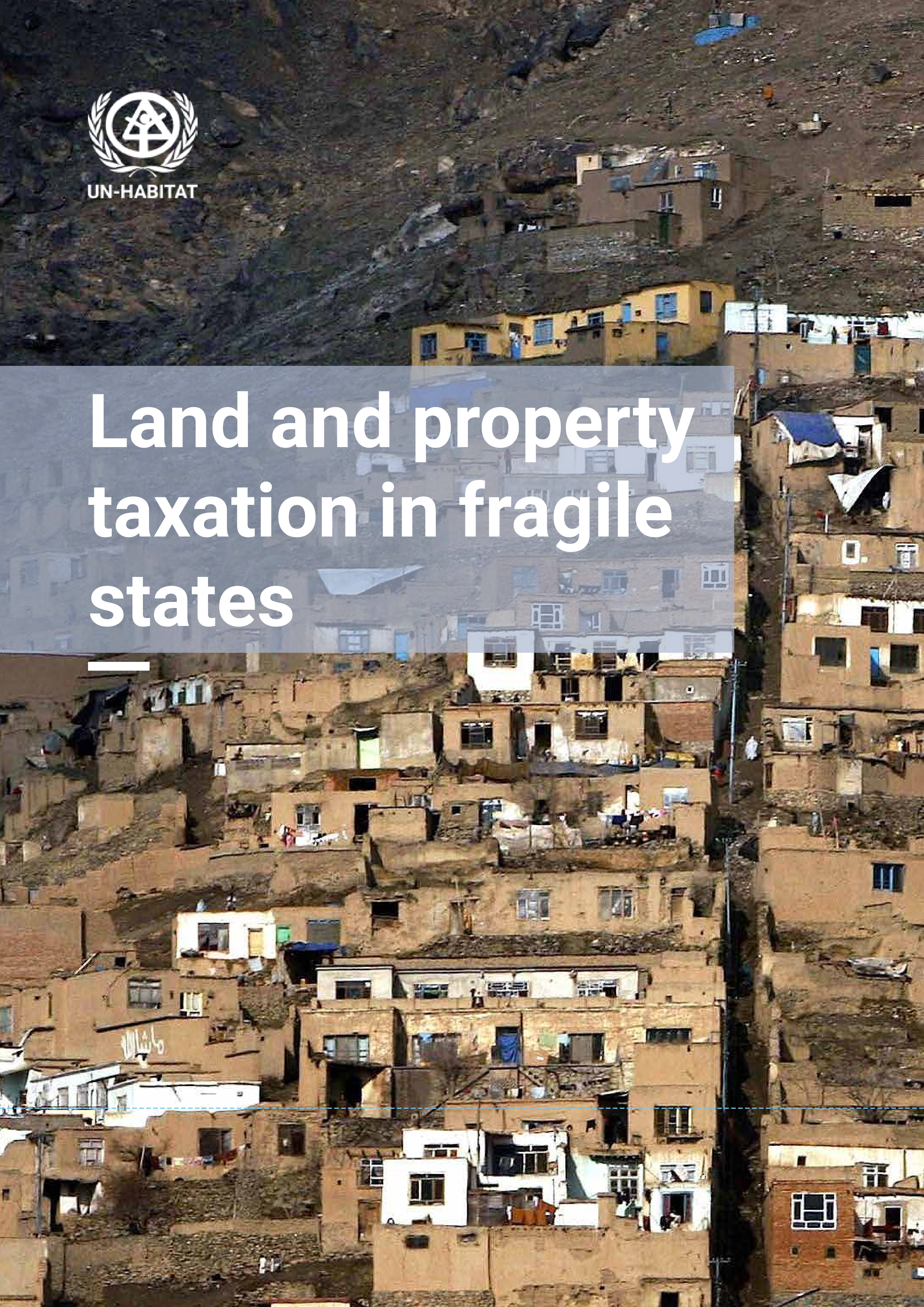
UN-HABITAT

Land and property taxation in fragile states



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Contents

Tables

Figures

Boxes

1

Introduction

Photo on previous page: Kabul, Afghanistan. Jeremy Weate (CC BY 2.0)

1

Introduction

All states, and all communities, face a range of risks and challenges: economic, environmental, political, security, societal and human. Where those risks are too large and the state is unable to cope with them effectively, we speak of the state being "fragile". Governments in these states are unable to provide basic functions for their citizens, including public order and safety, economic well-being, and services such as health and education.

In its *States of Fragility 2022*, the OECD classifies 60 states as "fragile", including 15 as "extremely fragile" (Table 1). Three of these 15 feature in this volume: Somalia, Afghanistan and the Democratic Republic of the Congo. The fourth state featured in this volume, Palestine, is classified by the OECD as "fragile".

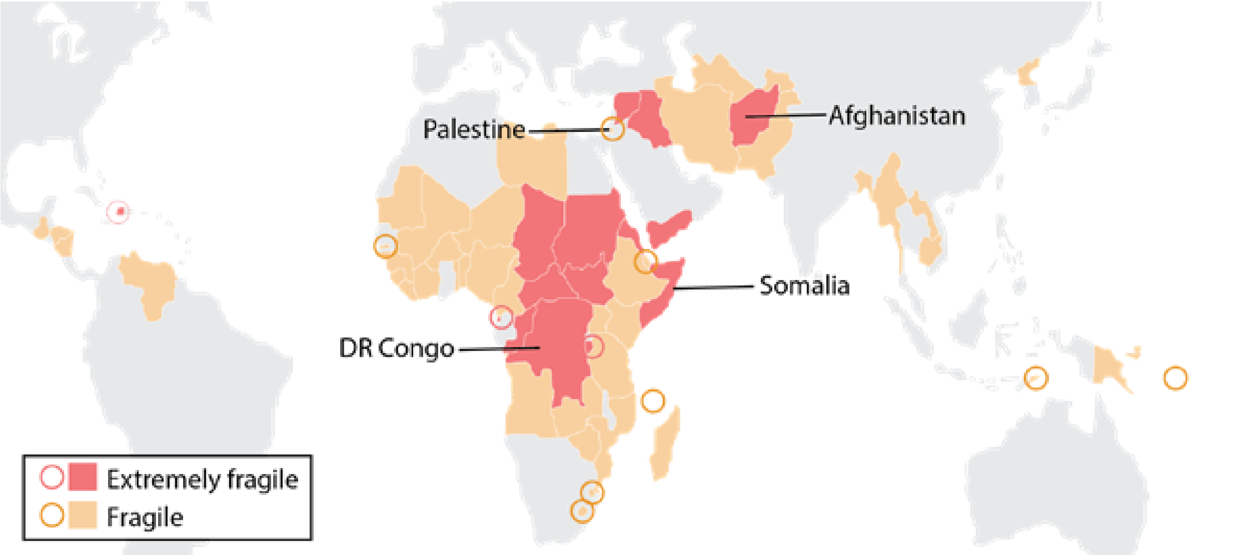
Fragile states typically cannot serve their citizens adequately because of a range of problems. They often have weak or authoritarian governments. Conflict and violence may be rife, and corruption may be widespread. Laws (for example on taxation) may be outdated, not exist, or difficult to enforce. Changing them can be very difficult and can take time. Skilled staff are hard to recruit and even harder to retain. Equipment (such as computers) and records may be damaged or stolen in fighting.

Citizens generally lack trust in the ability of government to serve their needs. Overall, the "**social contract**" between the citizens and the state – the idea that citizens will give up some measure of freedom in return for the benefits of governance –is weak. One component of the social contract is the "**fiscal contract**": citizens voluntarily make payments to the government in exchange for the public services they receive. This is also weak in fragile states.

Part of the fiscal contract depends on the ability of the government to provide services, and it can do that only if it has sufficient money to do so. **National governments** raise money in various ways – income and sales taxes, customs duties, profits from government-run enterprises, and so on. Many of these do not involve the public at all: taxes on oil exports, for example, are raised from large (perhaps state-owned) companies. Some petrostates

> ***Fragility is the combination of exposure to risk and insufficient coping capacities of the state, system and/or communities to manage, absorb and mitigate those risks***
>
> *OECD 2016*

Figure 1.1 Fragile and extremely fragile states, 2022



Source: OECD 2022

Table 1.1 Extremely fragile states in 2022

15 extremely fragile states		
Somalia	**Democratic Republic of the Congo**	Burundi
South Sudan	Chad	Sudan
Afghanistan	Syria	Eritrea
Yemen	Congo	Iraq
Central African Republic	Haiti	Equatorial Guinea
45 fragile states		
Libya	Comoros	Eswatini
Angola	Mauritania	Turkmenistan
Cameroon	Timor-Leste	Laos
Niger	Zimbabwe	Guatemala
Mali	Burkina Faso	Tanzania
Liberia	Ethiopia	Kenya
Madagascar	Tajikistan	Togo
Uganda	Bangladesh	Nicaragua
Mozambique	Pakistan	Benin
Guinea	Sierra Leone	North Korea
Nigeria	Cambodia	Lesotho
Papua New Guinea	Cote d'ivoire	Gambia
Myanmar	Venezuela	**Palestine**
Guinea-Bissau	Solomon Islands	Honduras
Zambia	Djibouti	Iran

Source: OECD 2022

get by without having to levy income taxes on their residents.

Subnational governments – regional and local authorities and municipal administrations – must provide many of the services that citizens want and have a right to, including roads, sanitation, fire service, policing, education, water supplies, schools, and public transport (the list depends on the country and the level of government). These services are a lot closer to most citizens than services such as national defence and the setting of laws, which are the responsibility of national governments. But local governments are largely dependent on funds from the national level – which in many fragile states are inadequate and may vary from year to year.

