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Property taxes

Exploring the untapped
potential for the city of
Hargeisa



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Property Taxes: Exploring the Untapped Potential for the City of Hargeisa

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Executive Summary

Hargeisa, the capital of Somaliland, is a rapidly growing city. It is the largest city in a heavily decentralised political system. As a result of the system, the city is responsible for delivering a large number of services and investing in infrastructure. In the past years, the city government has made significant improvements in raising own-source revenues. However, at just over 8 million USD in the FY 2016, overall collection is still low and far from being sufficient to meet the growing needs of the city. Therefore, the city government is looking at further way to increase their revenues.

Property taxes, for many developing cities, represent one of the largest untapped potentials for collecting revenues. Therefore, in the past years, there has been an increasing focus on reforming these tax systems across the continent. Property-related taxes already are some of the most important taxes, in terms of revenue yield, for the city. To date, there are four main property-related taxes that are levied, by both local and central governments.

To increase the potential of these taxes, this paper outlines policy considerations for reform of the system. These include:

- Improving the administration of property tax: This includes consolidating the amount of taxes, reducing the number of valuation bands, harmonising tax collection with central and local government and ensuring that the exemptions are transparent.
- Expand data collection: Data currently collected as the basis of the property tax system is through a GIS valuation done in 2006 and currently being completed in 2017. In order to evaluate the potential tax gap and to benchmark tax rates. Furthermore, land registration will also support increased revenues as well as provide other benefits for the growth of the city.
- Reforming the system to better capture increases in value: Currently land and property taxes are calculated on an area basis with minimal location characteristics incorporated. Keeping the banding simple is a good idea and the move to a fully value based system is not desirable for the current circumstances in the city. However, more intermediate valuation systems and ones that better link the tax transparently to annual property price increases, through regular valuation, will better capture value and may thus be considered.

Introduction

As African cities are rapidly growing, the question of how to finance the necessary investments in infrastructure and services is becoming increasingly pertinent. Therefore, cities are now looking at expanding their local revenues. In this context, one of the favoured local taxes across the world is the property tax. All African countries, with the exception of Burkina Faso and Seychelles, already have some form of property tax in their legislation. The question now is how to reform these systems from a policy and administrative perspective to ensure cities are realising their revenue potential. This will be essential to financially support the on-going rapid urbanisation.

In Hargeisa, the capital of the self-declared independent country of Somaliland, property related taxes already make up the highest proportion of local taxes collected. However, at just over 8 million USD in 2016, total overall local revenue collection remains low, particularly compared to the developmental needs of the city. Therefore, the Hargeisa city government is now exploring further ways to enhance its own-source revenues by reforming the municipal finance system more generally and potentially, more specifically, its property taxes specifically. This policy brief, building upon the working paper *An Overview of Municipal Finance in Hargeisa, Somaliland*¹, provides a more in-depth analysis of the current state of property tax and policy considerations to improve its future potential in the context of the growth of the city.

Context

Hargeisa in addition to being the capital city, is also the largest city in Somaliland. It currently consists of five main districts, three small districts and four villages and is the backbone for the Somaliland economy overall. Currently, Hargeisa accounts for about 85% of all inland revenue income for the whole country (Cossio-Muñoz 2015). With a population of an estimated 1.5 million people, it is also the location of over a quarter of the country's population, which is about 4 million people. The city itself was built around the main river Maroodi Jeex, which although it currently runs dry, still provides the infrastructural focal point for the city as many of the major urban properties have been built around this (see **Figure 1**).

¹ Haas, A (2017) *An Overview Of Municipal Finance In Hargeisa, Somaliland*. London: International Growth Centre.

