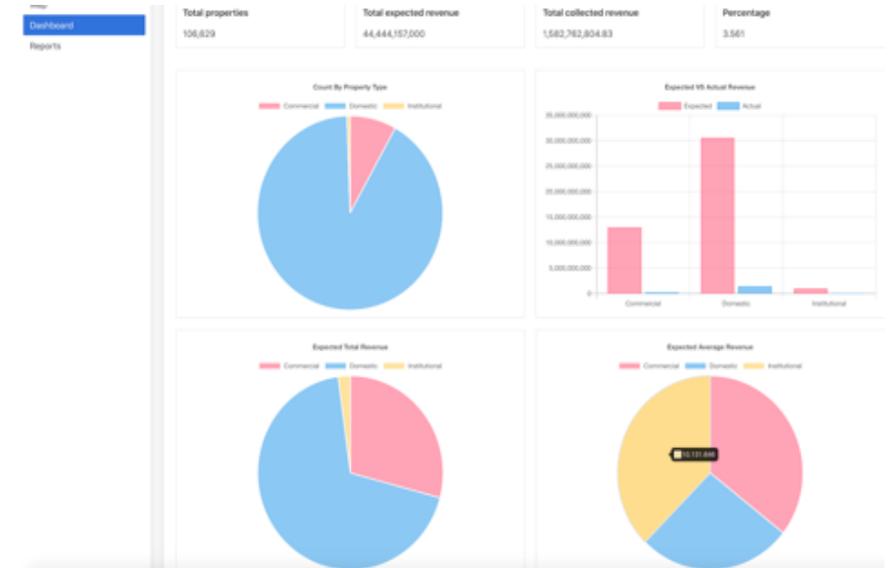
Full details on how to make payments are listed on the back of this notice. Please bring this notice, and the accompanying Payment Advice Slip, with you to make payments.

Ms. Yvonne Aki-Sawyer  
*Yvonne Aki-Sawyer*  
Mayor of Freetown

Mr. Festus Kallay  
*Festus Kallay*  
Chief Administrator

Introduced a new valuation system using a points-based approach taking into account size, type and quality based on property features (including location) instead of purely area-based method

Automated systems and processes including the property tax database, delivery and payments





# Background on the Reform: *The Outcome*

- Successful introduction of fully streamlined and automated system
- Over 100% (from 57,000 to 160,000) increase of properties in the database, including businesses located within those properties
- Assessment of property values in a more equitable, transparent and progressive way
- Five-fold increase in revenue potential, mainly driven by large increases in assessment for previously undervalued high-value properties
- Increased revenue collection for the city





# Property Tax Reform: *Lessons Learnt*

- **CONSCIOUS AND DELIBERATE** efforts to bring on board all stakeholders and commitment to managing change
- **SENSITISATION** on all relevant aspects of the reform
- Political commitment and engagement
- **CREATE** strong partnerships and outsource if needed
- **EMBRACE** innovation and technology
- **IDENTIFY** areas of capacity building and develop a plan for training
- **ESTABLISH** an outlet for taxpayers to query and appeal
- **REMAIN** flexible and be ready to think outside the box, without compromising on core principles
- **STRONG** leadership to navigate the reform
- Support from development partners
- **BE PATIENT** and be ready for the long haul!

## Property taxes in Kampala

What can fellow local governments learn from Uganda's capital for catalysing property taxation for local revenue generation?