Land taxation

Unreliable and insufficient central transfers make it important for local governments to raise revenues locally so they can pay for the services they are expected to provide (as well as to cover their own expenses). These "**own-source revenues**" may come from a multitude of sources, each of which brings in relatively small sums: user fees (such as for water, waste collection and parking), local taxes on things like market stalls, and sales of property.

Land and property taxes have several advantages over other forms of own-source revenues. In particular:

- **Land and buildings cannot be moved**, so the tax base is stable and permanent. Taxpayers cannot avoid the tax by moving elsewhere. The tax is less of a disincentive to economic activity than many alternatives.
- The value of land depends largely on its **location and on improvements by the government** (such as water supplies and sewerage)**.** Taxing land therefore means earning revenue from government investments. (Buildings, on the other hand, are the result of private investment.)
- **Land is highly visible**. Land parcels and buildings are easy to identify.
- **Land is local** (unlike, say income tax), so the tax can be linked to services that are provided in the area.
- **Payment is in lump sums**, usually once a year, avoiding the need to handle large numbers of small transactions (as with parking fees).
- **Many people own land**, forcing the local government to interact with thousands of taxpayers. This In turn creates the opportunity and need to create dialogue between taxpayers and the government, in turn fostering the social contract.
- Taxes on land and property can be **transparent**, with clear rules (for example, on how much to pay per square metre). That makes tax avoidance by taxpayers (and corruption and pilfering by staff) harder.

Nonetheless, land and property taxes also suffer from various disadvantages:

- It can be difficult to **identify the owner** of a particular land parcel.
- Taxpayers often **resent** paying relatively large sums as property tax, especially if they see little in return in the form of services.
- Land tax depends on an accurate and up-to-date **cadastre**, which in turn depends on specialist mapping and land-registration functions.
- Powerful elites who dominate the government are often **large landowners**, who have no interest in taxing themselves – or are eager to find ways to avoid paying. Smaller, less-powerful landowners may try to copy their wealthier neighbours, but many do end up paying the tax.

Strengthening the fiscal contract

Boosting tax revenues is not an end in itself. Rather, it is (or should be) the means to improving the services that the local government provides to its residents. But higher revenues do not automatically result in more or better services, as the cases of Afghanistan and Somalia in this volume show. Instead, the local government may spend the extra income on things like vehicles, personal security, higher staff salaries or new offices – none of which directly improve services.

For higher revenues to translate into better services, a third ingredient is necessary: stronger citizen power. Interventions by development agencies need to consider all three aspects:

- Helping the local government **raise revenues**
- **Improving the services** the local government provides
- Strengthening the **power of citizens** to influence the local government.

A project that includes all three aspects would be complex and difficult to design and implement – especially given the uncertainties and risks prevalent in fragile states. The skills and approaches also differ: technocrats drafted in to help raise taxes are unlikely to be suited to organizing communities to express their needs. Collaboration between various organizations with different areas of expertise would be needed. And a project does not have to be involved in all three aspects. Rather, project designers need to consider all three aspects, identify the needs and bottlenecks, and design the intervention accordingly, perhaps focusing on just one of the aspects. That does not have to be revenue-raising.

Even if it does focus on raising revenue, land and property tax may not be the way to go. As the cases in this volume suggest, it may be more appropriate to focus on other types of revenue. Collecting land and property tax is a complex area that requires several elements all to work smoothly. If one of these elements fails, the whole effort will fail. If, for example, the GIS-based cadastre fails to function, the computer specialists are hired away, or the accounting system has a glitch, the tax-collection system will be in jeopardy. Other sources of revenue (such as parking fees) are surer, more familiar, and less prone to such problems.

UN-Habitat interventions

This volume reports on the experience of a major intervention by UN-Habitat to address these issues. It focuses on a project entitled “Land and property tax revenues for service delivery, reconstruction, citizenship building and sustaining peace in fragile states” (or **Land-based Finance, LBF**) for short), funded by Norad and implemented in Afghanistan and Somalia from 2020 to 2022 (with extensions still continuing in Palestine and the Democratic Republic of the Congo in 2023). It also draws on two previous projects: UN-Habitat’s **City for All** project in Afghanistan (2016 to 2021) and the **Joint Programme on Local Governance**, implemented by a consortium of UN agencies in Somalia from 2008 to 2018.

Recognizing the lack of knowledge in this area, the Land-based Finance project was designed with not one, but two major goals in mind:

- To strengthen the social contract through enhanced land-based revenues and resulting expenditures in Afghanistan and Somalia
- To create and document knowledge on how to do this.

The initiatives in Afghanistan and Somalia experienced a range of difficulties – as must be expected in fragile states. The work in Afghanistan successfully redesigned the collection land and property taxes in the cities it worked in. But its efforts were undermined by

Figure 1.2 Related projects on land and property tax by UN-Habitat

Afghanistan

City for All (CFA)

- 2016 to 2021
- 12 cities
- UN-Habitat

Somalia

Joint Programme on Local Governance (JPLG)

- 2008 to 2018
- 16 districts
- ILO, UNCDF, UNDP, UN-Habitat, Unicef

Afghanistan and Somalia

Land-based Finance (LBF) project

Land and Property Tax Revenues for Service Delivery, Reconstruction, Citizenship Building and Sustaining Peace in Fragile States

- 2020 to 2022
- UN-Habitat
- Norad funding

Afghanistan

- **Diagnostic assessment**: 4 cities (Bamyan, Kabul, Kandahar, Mazar-e-Sharif)
- **Implementation:** 5 cities (Bamyan, Herat, Jalalabad, Kandahar, Mazar-e-Sharif)

Somalia

- 4 districts (Bosaso, Gardo, Burao, Borama)

Palestine and Democratic Republic of the Congo

- Project extension, 2022 to 2023
- Palestine: national
- DRC: 2 districts, 1 province

continuing violence and the eventual takeover of the government by the Taliban in 2021, forcing the closure of the project. That in Somalia operated in two of the safest areas of the country, Somaliland (which claims independence) and Puntland (an autonomous part of Somalia). The work in Somalia was hampered by administrative challenges and climate shocks. Both projects coincided with the covid-19 pandemic and faced problems ranging from a lack of skilled staff and high staff turnover, low incentives for and resistance by local staff, poor data accuracy and compatibility, misunderstandings between the national and local levels – in short, a cross-section of the types of problems afflicting initiatives in fragile states.

Nonetheless, the project managed to gain a great deal of knowledge about what works and what does not in such situations (its second goal). This rich seam of knowledge is reflected in this volume.

Five papers

This volume includes five papers.

Afghanistan

Chapter 2, by Kate Cotty, Aziz Ahmad Yar, Antony Lamba and William McCluskey, describes the City for All and Land-based Finance programmes in Afghanistan. It focuses on the tax-bargaining relationship that leads to a **fiscal contract:** the idea that taxation can stimulate a bargain between the government and the public, in which the public demands improved services in exchange for paying taxes. The paper describes the potential role and advantages of property taxes in such a bargain. It then discusses the land-taxation system in Afghanistan, UN-Habitat's efforts to help the government to reform it, and the challenges encountered. The interventions focused on increasing property tax revenues, making taxation fairer, increasing transparency and public awareness and engagement, building capacity, and standardizing and simplifying the taxation process.

The results were, as can be expected, mixed. The reforms resulted in more tax invoices being issued and a rise in revenues, but there was also a decrease in compliance over time. Additionally, the covid-19 pandemic and increased insecurity impacted programme and government operations, illustrating how factors beyond the control of a project can affect its outcome. The higher revenues did not translate into increased service expenditures – but in some programme cities, the greater awareness of taxation did seem to raise residents' expectations of what services the municipality should provide.

Somalia

Chapter 3, by Lennart Fleck, Balqesa Sheikh and Abdishakour Said, analyses the governance and local taxation situation in Somalia, focusing on Somaliland and Puntland. UN-Habitat's efforts to assist local governments have focused on improving the registration of land and property, inform the community and involve it in the registration process, and build the capacity of local government staff. Despite some hiccups and some differences between municipalities, the number of properties registered, the number of tax invoices issued and the revenue from land and property tax have all risen. But the money has not necessarily been spent on improved services for residents – throwing into doubt the validity of the fiscal contract.

ICTs

Digital technologies – especially computers and remote sensing – have enormous potential to improve the collection of revenue in the developing world. **Chapter 4**, by William McCluskey, Peadar Davis, Ragina Gitau and Lennart Fleck, discusses how they can do so in fragile states. It lists the advantages and disadvantages of digital technologies in four realms: for data collection, data analysis, digital services, and revenue collection. Because there is only limited evidence of attempts to apply digital technologies for these purposes in fragile states, the paper also draws on evidence from elsewhere in the developing world. The conclusion is that while digitalization can be useful, it also comes with risks. In particular, it relies on a range of preconditions – skilled staff, reliable electricity, suitable hardware, a supportive administrative environment, etc.– all of which may be lacking in many parts of fragile states, especially at subnational levels of government.

Designing interventions

Chapter 5, by Paterson Gauntner, presents a series of tools that development agencies and national-level bodies can use to support subnational governments in building a fiscal contract with their residents. These tools are arranged according to the stages in a project's life cycle, ranging from feasibility assessment to monitoring and adaptation. Happily, various tools developed for use elsewhere can be adapted for use in fragile situations, so they may well be familiar to those planning the project. The paper recommends a mixed approach that combines interventions on three fronts: revenues, expenditures, and community engagement and empowerment. The suggestions should be regarded as just that – suggestions to be adapted as required – rather than a prescription that must be followed blindly.