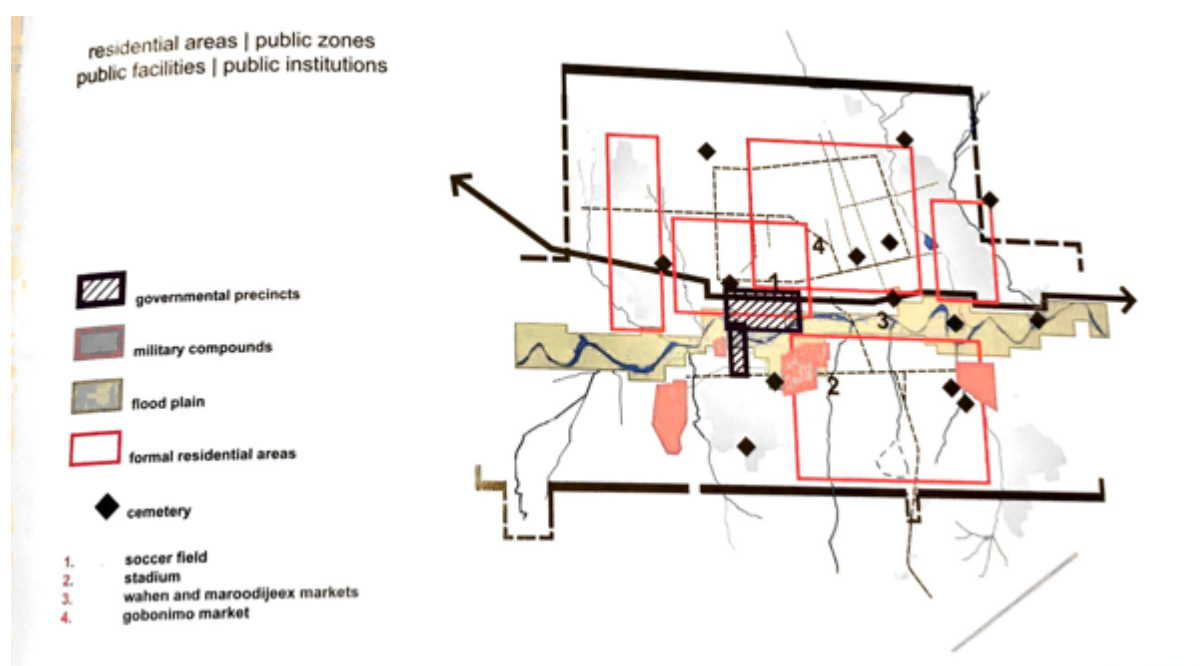
Figure 1 – Map of Hargeisa, Somaliland



Source: Hargeisa Municipality (2013)

Most of the activity in the city can be found in the centre, where there is also the confluence of the few major roads. This consists largely of governmental services as well as retail trade, which is found in the main Wahan market. There is no clear industrial area of Hargeisa, rather only very small-scale manufacturing activities located in workshops within the city centre and around the city more generally. Formal residential areas are also located within the main boundaries of the city, which also corresponds to areas of better service provision. Informal areas located further out on the periphery of the city were also where many of the internally displaced persons and returnees settled after the war (**Figure 2**).

Figure 2 – Schematic Diagram of Hargeisa Residential Areas and Public Zones



Source: Tempira, O., Jacobs, K. Demissie, B. (2007)

Hargeisa is continuously growing, mostly as a result of rural-urban migration as people come to the city to look for services and jobs. Although there is no official data yet on the actual urban growth rate, anecdotally, city officials note the growth both in population figures, which was estimated to be between 350,000 and 850,000 in 2007², and the construction of new buildings. To date, the growth of the city is sprawling outwards rather than densifying. In fact, there are still significant amounts of open space located in the more central parts of the city, particularly along the flood plains. Although the new buildings are contributing to this low-density sprawl, a few are now being built above two or three stories. The higher buildings, particularly in the city centre, tend to be commercial structures, such as shopping malls or hotels. Due to the growth in population in the city, there is increased demand for property and even with construction the supply cannot keep up. This demand is expected to continue to grow even further in the next few years with increasing investment plans from countries like the United Arab Emirates.³ One highly anticipated investment plan is the rehabilitation of the corridor from Berbera, the port city. Though this, the city of Hargeisa will be linked to Addis Ababa, Ethiopia, which would open up Somaliland to trade with a market of over 90 million people.⁴

² Tempira, O., Jacobs, K. Demissie, B. (2007) *Hargeisa – First Steps Towards Strategic Urban Planning*. UNHabitat, Nairobi.