**Samuel Sserunkuuma** – Director  
Revenue Collection, Kampala Capital  
City Authority (KCCA)





**Catalyzing Property Tax for Local Revenue Generation**  
**Presentation By**

**Samuel Sserunkuuma**  
**Director Revenue Collection**

Together we can transform Kampala city

# Background

- ❑ The administration of property rates is governed by the Local Gov't Rating Act 2005.
- ❑ The Ratings Act 2005 provides for exemptions such as Owner occupied properties, Houses of worship, residences of religious leaders, the President, diplomatic missions and designated cultural leaders.
- ❑ Property rates presently account for approx. 38% of the City`s non tax revenues

# Property rates reforms undertaken

- Automation of property valuation and rates administration; GIS, mass valuation, property numbering, smart permit etc
- Dedicated unit for taxpayer engagements and sensitization
- Segmentation of taxpayers; creation of Premium office
- Client relationship management/Portfolio Management
- Banded system of rates administration

# Property rates reforms undertaken

- Infrastructure development
- Enhanced debt management; enforcement on defaulters, instalment arrangement, litigation
- Curriculum development
- Dedicated unit for arrears management, audits and inspections of collection processes

# Challenges

- Unfavorable and ambiguous exemption regime
- Costly valuation exercise compounded
- Perceived double taxation on properties; property rates vis-à-vis rental income tax
- Inability to pay on account of low occupancy
- Poverty as properties are the only source of income for low income earners
- High rate of objections arising from inability to attend valuation court
- Tax payer expectation gap
- Limited participation of political leadership in rates administration
- Inadequate recovery mechanisms within the law

# Way forward

- Linking services to tax efforts
- Enhancing the regulatory framework
- Enhancing collaboration with local politicians in revenue mobilization

# VNG International's approach to improving property taxes

What are success factors  
and how have countries  
implemented it?