Lessons

Chapter 6, by Paterson Gauntner, Jean du Plessis and Lennart Fleck, draws lessons from UN-Habitat's experiences with the Land-based Finance project in Afghanistan (Chapter 2) and Somalia (Chapter 3), as well as the Democratic Republic of the Congo and Palestine. It outlines the challenges the project faced: administrative and political problems, frequent changes in the government, and external shocks such as the covid-19 pandemic and insecurity. Some of these were inconveniences that seriously hampered the project's work; in Afghanistan, the Taliban takeover forced the project to be discontinued, and much of the progress that had been made was lost.

Even if a municipality succeeds in increasing its revenue via property tax, it may not necessarily spend the extra money on services that improve the lives of residents. For this to happen, pressure from citizens is needed. For tax bargaining to work, there must thus be a balance between the government's (and municipalities') power to enforce the payment of taxes, and citizens' power to affect how the money is spent. If the balance is too heavily weighted to the government, it can impoase taxes without providing anything in return. But if the weights are the other way around, citizens will refuse to pay, preferring to be free-riders.

Projects focusing on the financing of local governments have three possible entry points: boosting revenues, spending better, and strengthening citizens' power and influence. Covering all three in a single project may be impossible, but projects must at least consider all of them in deciding where best to intervene.

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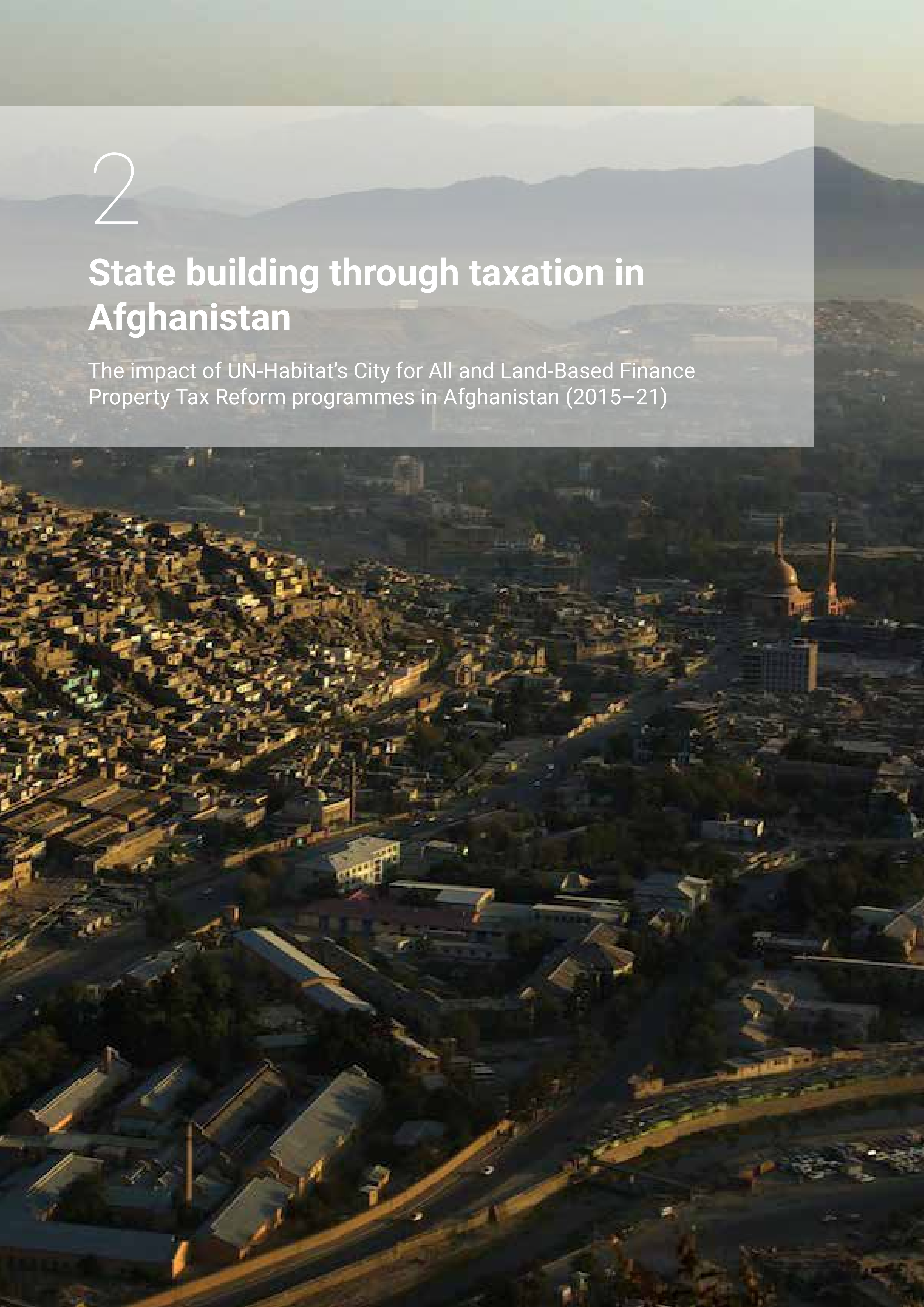


2

State building through taxation in Afghanistan

The impact of UN-Habitat's City for All and Land-Based Finance Property Tax Reform programmes in Afghanistan (2015–21)

Photo on previous page: Kabul, Afghanistan. seair21 (CC BY 3.0)

2

State building through taxation in Afghanistan

The impact of UN-Habitat's City for All and Land-Based Finance Property Tax Reform programmes in Afghanistan (2015–21)

Kate Cotty,[1] Aziz Ahmad Yar,[1] Antony Lamba[1] and William McCluskey[2]

AFGHANISTAN'S DEVELOPMENT HAS been hampered by years of warfare and political instability. UN-Habitat, in collaboration with the Government of Afghanistan, implemented two property tax reform initiatives, the City for All (CFA) and Land-based Finance (LBF) programmes, to improve municipal capacity, land management, and service delivery and so to promote peace, stability, and state building. An analysis of municipal revenues and expenditures and beneficiary perceptions shows that the two initiatives improved municipal property-tax revenues but did not increase development expenditures. Beneficiaries had a mixed impression of governance. This study demonstrates that even thoughtfully implemented governance-focused property-tax interventions will not automatically result in successful tax bargaining and responsive municipal spending.

Between 2015 and 2021, UN-Habitat implemented two property-tax reform programmes in Afghanistan: the City for All and Land-based Finance initiatives. This paper analyses the interventions and outcomes of these initiatives.

These two initiatives involved 12 cities across Afghanistan (Figure 2.1), but data is available for only some of these. Most of the data in this paper is drawn from a diagnostic assessment conducted in 2020 as part of the LBF programme. This diagnostic assessment focused on the four cities of Kabul, Kandahar, Mazar-e-Sharif, and Bamyan and used data from 2016–19. Additional data comes from four cities in the LBF programme (Kandahar, Mazar-e-Sharif, Bamyan and Jalalabad) in 2020 and 2021.

Official data in Afghanistan was difficult to obtain. It was either seen as for "official purposes" only and not for public consumption, or officials did not feel inclined to make the extra effort to retrieve data for non-official purposes. UN-Habitat attempted to retrieve as much official data from municipal staff and offices in the selected cities as possible.

Because the two initiatives focused on different subsets of cities, it is challenging

1 UN-Habitat
2 African Tax Institute, University of Pretoria

Figure 2.1 Cities where UN-Habitat interventions were implemented

to assess data trends, but even a high-level overview of the observed revenue and expenditures provides some insight into the programmes' impact.

This paper starts with a background on fragile states, a brief description of the role of taxation in state building, and an overview of property-tax reforms in such states. We then turn to the situation in Afghanistan and the details of the tax-reform programmes there. We next provide a detailed analysis of the results of the two UN-Habitat programmes. The final section discusses the programme outcomes and draws implications for property-tax reforms elsewhere.

Fragile states

In 2022, 24% of the world's population and 73% of the extreme poor lived within 60 fragile states (Figure 1.1 in the Introduction) (OECD 2022). These states typically have unstable governments that have low legitimacy and lack the capacity to perform basic state functions, including the provision of security. Yet fragile states are very diverse. Not all are low-income, and not all experience conflict. Of the 60 OECD-designated states, 55% are middle-income, and 38% did not experience conflict in 2022. Common challenges include high levels of food insecurity, climate vulnerability, rising inequality, and a lack of social cohesion (IMF 2022). Most of the world's refugees and internally displaced persons are from fragile states. Global fragility is growing: the share of the extreme poor living in fragile situations is expected to grow to 86% by 2030 (OECD 2022).

Fragility can have enduring economic impacts that spill over onto neighbouring countries, resulting in declining trade, influxes of displaced people, and regional instability (IMF 2022). Fragile states tend to have lower GDPs per capita, higher inflation, and greater difficulty generating private investment. These conditions make it hard to collect adequate revenue and often leave the government dependent on foreign aid. Of 43 OECD-analysed fragile states, only one-third generate tax revenue of at least 15% of GDP, the minimum level considered necessary to fund a functioning state (OECD 2022). Strong taxation systems have many spill-over benefits, and there is a strong link between fragility and the ability to collect tax revenues. Of states that had emerged from fragility, 90% saw significant increases in revenue mobilization efficiency (Akitoby et al. 2020).