³ The National (2017). *UAE To Pledge \$2 Billion In Projects For Somaliland*. September 18 2017. Accessed From: <http://www.thenational-somaliland.com/2017/09/18/reports-uae-pledge-2-billion-projects-somaliland/> In December 2017.

⁴ World Bank (2015) *Support Services To IGAD For Development Of The Berbera Corridor #1208164*. Washington D.C.: World Bank Group

Overview of municipal finance in Hargeisa

Given the politically decentralised nature of Somaliland, districts and municipalities are responsible for a significant portion of overall service delivery. Their responsibilities are outlined, amongst other pieces of legislation, in the *Regional and Districts Self-Administration Law (Law 23)* and include operation, maintenance and investment of infrastructure, urban roads and sidewalks, health services, education and vocational services, solid waste management, public markets, slaughterhouses and abattoirs, water supply, electricity and public lighting, district policing as well as urban zoning and planning. As local governments continue to lobby central government to further embed decentralisation, their service and infrastructure responsibilities will continue to grow.

To be able to finance this, the same *Law 23* provides local governments with a wide-range of instruments to use to raise revenues, including taxes, fees, fines and penalties. Partly as a result of this, the municipal finance system in Hargeisa is characterised by a large number of small revenue sources. In fact, in 2016 there were 67 individual sources of revenue with over 1000 different administrative line items to levy them. The cost of collecting these taxes is unclear as the administrative data to measure this does not exist. However, given the low yield of some of the sources, it is most likely that they cost the city more to collect than they actually yield in revenue. Therefore, one of the initial administrative steps the city can take to improve revenues more broadly is to consolidate its revenue sources and focus on improving the highest yielding.

In Hargeisa, property-related taxes are already some of the highest yielding taxes and have fairly consistently been one of the most important revenue sources for the city over time. In particular, taxes on the transfer of property, property tax (on buildings) as well as a land tax have featured in the top five revenue sources for the city from 2014 onwards. Therefore, understanding these taxes and improving their yield could potentially provide substantial increases in revenue for the city.

Benefits of property tax for developing cities

In many cities, property taxes can offer the largest potential source of untapped municipal revenues. For example, in Lagos,⁵ Nigeria, reforming the property tax system led to a five-fold increase in tax revenue between 1999 and 2011 to over 1 billion USD.

Property and land taxes that capture the value of rising urban land have been hailed by economists as more fair and more efficient than other taxes. Taxing land and/or property values is seen as fair because increases in these values result not just from private investment, but from surrounding infrastructure, services and population growth outside any one owner's control. In Accra, Ghana, for example, it was found that properties that are located in the proximity of tarred roads and concrete drains are 1.8 times more valuable than those in other areas. As such, by taxing the value of land, or properties on this land, governments are able to capture increases in their value that result in part from public investment. Furthermore,

⁵ Paice, E. (2015) "Lagos Proves Africa's Property Tax Potential." In *The Africa Report*. Accessed From: <http://www.theafricareport.com/columns/Lagos-Proves-Africas-Property-Tax-Potential.Html> In December 2017.

it may even serve as a relatively progressive tax, if levied on property owners, as in general they may be wealthier than those without property.

This characteristic of buoyancy also reflects in the fact that if rates are set right, property taxes should rise with investments in public infrastructure as this will increase property value. Overall this can be self-sustaining if the increased revenues in taxes captured are then reinvested in infrastructure and services and thus increasing the values even further.

Annual taxation of land is also an efficient form of tax. Given there is a fixed supply of land in the city, taxing it does not negatively affect investments in this asset. Conversely, other taxes, for example business licenses or checkpoint taxes, which are also used by local governments in Somaliland, could all have reasonably significant economic costs as they may discourage investment in the city. A land tax may in fact encourage more efficient land use by incentivising owners to use their land more efficiently. An annual property tax that taxes land and the properties on this land together, though less efficient than taxing land alone, has been found to be less harmful to investment than other taxes such as income tax¹. However, it is important to note that taxation of the transfer of land and property may impede the transfer of land and property towards its most efficient use, and discourage formal land sales, by levying charges on formal land transfer.