**Siebe Stellingwerf** – Project Manager  
Taxation, VNG International





# Making local taxes less taxing

VNG International approach to  
improving property taxes



# Introduction

1. Introduction VNG International
2. Local Tax Hub projects
3. Integrated approach for a systems change



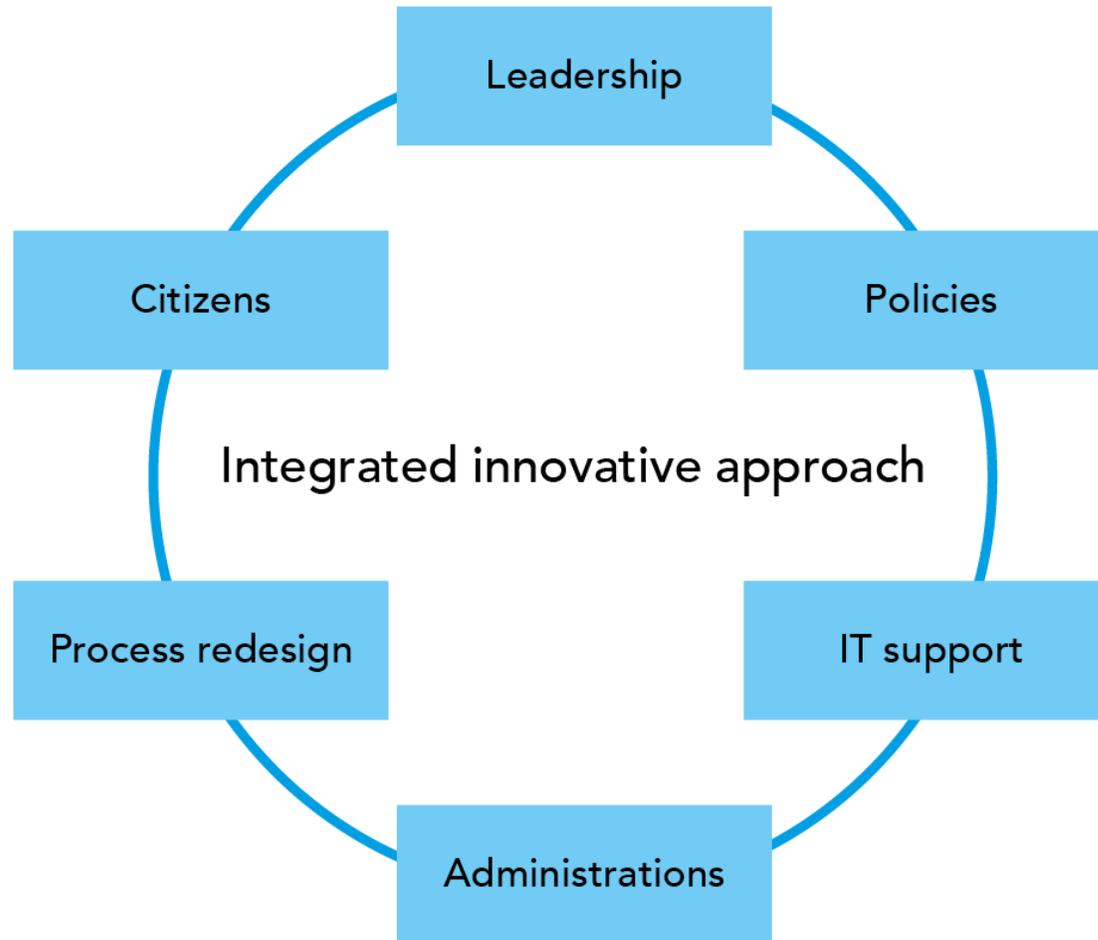
# VNG International

- VNG International is the International Cooperation Agency of the Association of Netherlands Municipalities (VNG).
- 150 FTE in The Hague and local offices combined
- $\approx$  30 mln Euro turnover; 40% Dutch MFA, rest international donors
- Projects in more than 40 countries, 9 local offices

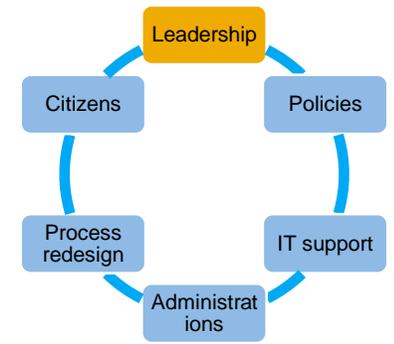


- Ghana Tax Revenue for Economic Enhancement (TREE) – Dutch MFA – 2018-2022
- Ethiopia Water Pricing – Dutch Min Economic affairs – 2019 - 2023
- Decentralization of Property Tax in the Palestinian Territories – Dutch MFA – 2019 – 2022
- **Smaller projects with local tax components:**
  - ULGE Ethiopia – EU – 2021-2025
  - MAGIC Myanmar – EU - 2019- 2022
  - LACEP Zimbabwe – EU – 2018 -2022
  - IDEAL Uganda – Dutch MFA – 2017 -2021
  - Kosovo Civil registration – EU – 2017 - 2020

# Integrated approach for a systems change

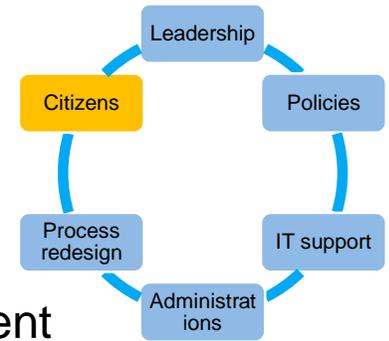


# Leadership involvement



## Strategic coaching

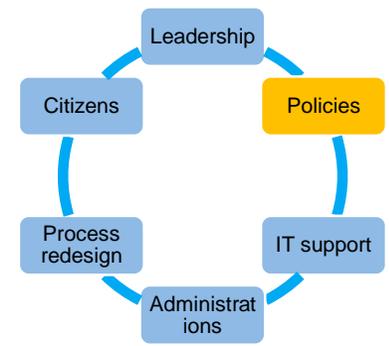
- Focused on interaction between governments and citizens
- Public financial management training
- Transparency of financial information
- Public meetings for accountability over the revenues