Taxation and governance

The need for fragile states to collect revenue more efficiently and equitably, and to spend it more inclusively, transparently and accountably, is of fundamental importance (Hyden and Agborsangaya-Fiteu 2010, Brinkerhoff and Johnson 2008). If designed appropriately, taxation can improve the government's accountability, its responsive delivery of services, and its reciprocity with the public. These benefits are particularly enticing in fragile environments.

Taxation may lead to improved governance through three mechanisms (Moore et al. 2018):

Aligning goals An increased reliance on taxation will increase the government's incentives to improve the economic prosperity of the public. As public wealth grows, tax revenue will also grow, increasing the likelihood that the government will implement policies that benefit the public.

Development of a fiscal contract Taxation can create a cycle of tax bargaining between the government and the public, in which the public demands improved services in exchange for paying taxes. This can increase democratic participation, publicly accountable governance and responsive development expenditures (Prichard 2016, Moore et al. 2018, Smoke 2015).

Spill-over impacts Improving the administration of the tax system can generate spill-over benefits for other government sectors (Moore et al. 2018). For example, information gathered in tax cadastres can inform other administrative processes and lead to more targeted policymaking. Strengthening taxation often also requires parallel improvements in other agencies, such as the judicial system and finance ministries. Improvements in the tax agency, especially in performance monitoring, meritocratic hiring, information technology upgrades, and data collection and sharing, can provide a model for and spur modernizations in other agencies.

The tax bargain

This paper focuses mainly on the development of the tax-bargaining relationship that leads to a fiscal contract. Growing evidence supports the long-term relationship between increased dialogue, transparency, equity and tax bargaining and building a culture of tax compliance, leading to greater revenue and less political conflict (Bird and Slack 2004). Without effective tax bargaining, tax systems risk becoming purely extractive: there may be no functional mechanisms to hold the government accountable for spending revenue in publicly beneficial ways (van den Boogaard et al. 2022).

Tax bargaining is not a guaranteed outcome of tax reform. It is possible only if taxation systems focus not just on increasing revenues, but also on equity, transparency, public awareness of taxation, and inclusive public engagement (Prichard 2016, Moore et al. 2018). In weak and autocratic states, the links between taxation and tax bargaining are tenuous and complex. Such states have convoluted tax policies, low transparency and restricted political freedom. These conditions make it hard for the public to collectively mobilize to hold governments accountable and spur service improvements. Spill-over effects are also less likely in fragmented tax systems with minimal cooperation between government agencies. When reforming tax systems in weak states, it is especially important to increase opportunities for greater reciprocity, rather than simply focusing on bringing in more revenue. Increased tax revenue – without public benefits – is not an improvement (Prichard 2016).

Decentralizing taxation responsibility can develop these governance capacities and social contracts on a subnational level which can generate the necessary conditions for more locally responsive and efficient service delivery. Local governments play a direct role in service provision. That makes them important drivers of state building in fragile and conflict-impacted environments. But low-capacity, limited tax bases and resistance by elites limit local governments' incentives and the success of taxation (UNDP 2016, Jibao and Prichard 2015).

Property taxes

The lack of effective and efficient property taxation may be the most obvious weakness of tax systems in developing countries (Bahl and Martinez-Vasquez 2007). This implies significant revenue losses and unrealized potential. Property taxes are also the most frequently suggested means to improve local taxation. Unlike most major national taxes, they can be efficiently collected by local governments, which have better information on the local tax base (Rosengard 1998, Bird 2010).

For these reasons, some regard property taxes as "the single greatest opportunity for strengthening local revenue systems" (Moore et al. 2018). They are often considered fairer, less distortionary, more progressive, and more efficient than other taxes. Benefits of property tax include:

Private and government investment Property taxes can capture the value of private investment, the rise in value due to government investment in services and infrastructure, and external factors such as population growth and economic development (Haas and Kopanyi 2017).

Stable revenues and non-distortive effects Property tax is tied to immovable property, rather than to income or sales, so revenues are relatively stable (Youngman 2016). The tax does not discourage economic activity as much as other taxes (Wilson and Rosenzweig 2022).

Ease of collection Land is stationary and highly visible, so it is relatively easy to identify and tax land parcels and buildings.

Links to local expenditures Unlike national income taxes, property taxes are specific to a location or jurisdiction, so can more easily be linked to specific public expenditures on infrastructure at the local level.

Trust The relatively clear tax-expenditure linkages stemming from property tax may in turn produce strong governance benefits by encouraging public engagement and by building trust among taxpayers when the government fulfils its commitments (OECD 2010).

Transparency The common use of property tax in financing local services and public goods, combined with its tendency to be paid in lump sums, makes it a salient and transparent form of taxation. Linking property tax payment to local service provision provides an excellent opportunity to enhance political transparency and accountability in municipal budgeting (Bird and Slack 2004, Bahl et al. 2008).

Wide reach Property taxes involve many thousands of citizens as taxpayers. In principle this makes property taxes a likely candidate to encourage collective public engagement and foster political dialogue with government, thus encouraging the creation of a fiscal contract.

The impact of land-based finance on service delivery and subnational governance is multi-faceted. It depends on a number of factors, including governance at the national and subnational levels, decentralization, accountability, compliance, education, fairness and government transparency. Overarching considerations that may influence the efficiency and effectiveness of land-based finance administration include the social contract, taxpayer morale, voluntary compliance, transparency of decision making, and citizen participation (Prichard 2010, Moore 2007, Juul 2006).

Local property taxes promote self-sufficient and accountable local governments because of the connection between local services (such as schools, transit and parks) and property values. Taxpayers will presumably support those activities where the benefits are greater than the taxes. Property values will increase to the extent that benefits and taxes are capitalized into property values (Fischel 2001). Residential property taxes are especially appropriate to fund local government spending because they are largely borne by residents who use local services.

Improving the capacity of fragile local governments to collect property taxes and enhancing the fairness of these taxes can create an environment for greater reciprocity between the public and government. Taxation that results in improved service delivery can improve civic engagement, increase government legitimacy, and address the root causes of fragility (Baird 2011).

But implementing a property tax well can be hard:

Non-compliance Perceptions of an unfair property tax system, high and unaffordable rates, and dissatisfaction with local services can all contribute to non-compliance. Many property owners resist paying their bills if they fail to see any benefits, especially in areas with poor infrastructure and irregular or non-existent services.

Assessment problems Accurate assessments tied to market values can be difficult to generate and time-consuming to maintain.

Cost of administration Administration can be time-intensive and expensive (Bird 2010).

Inadequate revenue Even in developed countries, property-tax revenues cannot cover the cost of all local services.

Inflexibility Property tax is highly visible, politically sensitive, and often difficult to reform. Changing any aspect of it requires persistence, innovation, and the ability to explain the complexities of government funding to the taxpaying public.

Fragile contexts provide added challenges: limited or poor information on land parcels and buildings, ineffective data and revenue collection modalities, competing informal taxation, and weak systems to manage data and record payments (Monkam and Moore 2015).

Despite these challenges, property-tax interventions in fragile and developing states have achieved revenue increases:

- Weigel (2020) documents an 11% increase in compliance resulting from a door-to-door collection campaign in Kananga, **Democratic Republic of the Congo**.
- In **Uganda**, Kopanyi and Franzsen (2018) report a fourfold increase in Kampala's property tax revenue between 2004/5 and 2015/16 due to tax policy and administrative improvements.
- A programme in **Sierra Leone**'s four largest cities between 2006 and 2011 resulted in significant revenue increases through property registration, assessment, enforcement and public education (Jibao and Prichard 2015). Sierra Leone's reforms emphasized the potential for competitive local elections to drive reciprocal taxation systems. They showed that increased enforcement and transparency can generate more collections.
- Reforms in Lagos, **Nigeria**, between 2001 and 2012 focused on valuation methodology, rate increases, and tax-base expansion. They resulted in increased compliance rates and drastic increases in tax revenues between 2001 and 2014 (Goodfellow and Owen 2018).
- Tax-base expansion and automation reforms in Punjab, **Pakistan**, also resulted

in increased revenues (McCluskey et al. 2022, McCluskey 2020).

The impacts from property-tax interventions in fragile states on service delivery and governance have been less definite:

- Increased property-tax revenue in the **Democratic Republic of the Congo** resulted in higher public participation and greater public expectations of service delivery – yet there was also evidence of decreased trust of public benefits from taxation (Weigel 2020).

- In Lagos, **Nigeria**, increased taxation did result in increased public expenditures, yet because income tax and property tax increased at the same time, the public largely associated improvements with income taxation (Goodfellow and Owen 2018).

- In **Sierra Leone** and Kampala, **Uganda**, reform programmes specifically linked tax revenue to service delivery to build tax morale (Kopanyi and Franzsen 2018, Jibao and Prichard 2015). In Kampala, service expenditures and improved public satisfaction with service delivery were included as specific programme targets (Kopanyi and Franzsen 2018). Despite the links that were built between taxation and service delivery in Sierra Leone, concerns emerged that tax revenues were misused (Moore et al. 2018).

Even in successful cases, continued public monitoring of expenditures and maintenance of government accountability is key to ensuring long-term governance improvements.