Administratively, land or property taxes may also be easier to levy, which is particularly relevant for capacity constraints within a developing city context. As the tax base is an immovable asset, locating and therefore taxing it is much easier than movable tax bases, such as people. Given many of its characteristics are visible, relatively easy and transparent valuation systems can be established that do not necessarily require sophisticated technology or high human resource capacity, such that many developing country cities can more easily tap into this revenue source compared to others.

Hargeisa's property taxes

The definition of property tax used for this brief is taken from Franszen and McCluskey (2017) namely a local source of revenue referring to any recurrent tax on the transfer, ownership or occupation of real estate or immovable property, whether it is land, buildings, or both. In this context, Somaliland more generally and Hargeisa specifically have four main taxes in this category:

- Property Tax: This is an annual area-based tax on the floor area of the buildings and is collected by the City of Hargeisa. This is levied on the owner of the property but if the person is unknown or cannot be found, then the occupier of the property at the time pays the tax.
- Tax on the Transfer of Property: This tax is levied when buildings are transacted. 2% of the total value of the building is collected both by the Ministry of Finance and the City of Hargeisa (i.e. the total values of the tax is 4% in total)
- Rental Income Tax: This is an annual tax on property owners who rent out their properties and is 10% of rental income. It is collected by the Ministry of Finance.

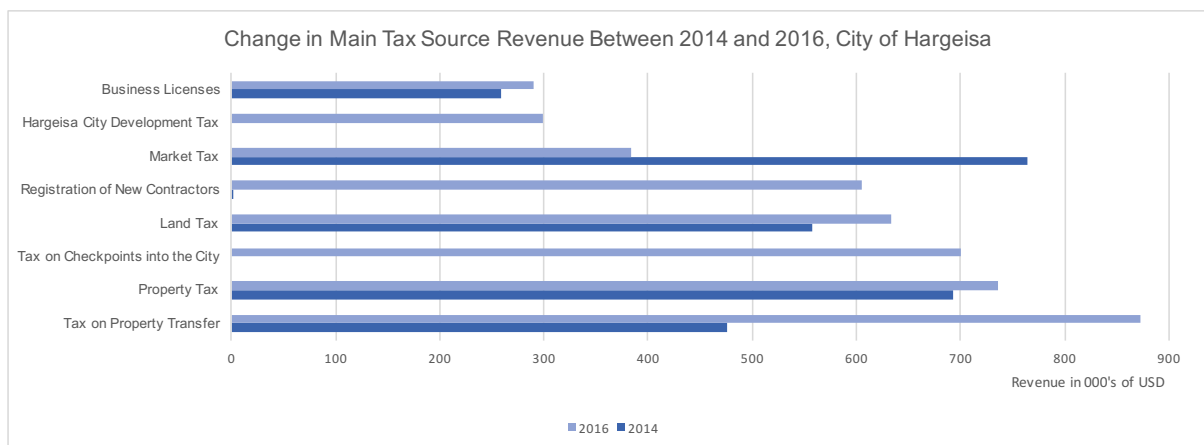
¹ OECD (2010) *Tax Policy Reform and Economic Growth*.

- **Land Tax:** This is an annual area-based tax collected on the area of land collected by the City of Hargeisa and levied on those people who have a claim to the land.

The property-related taxes levied by central government are determined in the *Revenue Act of 2015*. It is notable that there is currently no comprehensive tax code outlining both local and central government taxes, often resulting in double taxation of certain properties. This is exacerbated by the fact that there is no one single database on properties shared by the central and local governments. Therefore, consolidating data on these assets will require coordination between central and local governments.

As noted, in Hargeisa, property related taxes already make up a significant portion of local revenues. In 2016, the tax on property transfer made up 10.61% of total tax collected by the city of Hargeisa and was the top yielding source of revenue. This was followed by property tax, making up 8.94% of total tax collection and in fourth place land tax that made up 7.71% of total tax collected. The total value of revenue raised from these three taxes was about 2,241,643.94 USD (see **Figure 4**). It is also interesting to note that between 2014 and 2016, there was an approximately 83% increase in revenues from the tax on property transfer. This is perhaps indicative of a vibrant property market.