## Communication development

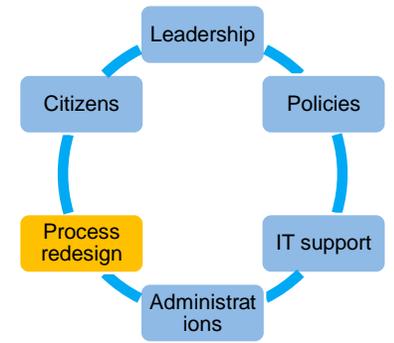
- Supporting public events for public priority setting
- Developing communication strategies in districts and local governments
- Organising stakeholder forum
- Radio and Community Information Centres





## Improved policies

- Enforced collection where necessary
- Legal steps: disputes and appeals
- Waivers and write-offs for who is unable to pay
- In close cooperation with the existing policy

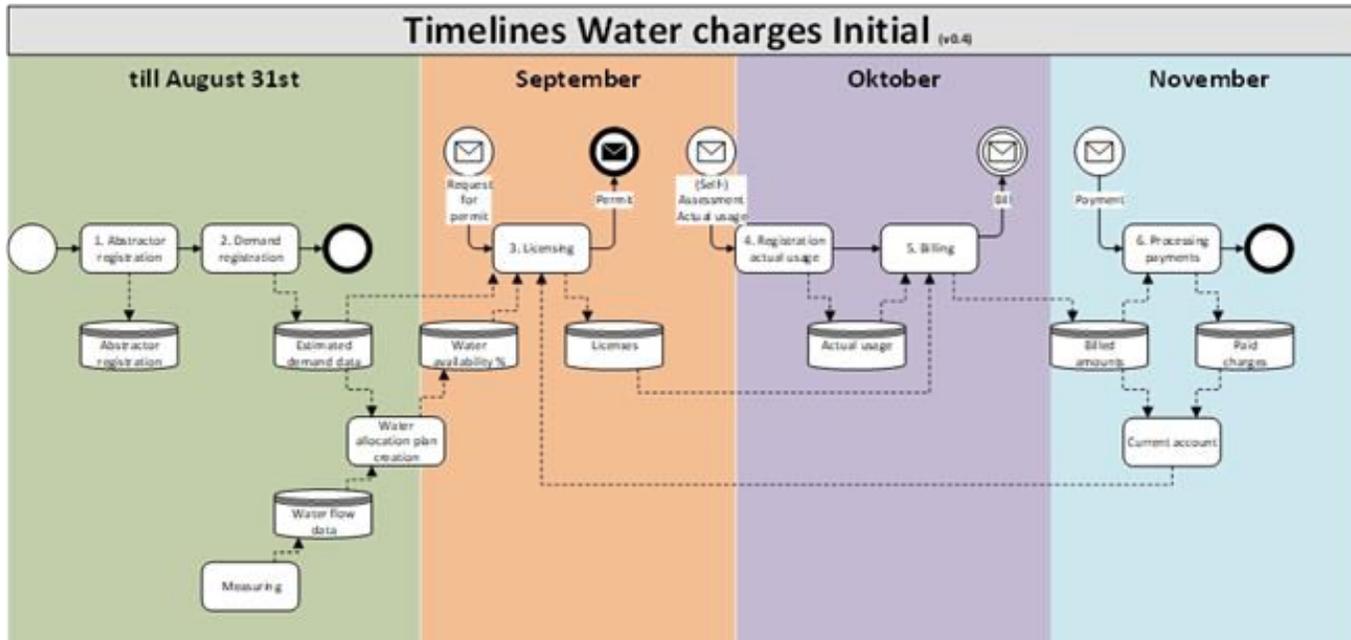


## Process redesign

Based on assessment of current situation

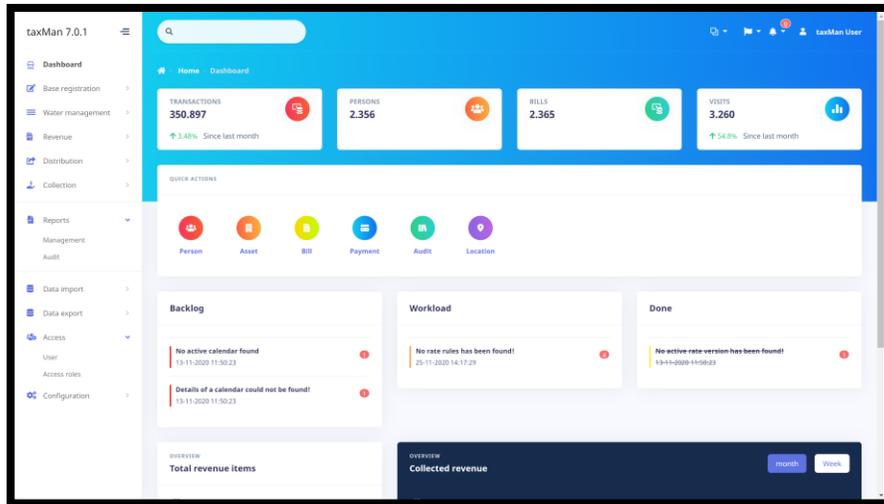