Land taxation in Afghanistan

Afghanistan provides a particularly challenging environment to influence governance through taxation. Decades of war preceded the American invasion and left the state weak, fragmented, and unable to provide basic services to its population (Bizhan 2018). Since then, years of state-building resulted in improvements to state capacity and public services, but before the Taliban takeover, the government of Afghanistan still lacked legitimacy and adequate capacity for public services and security. After a period of economic growth between 2004 and 2013, where per capita GDP increased from USD 354 to USD 608,[3] the economy entered a period of stagnation until the covid-19 pandemic in 2020 (World Bank n.d.). Even at its peak GDP in 2013, Afghanistan remained one of the poorest countries in the world.

National tax revenues

Following a fiscal crisis in 2014, national domestic revenues grew significantly between 2015 and 2018 despite GDP stagnation (Byrd 2018). Yet the absence of sustained peace maintained Afghanistan's dependence on foreign aid (Byrd and Payenda 2017). In 2018, foreign aid totalled over USD 8 billion, more than 40% of GDP. Domestic revenue in that year was approximately USD 2.2 billion, 11.3% of GDP (Afghanistan Study Group 2021). Economic stagnation, caused by declining military presence, increased violence and overall political uncertainty was followed by the covid-19 pandemic, which further depressed socioeconomic conditions. Following the Taliban's takeover in August 2021, foreign aid declined drastically, and GDP per capita fell 23% between 2020 and 2021 to USD 426 (World Bank n.d.). By the summer of 2022, some 64% of citizens found it hard to afford basic expenses (World Bank 2022b).

Widespread corruption, bribery, and a lack of transparency in tax collection (and throughout the government) have led to public mistrust of taxes (Isar 2020). A lack of clarity in national tax laws and large aid inflows have led to low political will towards tax collection, causing widespread evasion at the national level. Prior to their takeover, the Taliban had long attempted to erode state legitimacy through developing a sophisticat-

3 In constant 2015 USD

ed taxation system and shadow government (Amiri and Jackson 2022). Some 60–70% of Afghanistan was controlled or influenced by the Taliban by 2019. Before their takeover, Taliban control primarily lay in rural areas, yet Taliban courts and taxation were even reported in Kabul as early as 2019 (Bahiss et al. 2022, Amiri and Jackson 2022). Within their areas of influence, the Taliban shadow administration focused on filling the gaps in the government's services. The Taliban provided an expedient and less corrupt court system, offered security services, and regulated government-provided healthcare and education systems (Jackson 2018). Although residents of the Taliban-controlled areas had little choice other than to obey, they also commonly viewed Taliban systems and taxes as less corrupt and onerous than the government versions (Mansfield 2021, Jackson and Weigand 2019). Additionally, Taliban attacks on city centres further undermined state legitimacy and eroded the public's confidence in the government (Jackson and Weigand 2019). These forces exacerbated the long-standing disillusion with the government and exemplify the difficulties development programmes faced in rebuilding the social contract.

Municipalities

Afghanistan's rapid urbanization, combined with a lack of effective spatial plans, limited access to formal land and housing, and destruction from conflict, has resulted in low-density sprawl, socio-spatial inequality, infrastructure deficiencies, poor tenure security, and weak state–society relations. These outcomes of poor urban planning, land management and service delivery have disproportionately affected the urban poor and exacerbated inequalities in the cities, severely constraining economic and social development. Most urban Afghans live in informal housing with little tenure security and limited access to basic services.

Administrative structures Afghanistan's 163 municipalities are subdivided into municipal districts called *nahias*. These are responsible for collecting municipal revenue, delivering public services, and overseeing public works. *Nahias* are further subdivided into *gozars*, which contain 800–1,250 households and are led by elected representatives called *wakili gozars*. *Gozar* assemblies are (or were) unofficial community representative councils consisting of 13 elected members (and at the time, at least 3 women). The *wakili gozars* and the *gozar* assemblies assisted municipalities with the coordination and implementation of laws and the provision of basic municipal services within their districts.

The 2004 Constitution required mayors and municipal councils to be elected, but elections had not yet taken place at the time of the Taliban's takeover. In the absence of elections, municipal advisory boards were established in 30 provincial municipalities to oversee municipal governance and provide opportunities for citizen engagement and representation. These boards provided counsel to municipal leadership and had no formal decision-making authority.

Revenue sources The 2018 Municipal Law updated the previous Taliban-era municipal law. Both included the mandate for all municipalities to administer and self-finance services. Municipalities are the only sub-national entities obliged to raise and spend their own revenue. Prior to the 2018 law, they did not receive fiscal transfers from the national government by law, but in practice, they receive discretionary "deficit grants". The 2018 Municipal Law instituted a performance-based municipal incentive fund to replace the deficit grants. This fund aimed to provide grants to municipalities that implement good governance procedures. Other than these grants, municipalities are generally expected to leverage enough income (or "own-source revenues") to pay for all their expenditures. The Municipal Law outlines 19 fees and taxes that municipalities could collect. Rates are set nationally, providing little flexibility to adjust taxes and fees based on local conditions.

Own-source revenues In 2016, the baseline year for UN-Habitat's interventions, the largest sources of revenue, in a sample of six cities (Kabul, Kandahar, Mazar-e-Sharif, Bamyan, Jalalabad and Herat) were sales of municipal assets and urban service fees (charged on imported goods entering the city).

Safayi, a property tax described below, and rental income were the next most significant revenue streams. Yet, there were large variations in income sources between cities. Bamyan collected 69% of its income in 2016 from sales of municipal assets, whereas Mazar-e-Sharif collected only 4% in this way. More generally, across Afghanistan's 34 provincial capitals, sales of municipal assets have long contributed sizable portions of municipal revenue (GoIRA 2015).

A study of municipal revenue across these 34 cities between 2011 and 2013 documented that the sale of land and properties contributed the highest portion of municipal revenue, contributing 22% of Kabul's revenue and an average of 19% of that of the remaining 33 cities. Municipal assets are finite, and these sales are not a sustainable source of revenue in the long term. Furthermore, sales of municipal assets are highly susceptible to corruption (GoIRA 2015) and do not link revenue collection to service provision. Property taxes, such as the *safayi* fee, can potentially provide more transparent links to service delivery, thereby increasing accountability of government expenditure.

***Safayi* taxes** According to the *safayi* regulation of 2000, *safayi* fees are to be used for city services and capital development projects. They are calculated by applying a nationally determined fixed tax rate to the assessed value of a property, and are paid by owners of residential, commercial, industrial and institutional properties. These fees are less buoyant than typical property taxes due to the nationally set rates, but if assessments can keep up with actual property values, the *safayi* fee can be a resilient and sustainable source of income for municipalities. However, the *safayi* regulation does not say how frequently the property must be valued. This has resulted in the same property values being used for decades in most municipalities.

The *safayi* regulation also says nothing about enforcement measures. In practice, municipalities charge a 12% fine on arrears and can close businesses within commercial properties or withhold municipal services for non-compliance. Prior to UN-Habitat's interventions, municipalities issued *safayi* invoices only if and when property owners visited municipal offices. Outdated valuations, combined with low public trust in government, inadequate capacity, incomplete tax bases, and outdated administrative procedures, had resulted in an inability to maximize *safayi* collection potential across all cities.

Expenditures Budgeting and expenditures have suffered from municipalities' inability to leverage sustainable, predictable income. Expenditures are divided into recurring operating expenditures, including salaries and services, and development expenditures, which include capital investments such as the construction and maintenance of roads and public spaces (GoIRA 2015).

An appropriate balance between these is necessary to ensure services and infrastructure investments are both being provided. All four cities with data (Kabul, Mazar-e-Sharif, Kandahar and Bamyan) spent only between 50 and 60% of the amount budgeted in 2016. This inability to accurately predict revenues has led municipalities to adjust spending based on collected revenue rather than projections.

UN-Habitat interventions Municipalities face interconnected challenges that limit their ability to capitalize on available revenue streams and deliver adequate services. To improve service delivery and infrastructure investment, UN-Habitat interventions after 2015 focused on increasing *safayi* fee collection, decreasing municipal reliance on unsustainable revenue sources, improving municipalities' ability to project revenues accurately and to budget for expenditures, and increasing municipal accountability to the public.

Reform background

In 2016, the Government of Afghanistan launched the Urban National Priority Programme with the goal of creating inclusive governance and safe liveable cities by 2024 (Kammeier and Issa 2017). This programme recognized the potential of urban development as a driver of Afghanistan's primary policy goals of self-reliance, state-building and peacebuilding.

City for All programme The City for All (CFA) programme was launched in 2016 as a flagship action of the Urban National Priority Programme. This programme included two UN-Habitat led sub-programmes:

- The **Kabul Strengthening Municipal Nahias Programme**, funded by USAID and implemented in 20 of Kabul's 22 *nahias* (districts) between 2016 and 2020.

- The **Municipal Governance Support Programme** was funded by the EU and implemented in 12 Afghan municipalities (including 2 *nahias* in Kabul) between September 2015 and December 2021.

The City for All programme aimed to improve municipal land governance across the target municipalities by securing land and property rights, introducing strategic urban planning, enhancing service delivery, and strengthening the social contract between citizens and the state.

Land-based finance programme A second UN-Habitat-led initiative was the "Land and Property Tax Revenues for Service Delivery, Reconstruction, Citizenship building and Sustaining Peace in Fragile States" programme, or Land-based Finance (LBF) for short. This was funded by Norad and implemented in Afghanistan between April 2020 and December 2021. It built on the work of CFA and aimed to consolidate, scale up and institutionalize best practices in land and property taxation. Phase 1 focused on analysing CFA interventions between 2016 and 2019 and preparing a diagnostic report focusing on four CFA cities, Kandahar, Kabul, Bamyan and Mazar-e-Sharif (the "diagnostic cities") (Figure 2.1).

