

# FINANCING THE EXPANSION AND DELIVERY OF URBAN SERVICES



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## IN BRIEF

- » Growing cities have the potential to raise productivity in Rwanda and accelerate reductions in poverty. However, to do so, municipalities will have to raise revenue to finance urban infrastructure and services.
- » This paper analyses policy options for increasing municipal revenues to finance urbanisation.
- » The researchers recommend changes to the property tax system to ensure that more of the private gains to public improvements are captured.

Growing cities have the potential to help lift Rwanda out of poverty to prosperity. However, elevated municipal finance will be needed in order to manage Rwanda's rapid urbanisation effectively. The Ministry of Finance and Office of the Presidency asked the IGC to host a conference which would stimulate discussion on the most important issues for Rwanda's urbanisation. The Ministry of Finance and Economic Planning (MINECOFIN) requested that one panel address the challenges of urban financing.

The researchers analysed policy options for the Government of Rwanda to raise much-needed local government revenues to finance successful urbanisation.

The study highlights the relatively 'low hanging fruit' of property taxes, and improved grant and debt-based financing, and also clarifies principles of on- and off-budget financing. Amongst many other issues, it highlights that property values often rise 10-20 fold as cities grow, and that Rwanda's tax rate is about one tenth the typical rate applied internationally, highlighting the potential for private developers to contribute, and for urban development to become partially self-financing.

This work helped catalyse a deeper review of property taxation and planning (including later IGC work with the Rwanda Revenue Authority/MINECOFIN).