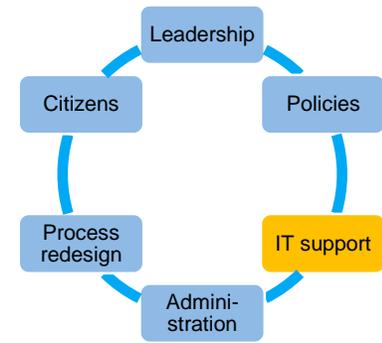
Optimal local tax process:

- Process flows
- Process descriptions
- Work instructions
- Training materials
  - Management
  - Operational staff
- Monitoring & reporting



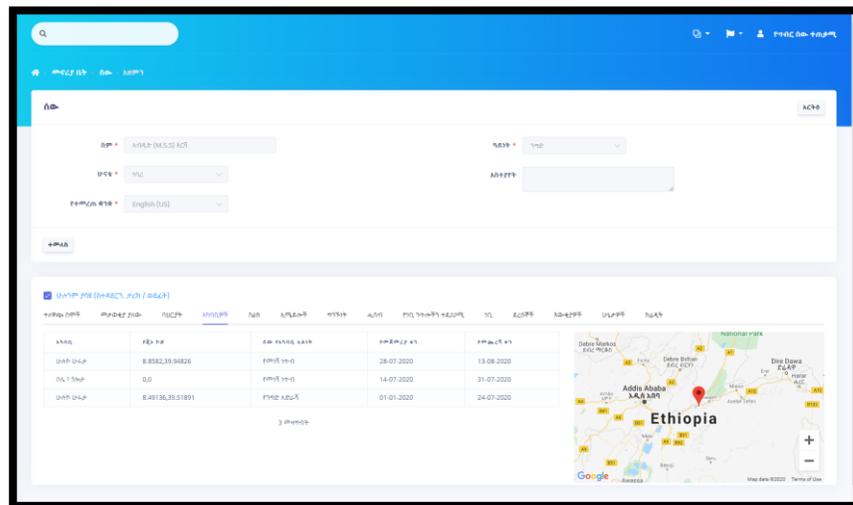


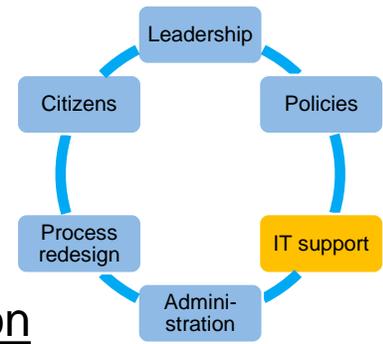
# taxMan administrative system



## taxMan software

- taxMan administrative software for local revenue
- Aimed result: fitting IT-support for the newly designed processes, with additional functionality to the current local IT system :
- IT functionality based on:
- New processes
- Fit for purpose
- Open source based – no license costs
- Not overly complex