Through this analysis and diagnostic, Phase 2 priorities were developed. Before the Taliban takeover, the LBF programme managed to embed staff in the four municipalities of Kandahar, Bamyan, Mazar-e-Sharif and Jalalabad (the "LBF cities").

These two initiatives built on decades of UN-Habitat programmes in Afghanistan. Since 1992, UN-Habitat has partnered with governments and communities to build municipal capacity, improve land management, and improve overall stability and governance in the country. The most recent previous UN-Habitat property tax programme, the Community-Based Municipal Support Programme, was implemented between 2013 and 2015 in the cities of Herat, Jalalabad, Kabul, Kandahar and Mazar-e-Sharif (UN-Habitat 2015). This programme focused on improved governance through tax administration reform, and improved municipal capacity, property registration, and government responsiveness. However, its self-evaluation noted that more attention was needed to improve accountable spending by municipalities through the programme, rather than as a post-programme result.

Change model

Both the City for All and the Land-based Finance programmes aimed to improve governance and stability through improvements in property taxation revenues and procedures. Reforms were designed based on the understanding that effective taxation tools and methodologies, in partnership with inclusive public engagement, can lead to increased municipal revenues, more responsive government spending and greater accountability, so resulting in improved service delivery. Improved service delivery was then expected to increase public willingness to pay, strengthening the government–public "fiscal contract". UN-Habitat's interventions also sought to increase municipalities' ability to collect revenue and deliver services by embedding programme staff to provide on-the-job training and by simplifying and automating the *safayi* fee process.

Interventions

The reform interventions focused on making taxation fairer, increasing transparency and public awareness and engagement, building capacity, and standardizing and simplifying the taxation process.

Fair taxation

Expanded tax coverage The CFA programme surveyed and registered 918,905 properties across the 12 intervention cities. Surveys included physical measurements and mapping of parcel and building areas, which were then used to assess property values more accurately. The data from the property surveys were verified using municipal data and by community members. The surveys were digitized in GIS and maintained in a central database. This expanded the tax coverage, increased the number of registered informal properties, and reduced land grabbing, which led to increased collections and improved fairness within the taxation system.

Valuation methodology UN-Habitat supported the Kabul municipal administration in developing a new property-valuation methodology based on market values. Property values in the city were updated based on this methodology in 2017. In Bamyan, UN-Habitat supported the municipality in switching from a flat-fee charge to a land-value-based system, which more fairly captures each property-owner's asset value.

Invoice delivery The CFA programme introduced house-to-house *safayi* invoice delivery to replace the prior practice of property owners collecting invoices at *nahia* offices. Between November 2017 and May 2020, the CFA programme supported municipalities to deliver 687,129 *safayi* invoices. The LBF programme delivered another 196,353 invoices in 2020–2021. Additionally, municipal staff were trained on alternative invoice-delivery methods, such as distribution at mosques.

Payment enforcement. Municipal staff were trained to track and follow up on unpaid invoices. This included calling property owners, publicly posting lists of defaulting properties, and asking *wakili gozars* to assist with payment collection.

Transparency, public awareness and engagement

Public information Municipalities were encouraged to publicly disclose revenue collection and expenditure information and to post it on notice boards and on their websites.

Payment methods *Safayi* payments were required to be paid at banks rather than in cash at municipal offices, as was previously the case.

Monitoring In Kabul, an independent monitoring unit oversaw the *safayi* process and performed spot checks to ensure correct implementation. A citizen dispute-resolution mechanism was also included (Schulze and Shakir 2021).

Block grants and participatory budgeting In collaboration with the public, 5-year strategic action plans were developed in all 12 cities to identify priority infrastructure and service delivery projects. Selected *gozars* were allocated block grants to enable them to implement some projects, while other projects were budgeted and implemented by the municipality. The involvement of *gozar* assemblies in selecting and implementing infrastructure projects enhanced public participation and awareness of the benefits of *safayi*. Municipalities and community members also contributed financial resources to these projects. Community members regarded *gozar*-level grants as having a big impact.

Public education In Kabul, public-education campaigns included information on *safayi* procedures, roles and responsibilities, and training on anti-corruption, taxpayer rights and dispute resolution in the *safayi* process.

Women and children *Gozar* assemblies were mixed gender (at least 3 women), and *gozar* workshops included women, youth and children. The Kabul Strengthening Municipal Nahias Programme required 25% of block grants to be allocated to female-oriented projects.

Linking tax payments with improved services

Sanitation The CFA programme supported Kabul in developing guidelines on sanitation services. According to the guidelines, the level of sanitation services was to be provided according to each *gozar*'s *safayi* fee payment rate.

Block grants The programme provided block grants for strategic projects to the highest-paying *gozars* to incentivize *safayi* payment and demonstrate how *safayi* payment can lead to increased public investment.

Occupancy certificates The property information database created by the CFA programme was used to produce 72,882 occupancy certificates.

Women's land tenure For the first time in Afghan history, women were issued with occupancy certificates either individually as a female head of household, or jointly with a spouse (Schulze and Shakir 2021).

Street addressing The programme digitized and codified street addresses in three municipalities (Kabul, Mazar-e-Sharif and Jalalabad). It installed street signs, house number plates, streetlights, and door lights.

Capacity building

Manuals and information The CFA programme created multiple knowledge products to support the replication and scaling up of results. These included a municipal-finance manual, draft revised *safayi* regulations, a national housing profile, a revised policy for upgrading informal settlements, a strategic urban-planning manual, occupancy certificate regulations, and an occupancy certificate manual.

Training The programme embedded UN-Habitat staff alongside municipal employees to provide on-the-job training and capacity building during the implementation. Additional project staff were hired to assist with implementation. This increased the pool of qualified people able to assist municipalities in the future. At least 35% of programme staff were required to be female.

Staff incorporation In Kabul, 89 revenue mobilizers from the programme were absorbed by the Kabul municipality to carry on invoicing processes instituted by the CFA programme.

Project funding The implementation of Block Grant projects supported the municipal capacity to design, implement and supervise infrastructure projects.

Standardization and simplification

***Gozar* standardization** Across the CFA intervention cities, UN-Habitat used satellite imagery to assist municipalities with standardizing and digital mapping of 1,067 *gozars*. (The National Citizens' Charter required *gozars* to include between 800 and 1,250 properties.) The *gozar* assemblies assisted with awareness campaigns, community participation and *safayi* collection. Standardized *gozars* allowed *nahias* to better plan and track their *safayi* collection goals.

Invoice automation The calculation of *safayi* fees and the production of invoices was automated, greatly increasing the efficiency over the prior manual system.

Technological upgrades A *safayi* management information system was introduced in Kabul, and integrated financial management systems were introduced in the other municipalities.

Challenges during implementation

National challenges

Covid-19 pandemic Waves of the pandemic in 2020 and 2021 greatly affected the populace and forced programme operations to be scaled back.

Political instability The 2019 presidential election results were long-delayed due to allegations of corruption, which undermined public confidence in the government. Additionally, the United States signed a peace agreement with the Taliban in 2020 stipulating a complete troop withdrawal by May 2021. Meanwhile, the Taliban continued to mount an offence against the government, gradually gaining territory. These events sapped the political will of government staff and created uncertainty among the public.

Security and Taliban takeover Security began deteriorating in mid-2021. The LBF programme intended to continue operations through December 2022, but the Taliban's takeover interrupted this. Programme staff were initially advised to work from home in summer 2021. Programme operations were fully suspended between 15 August and October 2021. In December 2021, the programme concluded early due to the UN prohibition on engaging with or performing activities that directly or indirectly benefited the Taliban. In addition, it was unlikely the programme's goals would be achieved under the new operational environment. This halted interventions that were underway, including the printing of invoices through the integrated financial management system, the approval of revised *safayi* procedures, and the establishment of *safayi* "one-stop shops" in Mazar-e-Sharif and Bamyan.

Programme challenges

Land tenure Because there is no legal basis for enforceability of occupancy certificates in court, they may not be beneficial for resolving disputes over land ownership, and they cannot be used as collateral for bank loans (Schulze and Shakir 2021). Despite this, the certificates and *safayi* booklets increased the beneficiaries' perception of tenure security and are an important step towards legally recognized tenure security.

Regulation delays UN-Habitat worked with government counterparts to recommend improvements and standardization of *safayi* procedures through regulations, but the adoption of these regulations was delayed. The delay in the revised *safayi* regulation in particular posed problems, as the existing *safayi* regulation said nothing about many elements of implementation, including enforcement, leading to inconsistent implementation across municipalities.

Government capacity The programme design overestimated the government's capacity to implement the interventions. Staff had to spend a lot of time training their government counterparts and had to take on tasks that government staff were unable to complete. This lack of government capacity resulted in various problems:

- **Maintenance of programme-funded infrastructure projects** The plans for maintaining the *gozar* projects were unclear. The municipal authorities were unable to take on the maintenance role before the programme ended because of the costs and limited capacity (Van Houten and Ibrahim 2020).

- **Capacity to process invoices** As the programme increased the number of invoices delivered, municipal staff found it difficult to keep up with processing and following up on them.

- **Delays in issuing occupancy certificates** Low capacity at the Afghan Land Authority, Arazi, to issue occupancy certificates resulted in delays and fewer certificates issued than expected. This resulted in public frustration and lowered confidence in the government's ability to follow through on promises.