Figure 4 - Main Revenue Sources for Hargeisa (2014 and 2016)



Source: Data provided by the City of Hargeisa

Assessment and rates

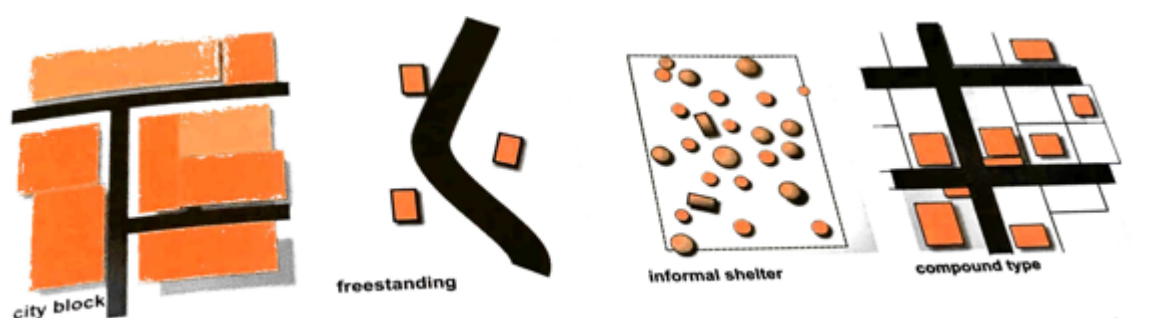
Property Tax: Property tax is determined by area-based assessments on the number of meter squared (m^2) of the floor space of buildings. The valuation for buildings is generally straight forward as Hargeisa has a fairly standardised building structure and therefore most buildings have one of three areas (see **Figure 5**):

- 12m x 12m
- 24m x 18m
- 6m x 9m (mostly in the centre of town)

This assessment is becoming more complex as buildings get taller and, according to city officials, only approximate adjustments are currently made for floors above one.

In theory, there are 16 bands based on location in the city within which these taxes can be levied ranging from 42.22 SOS (0.006 USD)⁶ per m² at the lowest end to 1200 SOS (0.16 USD) per m² at the highest end. These bands, like with other rates, are set on an annual basis by the Directorate of Revenue in the City of Hargeisa and are published in a book available at the city and the billing collection centres for everyone to view. In practice, however, the Director of Revenue collection noted that to date only two bands have been used, namely 1200 SOS (0.16 USD) per m² in the city centre and 900 SOS (0.12 USD) per m² otherwise. This is unsurprising since 16 bands is a very high number to administratively enforce particularly for a capacity constrained local government. There are no current adjustments for the usage of the buildings, i.e. whether they are commercial or residential or otherwise. The city tries to tax the owners of the buildings, however, when they are not known or cannot be found, they claim the tax from those occupying the building at the time of tax collection.

Figure 5 – Schematic Representation of Building Structures in Hargeisa



Source: Tempra, O., Jacobs, K. Demissie, B. (2007)

To undertake a comprehensive valuation and property ownership registration, UN-Habitat supported the development of basic cadastres using satellite data and surveys to collect data on the area of properties, some of their physical characteristics and their owners. This GIS-based survey was done in eight months between 2004 and 2005 for the cities of Hargeisa, Boroma and Berbera and they also used this opportunity to assign numbers to their properties. In Hargeisa, this significantly increased the number of properties registered for taxation from 15,850 properties to 59,000 properties and formed the basis from which the property tax in subsequent years was set. As a result of this initial valuation, property tax revenue for the city of Hargeisa increased by over 250%. Any properties that were built following this initial valuation were manually registered and added to the property tax register. This GIS-valuation is currently being re-done in 2017, again with support from UN-Habitat.