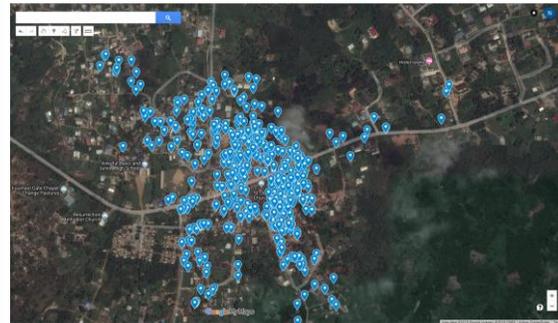
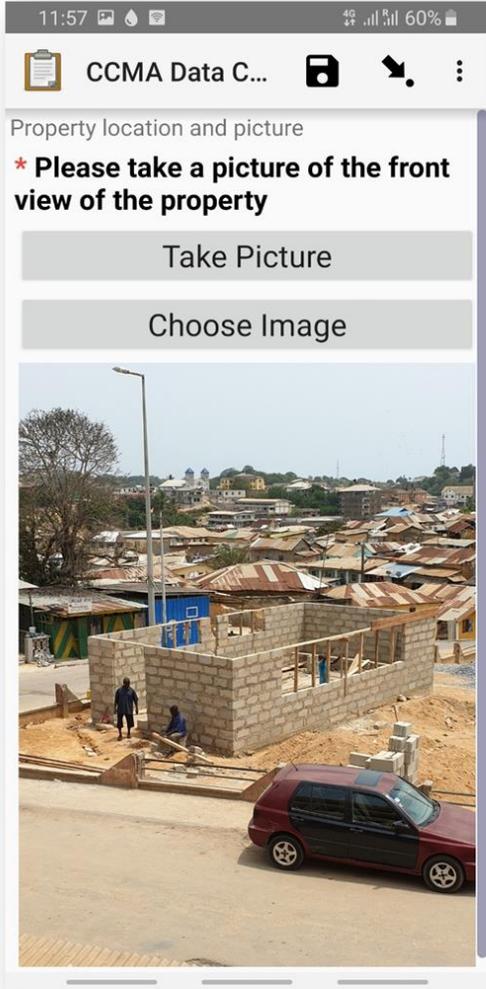




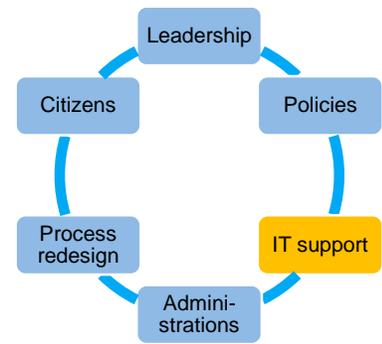
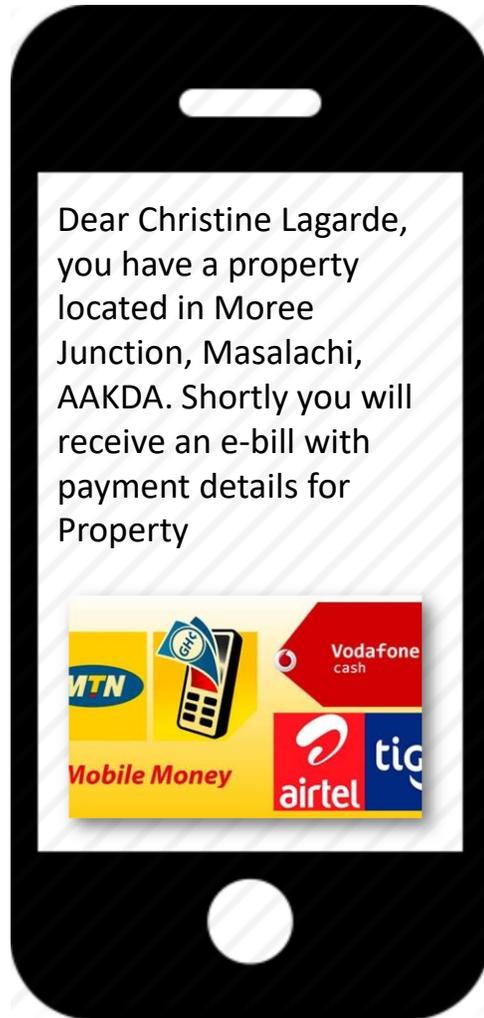
## Automated data collection