Lack of municipal resources Municipalities reported a lack of financial resources to purchase equipment such as computers needed to implement the programme.

Logistics The requirement to pay through government banks reduced the possibility of corruption, but also made it more difficult for property owners to make their *safayi* payments. In most provincial cities there is only one designated bank to pay *safayi*, and some had to wait for hours to pay fees.

Women's involvement Despite the aim to include women in programme activities, all *nahia* managers were men, and most *gozar* assemblies were male-dominated. This led to minimal participation from women and a general lack of interest in women-focused projects (Schulze and Shakir 2021). (The mid-term evaluation of the Municipal Governance Support Programme recommended implementing more *gozar*-level projects relevant to women, such as on women's health, education, and income generation.) Additionally, although occupancy certificates were issued to women, both individually and jointly with spouses, in Kabul there were reports of male relatives ignoring this and assuming ownership of women's property (Van Houten and Ibrahim 2020).

Resistance to change Methodology and procedural changes were met with resistance in some municipalities. Municipal staff were not familiar with new technologies and procedures. Programme staff had to spend a significant amount of time meeting with municipal leaders and training employees on the new procedures to get them to embrace these changes.

Focus on revenues rather than expenditure The programme did not sufficiently focus interventions on improved expenditure allocations, which led to lacklustre expenditure improvements.

Revenue and expenditure results

This section first details the programme's impact on *safayi* revenue, the main focus of the CFA and LBF interventions. It then discusses total own-source revenue and explains how *safayi* revenues fit into the larger municipal revenue context and what funds were available for increased expenditures. It next describes changes in total and development expenditures during the programme. Finally, it assesses the programme's impact on public perceptions of government.

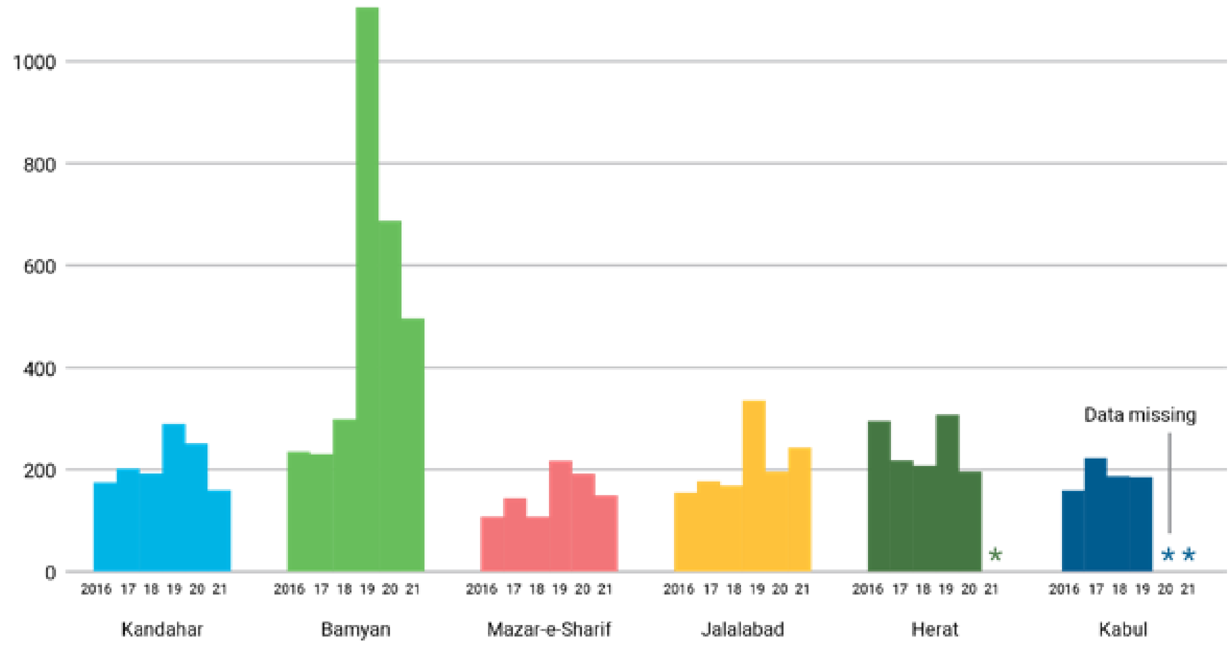
Safayi revenue

Overall, the project's interventions had a significant positive effect on *safayi* revenue across municipalities. All municipalities for which we have data increased their per-capita[4] *safayi* revenue between 2016 and 2019. Despite drops in revenue due to the covid-19 pandemic in 2020 and increased violence in 2021, all cities (except Kandahar, which was most affected by fighting in 2021) maintained their *safayi* revenue gains in 2021 over the baseline year. See the Annex for the full data on *safayi* revenue collection.

Limited gains in revenue were made between 2016 and 2018. Between 2017 and 2018, all cities other than Bamyan saw decreases in their per-capita *safayi* revenue (Figure 2.2). As the CFA programme increased the number of surveyed and invoiced properties, revenues significantly expanded in 2019. This was particularly true of Bamyan, which expanded its per-capita *safayi* revenue by 279% between 2018 and 2019. This was due to the combined impact of city-wide property surveys and of switching *safayi* fee calculations from a flat fee to an assessed value-based

4 Urban population data in Afghanistan is extremely limited, which makes city comparisons difficult (UN-Habitat, 2015). The last census, although incomplete, was conducted in 1979. Population data in this report was derived from Afghanistan's National Statistics and Information Authority's annual population estimates, which calculate population growth based on the 2003–2005 Household Listing data (NSIA 2017–2021 and OCHA 2016).

Figure 2.2 Per-capita *safayi* revenue (in afghanis) by city, 2016–2021



Data source for all charts: Afghanistan *safayi* fees: Reforms, challenges and lessons learned report, UN-Habitat & Afghanistan diagnostic assessment report, UN-Habitat.

method. In 2020, as the covid-19 pandemic affected programme operations and life in general, revenues dropped across all cities. Per-capita revenue fell most in Jalalabad (a fall of 42% between 2019 and 2020), and least in Kandahar (7% less).

Revenues in 2021 decreased again. All cities reporting data, other than Jalalabad (which saw the least fighting), collected less *safayi* revenue than in 2020. Kandahar had the largest per-capita revenue decrease, with a drop of 37% between 2020 and 2021. Despite this decrease, as mentioned above, three of four cities with data still maintained per-capita revenue increases in 2021 over the baseline year.

Safayi revenue composition and arrears

The collection of arrears grew in importance throughout the programme. In 2016, only Herat and Jalalabad recorded arrears payments. By 2019, five cities[5] reported significant collections from arrears, with arrears contributing between 17% and 61% of total *safayi* revenue collections. Because arrears are a finite non-recurrent revenue source, *safayi* revenue growth without arrears may depict a more accurate estimate of long-term revenue gains (Figure 2.3).

Excluding arrears, per-capita revenue decreased between 2016 and 2019 in Mazar-e-Sharif and Herat and decreased between 2016 and 2021 in Mazar-e-Sharif and Kandahar. Only Bamyan and Jalalabad maintained revenue gains in 2021 without factoring in arrears.

Safayi compliance rate

In 2016 and 2017, municipalities issued invoices only when property owners visited municipal *nahia* offices, which resulted in

5 Kabul's revenue reports do not separate out arrears, so it is not possible to tell what portion of payments they make up.