Tax on the Transfer of Property: To officially register or transfer properties in Hargeisa, this needs to be done with a licensed notary. For notarisation papers, and therefore being able to get the official property ownership documents, the transfer tax needs to be paid. As noted, this is a tax collected both by the central government, through the Ministry of Finance, and the city of Hargeisa, each collecting 2% of the value of the transfer of the property. In addition, the city also collects another fee based on the block where the property is located in the city, and this is the only tax that it collects in US Dollars, as opposed to Somaliland Shillings. It can range from 100 USD to 1500 USD, based both on the location and the size of the property. These

⁶ Exchange rate of 1 USD = 7280 Somaliland Shillings (SOS) is used.

rates are also re-determined on an annual basis by the Directorate of Revenue Collection as part of the annual rate calculation. It is important to emphasise that this is not a per m² value and therefore probably represents a small percentage of the value of the property transferred. Although this property transfer tax is an important source of revenue for the city, it is important to highlight that it represents one of the main sources of double taxation for the country. This may discourage the transfer of property more generally, but the transfer being done on the official market more specifically, and therefore the revenue from this tax may be lower than what is expected.

Rental Income Tax: This tax is collected by the Ministry of Finance and therefore governed by the 2015 Revenue Act. The Act defines rent and rental income as follows:

- **Article 2, §eee “Rent”** means any payment, including a premium or like amount, made as consideration for use or occupation of, or the right to use or occupy, land or buildings.
- **Article 2, §fff “Rental income”**, in relation to an individual for a year of income, means the total amount of rent derived by the individual for the year of income from the lease of immovable property in Somaliland by the individual with the deduction of any expenditures and losses incurred by the individual in respect of the property.

In Article 55 in the same Act, it notes that the rental income is charged on an annual basis to the person who has accrued the income from the rent. Article 56 then notes that this tax is 10% of the total income from rent from a year. To date, the Ministry of Finance has had difficulties collecting this tax due to a lack of data on property and rental market. However, they hope through the current tax-payer registration campaign, to collect this information and therefore be able to increase income from this tax.

Land Tax: Under the Somaliland Constitution, land is owned by the people under customary law. Aside from this, there is no other specific land policy or land ownership registry rendering the land market for the country very opaque. However, even with these constraints, land can be bought and sold and titles can be obtained from official notaries. To make these titles official, they have to be further signed by the respective local government and the Ministry of Interior. It is at this point that the tax rate is determined. If a person has an official title to the land, then the city of Hargeisa can collect an annual area-based tax on this. This also depends on which part of the city the land is located and can range from 14.07 SOS (0.002 USD) to 400 SOS (0.05 USD) per m². The government also owns land which it can rent on fees it determines depending on the land. Although no official data is available on the transactions, and since many may occur unofficially particularly given the customary nature of land ownership, anecdotally, residents of Hargeisa note that there is a very vibrant land market where land transfers are numerous and land values are growing.

Collection procedures, exemptions and enforcement

To pay their taxes, residents of Hargeisa are meant to come to one of the city's 36 billing centres both to undertake their assessment and pay their property-related taxes to the city. However, in practice few residents come and pay willingly and, therefore, the city employs a large number of revenue staff, currently about 250 people, to go and collect taxes from people. These staff are employed through a decentralised system at the local district and village level and remit their revenues to the billing centres. The billing centres, in turn submit revenues

back to the central city finance office. The Director of Revenue estimates that in terms of coverage for the property tax on buildings, they are reaching about 60% of properties every year, however, there is no official data on this, which is a major challenge. Furthermore, given the central registry is rarely updated it is also not clear what the potential tax gap is between what should be collected and what is collected. Even larger challenges exist for understanding the coverage of the land tax and the property-transfer tax.

Under law, there are no official exemptions from paying property taxes. However, the Director of Revenue noted that taxes are not charged on government properties as well as for people living in semi-permanent or impermanent structures, such as slums.