Location App for data collection and revenue collection collects information on:

- Property location
  - Satellite navigation
  - Street name and house number (if available)
  
- Administrative information
  - Owner details
  - Property characteristics



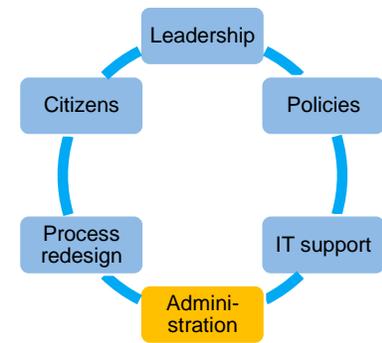
IT support



## E-billing

- The tax payer dials the short code that is stated on the electronic / paper bill
- The tax payer enters the bill-id received in the SMS and/or printed on the bill, the amount to be paid and approves
- Provider forwards all data to relevant municipality via online
- Money is transferred to bank account of municipality daily

# Administation systems with clear monitoring capacity

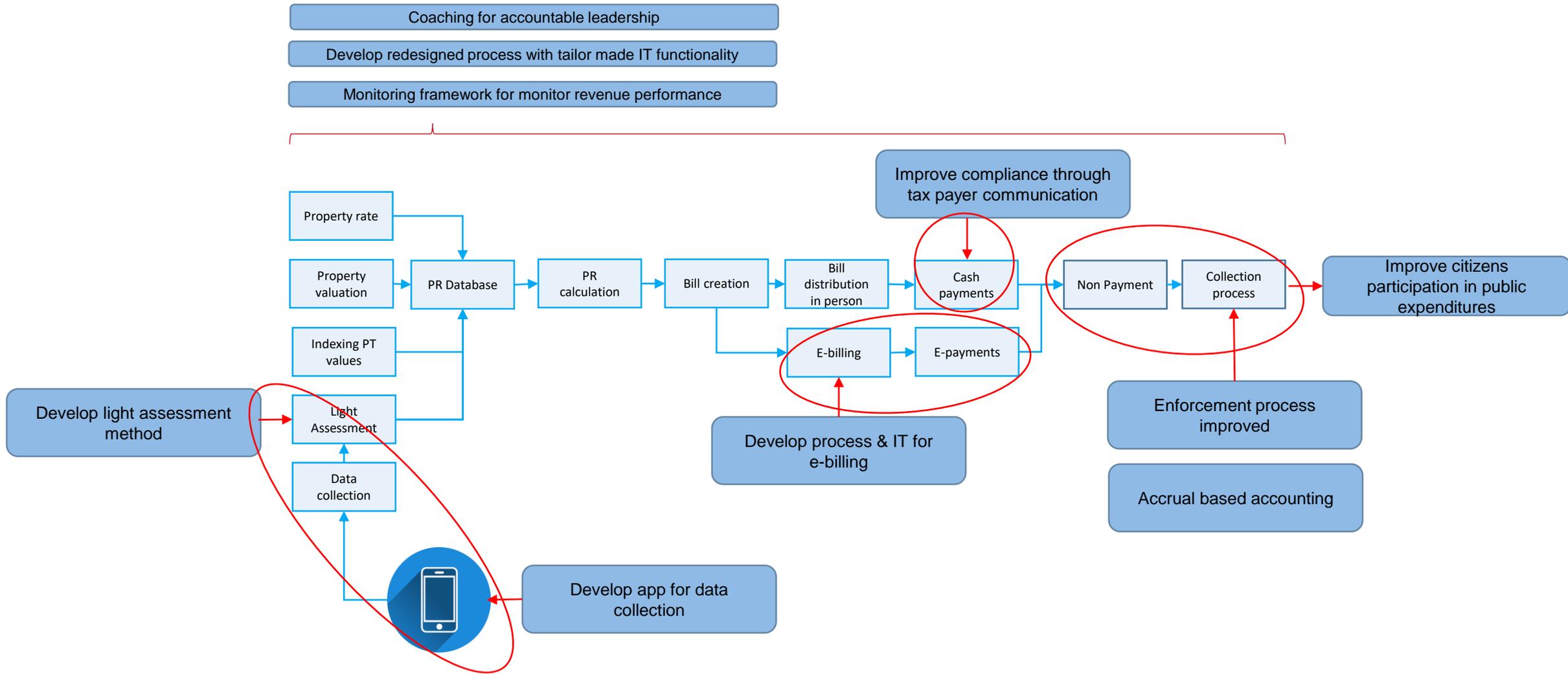


Actuals	2020							2019	2020
	Q1	Q2	Q3	Q4					
Billable properties	6.272	6.272	▲ 5.050	▲ 6.193				1.439	6.193
Billed properties	5.356	5.511	▲ 5.050	▲ 5.440				1.439	5.440
<b>% bills generated</b>	85%	▲ 88%	▲ 100%	▲ 88%				100%	88%
Revenue potential bills generated (GHc)	369.105	▲ 378.334	▼ 381.893	▼ 376.914				79.213	376.914
Revenue potential per bill (GHc)	68,91	▼ 68,65	▲ 75,62	▲ 69,29				55,05	69,29
Paper bills distributed	0	▲ 1.398	▲ 2.540	▲ 2.601				733	2.601
% Bills distributed of billable properties	0%	▲ 22%	▲ 50%	▲ 42%				51%	42%
e-Bills distributed	0	0	▲ 2.238	▲ 2.238				0	2.238
Payments in taxMan									
Number cash payments	0	0	▲ 296	▲ 304				0	304
Amount cash payments (GHc)	0	0	▲ 18.470	▲ 19.068				0	19.068
Number e-Payments	0	0	▲ 6	▲ 7				0	7
Amount e-Payments (GHc)	0	0	▲ 275	▲ 311				0	311
