“Property tax - Approaches, Successes and Challenges of Property Tax Reforms for Subnational Domestic Resource Mobilisation”

Property taxation is known to be a key component of tax revenue for local and regional governments (LRGs) and as a mostly own-source tax, a key dimension of effective fiscal decentralisation. However, as of today, it is not yet mobilised to its full extent. Revenue collected from property taxes reach between 0.3 and 0.6% of GDP in developing countries, while they should be able to yield between 1-2% of GDP. This gap is due to a number of challenges encountered in low-income countries, where outdated, opaque and regressive property tax systems are often still in place, and property registers are absent. Carrying out property tax reforms, alongside more comprehensive fiscal reforms, is a widespread necessity to achieve fairer and more efficient local fiscal systems, increasing local governments’ financial autonomy as well as their room for manoeuvre in spending decisions.

To discuss the constraints and opportunities for reform, open perspectives, identify possible solutions and the supporting role of external partners, the webinar “Approaches, Success and Challenges of Property Tax Reforms for Subnational Domestic Resource Mobilisation” was held on April 5th 2022. Organised on the initiative of the German Development Cooperation (GDC) sector programme “Good Financial Governance (SP GFG)” implemented by GIZ and the OECD-UCLG led World Observatory on Subnational Government Finance and Investment (SNG-WOFI), the event gathered more than 90 participants. With the objective of learning from different experiences, four rounds of discussion moderated by Serge Allou, Special Advisor to the UCLG World Secretariat, brought together speakers from various horizons, including international organisations, the academia, and a local government.

In the first presentation, Margaux Vincent, Policy Analyst with the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE), underlined the importance of accessing reliable, standardised and comparable data on multi-level governance and subnational finance, in particular on taxation. According to the findings of the 2019 Report of the World Observatory on Subnational Government Finance and Investment, on average at the global level (74 countries) in 2016, property taxes accounted for 33.5% of subnational tax revenue, 9.5% of total subnational revenue and 0.7% of GDP, representing the second largest source of revenues for LRGs after grants and subsidies. Further analysis of the wide disparities across income and geographical areas underlines the need to optimise property tax revenue, especially in lower-income countries where, compared to higher-income countries, property tax accounts for a larger share of subnational tax revenue, while representing a lower percentage of GDP. Given the importance of this tax for LRGs across the world, special focus will be given to property tax in the third edition of the World Observatory, with both qualitative information and quantitative indicators. Although it faces several challenges, property tax is the “local tax by excellence” with numerous advantages, such as the stability of the tax base and predictability of revenue, its implicit progressivity, its potential to widen the local fiscal space and, ultimately, to improve the provision of local public services.

The second presentation brought the local government perspective to the discussion with a first-hand account of the challenges and processes of a property tax reform. Mayor Albano Carige, shared the history, management and progressive work done by his city of Beira in Mozambique, on municipal property tax. When faced with resistance to the new ways of functioning, awareness campaigns and dialogues with citizens were launched to build and strengthen confidence between the administration and the inhabitants. A key success factor has been to maintain a flexible approach in negotiations with citizens, whether in terms of deadlines, modalities of payment, or by offering the possibility to pay partial rates. With a gradual implementation of the reform since 2010, property tax revenues have increased threefold between 2017 and 2021. Peter van Tongeren and Stan Abma, VNG International, explained the support given by the International Cooperation Agency of the Association of Netherlands Municipalities. VNG International started by accompanying the digitalisation of the cadastre and later evolved to link the land registry with tax payments, in parallel to providing capacity training and IT equipment to improve property registration.

In a third segment, Alf Bremer, component manager of the GDC programme “Governance for Inclusive Development (GovID)” implemented by GIZ in Ghana, took the floor to share the incremental implementation of a tailor-made local revenue management software, “dLRev = district Level Revenue”, starting with 40 districts in 2014 and reaching all 261 districts in 2022 after a planned rollout. This specific tool was carefully embedded in a comprehensive reform process including policy advice, capacity development (IT), knowledge transfer, client and knowledge management. The policy and administration reforms over the years have increased the rent tax revenue potential to the extent that the national government, in the context of increasing national debt and the impact of the COVID-19 pandemic, is considering supervising the collection of property rates with private sector involvement. Raphael Frerking, programme manager of GovID, recalled some of the main challenges faced and lessons learned in implementing a successful property tax reform. For instance, after recognising the multiplicity of partners involved and the differing interests, a specific technical working group was established to harmonise coordination between donors and national institutions.

Finally, based on research and practice, Colette Nyirakamana and Wilson Prichard of the Local Government Revenue Initiative (LoGRI) closed the panel by sharing their academic perspective on how to tailor property tax reforms to the specific contexts in low-income countries. While they agreed with the crucial need to reform dated property tax systems, they suggested to go beyond the usual capacity development and technology solutions brought from outwards-in. Instead, reform strategies should be simplified and better aligned to the existing, with a careful consideration of the local human and technical capacities, institutional particularities and political dynamics. Satellite data for property identification, hybrid valuation models and simplified, lower-cost IT systems are among the recommended reform strategies. Wilson Prichard recalled the importance of building trust between the local government and its inhabitants and reaching out to taxpayers with transparency, fairness and equity, but also by showing evidence of good financial management and providing visible services that are directly financed by the tax revenues.

Following a last round of questions and answers with the participants, Paloma Labbé, Policy Officer, UCLG World Secretariat, summed up a few takeaways from the webinar. She stressed that even when they are initially justified, local governments should not allow tax exemptions indeterminately. In the case of the city of Beira, the return to normalcy two months after a cyclone hit the coastline was openly negotiated with inhabitants so as to avoid an unsustainable loss of tax revenue. In turn, Damjan Sarvan, Advisor, GIZ,
reaffirmed the importance of adopting a holistic approach that goes beyond technical aspects and considers economic, institutional and political dimensions when promoting reforms. He praised the large number of people who joined the webinar and extended his thanks to all the speakers and participants on behalf of the organisers. This strong and diverse participation offers the opportunity to connect with new partners and develop further collaborations on knowledge exchange and approaches to strengthen domestic revenue mobilisation in partner countries.

As it emerged from the presentations and discussions, the high revenue potential of property taxation needs to be further exploited by continuing to work on and improve strategies, tools, methods and approaches for subnational governments and their supporting partners to carry out the necessary reforms. Another webinar on the topic will be organised as part of the collaboration between the SNG WOFI and the GDC sector programme “Good Financial Governance” implemented by GIZ, during the International Conference for the launch of the third edition of the World Observatory on Subnational Government Finance and Investment, on 7 July 2022.