Legislation for local governments fails to outline official enforcement procedures for non-compliance. The only enforcement procedures identified for non-compliance on taxes in general are in the 2015 Revenue Act, which notes that:

- **Part 2, Article 10:** *The Director [of Inland Revenue, Ministry of Finance] may recover any unpaid taxes by distress proceedings against the movable property of a person liable to pay tax, in this Section referred to as the —person liable— by using an order in writing specifying the person against whose property the proceedings are authorised, the location of the property, and the tax liability to which the proceedings relate; and may require a police officer to be present while distress is being executed.*

Policy considerations

Improving the Administration of Property Tax: Hargeisa is in a fairly unique position by having so many different property-related taxes. Usually cities have only one or at the most two of these taxes. This is symptomatic of the overall large number of small taxes that are collected in the city. Therefore, from the outset, it is important that the city starts understanding the efficiency of collection for each of these taxes and uses this as a basis for consolidation, including property-related taxes. This will require an assessment of the different taxes on a range of characteristics. For example, some of the taxes currently applied by the City of Hargeisa to properties, such as the annual property tax, are likely to be better instruments for efficient land value capture than others. In addition, to consolidating the number of taxes, the official number of valuation bands should also be reduced. This will help improve administration and enhance efficiency of the system. It will also reduce the complexity of understanding the system for tax payers.

Any harmonisation of taxes will have to be done in cooperation with the central government, particularly the Ministry of Finance, to ensure that double taxation of properties is avoided. In the medium to long run, introducing a comprehensive tax code that outlines all the taxes and assigns them to the central or local government will significantly help in streamlining the process.

As previously noted, there are no official exemptions to property tax, but unofficially there are those given to government properties and low-income housing. Exemptions need to be carefully considered because they introduce complexity into the system and also mean that revenue is lost to the government. However, if there are exemptions, it is important to make these official and transparent. For Hargeisa specifically, given the unofficial exemptions that already exist, these may be officially termed as exemptions based on socially desirable land

and/or property uses (e.g. schools), owners not able to afford to remain on their land or property if it is taxed (e.g. low-income households) and those for government-owned properties. In any of these cases, there has to be a very high threshold to qualify for the exemption to ensure there is not a very high loss of revenue for the city.

Expanding Data Collection: The GIS-based system of assessment was fundamentally important in expanding the urban cadastre and ensuring that all properties are included. The ongoing update will also provide an increase based on the number of buildings that are entered into the system. However, given that these two assessments were nearly 13 years apart, it will be important for the City of Hargeisa to ensure it has other ways of continuing to update its records to reflect the properties in the city and through this build on the information as part of a cadastre.

Aside from data from the GIS system, further data the city could consider collecting on a regular basis are:

- *Identifying owners:* In particular, the databases need to start to accurately reflect owners of the properties. Currently, if the owner cannot be identified at the property, then the occupier at the time is taxed. Though in theory taxing occupiers should result in an equal reduction in the rent paid to owners, resulting in an *effective* tax of owners, this may not occur in practice. As a result, taxing occupiers can increase the likelihood of the burden of payment falling on poorer individuals, who are already paying for the benefits of being located in an area through higher rent.
- *Evaluating the tax gap:* Having an updated database on properties in the city and their characteristics will also help the Directorate of Revenue estimate its tax gap, i.e. the difference between how much revenue it should be collecting from each property and comparing it to how much is actually collected. Given the multiple layers of administration in collection, there is the concern that some of the property tax collected may not be remitted to the centre and therefore understanding the tax gap may help address this.
- *Benchmarking tax rates.* The level of tax per m² applied to properties and land in Hargeisa is comparable to other low-income fragile states, such as the Democratic Republic of Congo and Burundi. However, without further data on property values or income levels, it is not possible to determine how much current property-related taxes constitute as a percentage of total property values or as a percentage of incomes. As such, it is difficult to determine whether these rates could be affordably raised, or to compare these rates with those applied in cities with more complex tax valuation systems. If this information were available, the city of Hargeisa would be able to evaluate whether their tax rates are affordable and fair compared to overall incomes and asset levels. It could then be benchmarked against other cities as well.