% GHc paid vs billed in taxMan	0%	0%	▲ 5%	▲ 5%				0%	0
Payments according to MMDA	0	0	▲ 27.663	▲ 38.914				16.736	38.914
Payments vs Revenue potential	0%	0%	▲ 7%	▲ 10%				21%	10%

## Monitoring framework

- Peer to peer technical assistance to support the systems change
- Monitoring framework for supervising authorities to continuously monitor and intervene where necessary
- This will help supervisory committee to gain insight in differences between municipalities and target interventions

# Collection led methodology



# Challenges

- Political commitment at central level: to promote local DRM and fiscal autonomy
- Political commitment local level: willingness to increase accountability and transparency
- Technical: working with existing data versus new data collection methods

## The local tax team worldwide:

In Ghana:	In Palestine:	In Ethiopia:	At headquarters:
Mawuena Dotse	Bashar Jumaa	Kidist Bekele	Vaidas Valikonis
Bless Darkey	Luai Khalaf	Tegenu Zerfu	Peter Jongkind
Michael Brenu	Saleh Khalailah		Henri Ten Broeke
Hamza Brawa			Siebe Stellingwerf
Doreen Awuku-Dei			Miriam Collaris
			Thymen Ballering



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**Lead business architect:** Henri ten Broeke  
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# Open discussion

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# Comments and questions from the audience

## Closing of webinar

Thank you for participating

For questions and to stay in touch:



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