As with identifying owners of property, registration of land rights is also an important basis for a tax system. Without this, there may be a number of competing claims over land. This can result in lengthy as well as costly processes to identify the owners before any tax can be levied. Therefore, incomplete cadastres can mean significant revenue loss for the city and this is likely the case for Hargeisa as well. An additional benefit of land registration is that it helps ensure that land rights are secure, legally enforceable and marketable. This is critical to urban

development overall as it will encourage owners to invest in their properties, it will enable the City of Hargeisa to better tax and plan land use. Ultimately having marketable rights also means that land can be transferred to its most productive use.

Reforming property tax to better capture value: Currently the City of Hargeisa uses an area-based system for setting both its property tax on buildings as well on land. There are some locational considerations made, with the two bands for centre and out-centre in terms of property tax, and the 14 bands for land tax. This type of area and location based assessment has a number of positive features. In particular, it is the simplest form of standardised assessment and therefore does not require complex data on land and property transactions or any other specific feature. This makes it easier to estimate and more transparent when communicating to the tax payer. The City of Hargeisa is not the only city that has adopted this system, although many use it as a more temporary mechanism as they strengthen their administrative systems to move towards more complex based value-based systems.

The merits of a value-based system is that it can better capture the increase in values accruing from the growth in the city and the public investments made in infrastructure and services, which Hargeisa's system does not. This means that property and land tax, in the case of the City of Hargeisa, is not buoyant, i.e. it will not increase with the growth of incomes and output in the city and therefore is reaping lower than its potential. This is particularly a consideration as Hargeisa will continue to grow and therefore the service responsibilities and infrastructure needs of the city will grow with it. Additionally, with the construction of the Berbera-Hargeisa-Addis Corridor, the value of the city will grow and the city will want to be able to capture some of this.

A market value based system, therefore, increases both the accuracy of valuation, and also expands potential for increased revenues over time. However, it requires significant capacity, both in terms of human resources, such as a trained cadre of independent valuers, and technological investments to implement. Furthermore, a consistently up-to-date database on property and land values and transactions is also required, which Hargeisa does not currently have.

Keeping the banding simple is a good idea and the move to a fully value based system is not feasible or desirable for the current circumstances in the city. However, there are still improvements to the current system that can be made by increasingly starting to capture value. From the outset, regular valuation that better link the tax transparently to annual property price increases, will improve the current system. In the medium to longer run, the city can consider further banding by location and therefore capture different values in some other places outside the city-centre. Further simple bands can be created for property usage, e.g. whether it is residential or commercial. This will be step to moving towards a *Points/Proxy-Based System*, which is a middle-ground between the current area based system and a full value system. Under this system, characteristics of properties and land that could affect their market value are determined. This should also take into account proximity to public investments, such as paved roads, or services, such as schools. Each of these values is then assigned points based on how much they are expected to affect the market value and this is then used to determine the rates for the tax. Although it is still not highly accurate, it is a method that can be implemented without large requirements for data on property and land transaction and is relatively transparent. Most importantly, for the case of Hargeisa, where there are already high real estate prices which are set to increase with the growth of Hargeisa

and the opening of the Berbera-Hargeisa-Addis Ababa Corridor, it would start helping the city capture some of the increased values.

Moving towards a value-based system may face some political challenges as it will result in some owners paying higher rates. Therefore, any changes made to the system will have to be transparent and clearly communicated to the tax payer so they understand what changes are being made and what benefits will be conferred to them as a result of higher public tax revenues.

If the city decides to move toward a points/proxy-based system, it will also need to start collecting information on other characteristics of the properties that it wants to tax. This is a further very important reason to have a well administered and comprehensive database of properties in place.

Conclusion

These are only some of the policy considerations and there are a number of potential changes that can be made to any property tax system. However, it is pertinent that these changes are based, to the greatest extent possible, on the evidence already available. In further increasing revenues from land and property taxes, ensuring continued political support and compliance by clearly linking these taxes to public investments are going to be crucial over time. This will require a clearly defined communication strategy between the government and taxpayers. It needs to be further noted that any changes to the system that make it more complex also come at a cost, such as increased staff capacity or collection costs. Therefore, it is very important to collect data on efficiency of collection, both from the perspective of the city authority and tax payer.

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