Figure 2.3 *Safayi* arrears revenue, 2016 and 2019–21

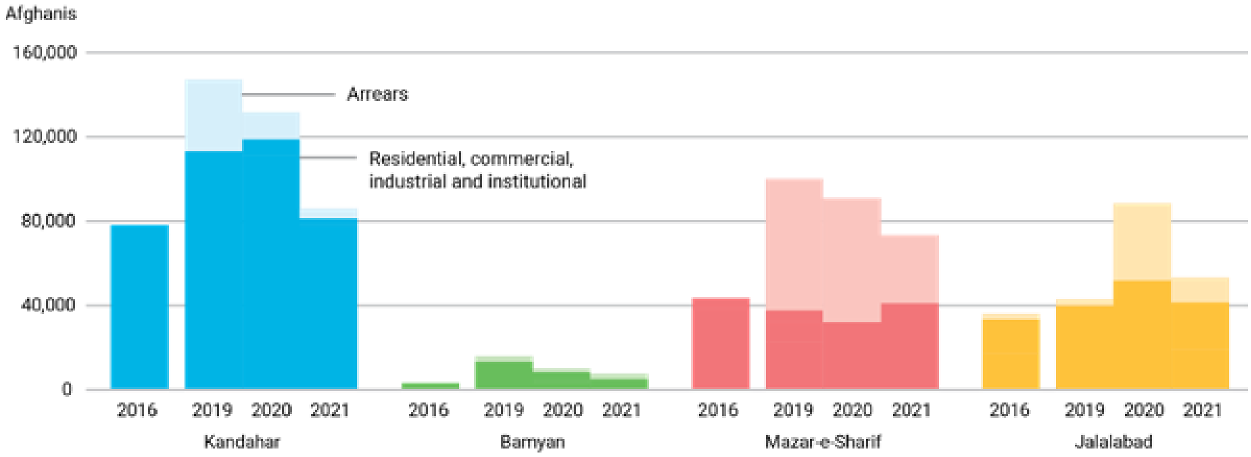
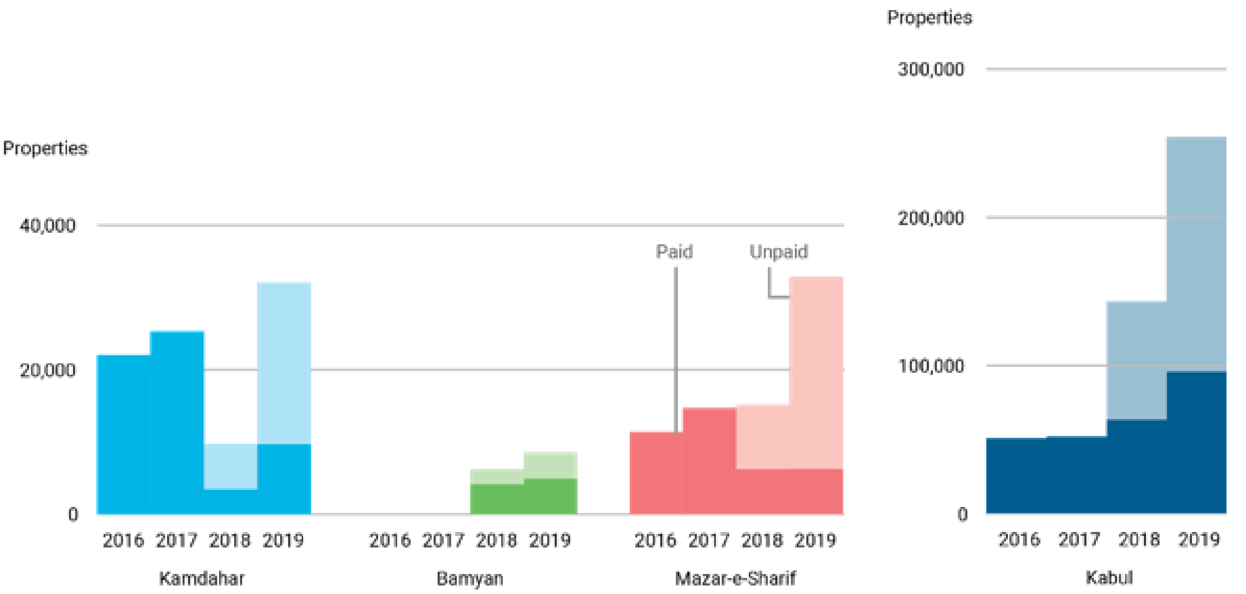


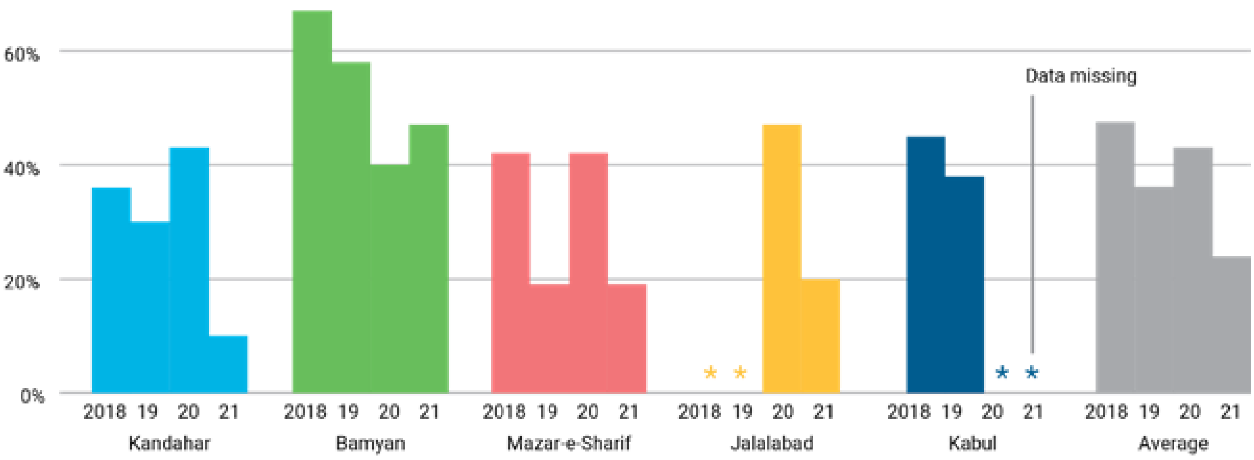
Figure 2.4 *Safayi* compliance, number of properties, 2016–19



*Prior to UN-Habitat's assistance, Bamyan charged a flat rate for *safayi* fees and did not have any property records in 2016 and 2017.

**The invoice and paid property data in 2018–19 reflects only the subset of invoices delivered with UN-Habitat's assistance. There were additional invoices and payers in each municipality in these years.

Figure 2.5 Compliance rate for properties invoiced with UN-Habitat support, 2018–21



Average includes Kabul in 2018 and 2019 only and Jalalabad in 2020 and 2021 only due to missing data.

100% compliance (Figure 2.4). As the programme expanded invoice distribution, the gross number of payers increased at a lower rate than the increase in invoiced properties, creating a widening compliance gap. In 2018, UN-Habitat assisted municipalities in delivering nearly 175,000 invoices, 189% of the number of invoices issued in 2017. Of these invoices, 82% were issued in Kabul (Afghanistan's largest city by far). Kabul saw an impressive 74% increase in total payers,[6] yet this was far less than the 174% increase in invoices issued. This trend grew more pronounced in 2019 across all cities despite the ongoing trust building and public awareness interventions.

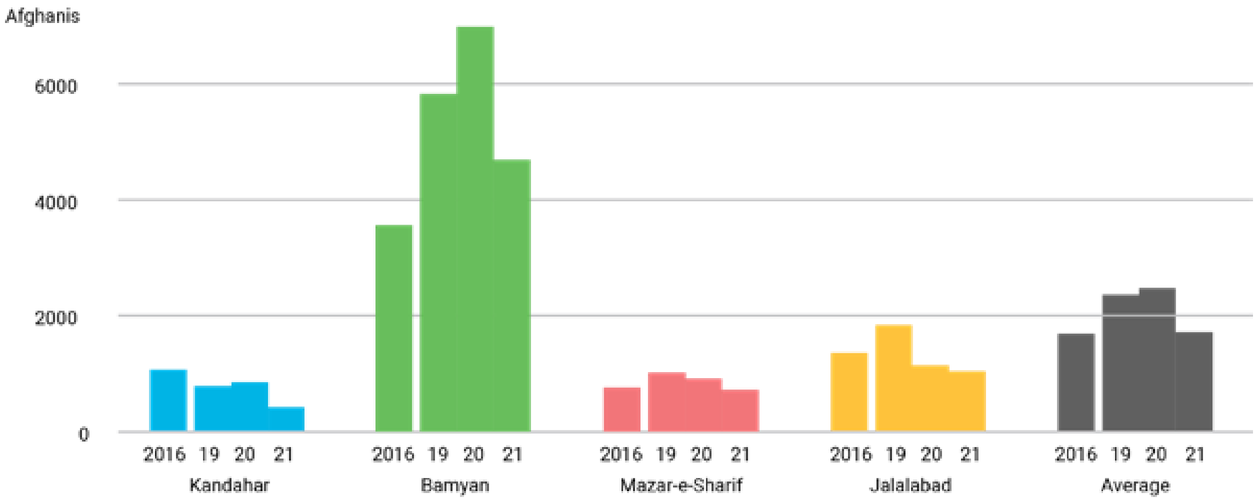
In 2019, UN-Habitat's support resulted in more invoices across all cities: the total number of invoices increased by 88%. The number of payers also increased in 2019, but only by an average of 13%, far less than the increase in the number of invoices issued. The discrepancy was most pronounced in Kandahar. In this city, the number of invoices rose by 227% between 2018 and 2019, but the number of payers rose by only 32%.

Focusing only on those payers who were invoiced with UN-Habitat assistance, the compliance rate deficiencies become further pronounced (Figure 2.5). In 2018, the average compliance rate for invoiced properties was 48%. Between 2018 and 2019, all cities' compliance rates decreased. The most severe compliance decrease was in Mazar-e-Sharif, which saw a 23% drop.

Due to the pandemic and other challenges, a total of only 117,697 invoices were distributed in 2020 across the five cities of Bamyan, Herat, Kandahar, Jalalabad and Mazar-e-Sharif. This was fewer than anticipated. The decrease coincided with an increase in the average compliance rate by 7%, yet the 2020 average compliance rate did not surpass that of 2018 (Figure 2.5). Kandahar's 2020 compliance exceeded its 2018 level. In 2021, all cities other than Bamyan saw a decreased compliance rate. Bamyan's compliance rate increased by 7% between 2020 and 2021 but did not reach its 2018 or 2019 level. The violence in 2021 reduced programme operations and may have contributed to the low compliance rate.

6 Total payers include both those who were invoiced by UN-Habitat and those who paid prior to UN-Habitat's assistance.

Figure 2.6 Total own-source revenue per capita, 2016 and 2019–21



Own-source revenue

Between 2016 and 2019, total per capita own-source revenue, including *safayi* revenue, rose in Kabul, Mazar-e-Sharif, Bamyan and Jalalabad. In Kandahar, it fell by 27% in the same period: a consequence of abnormally high earnings from the sale of municipal assets in 2016 (Figure 2.6). In 2020, Bamyan boosted its revenues by 20% and Kandahar by 10%, but revenues fell in Mazar by 10% and in Jalalabad by 38%. In 2021, own-source revenue fell across all four of these cities by an average of 29%. Kandahar, which saw the most fighting, saw the steepest decline, a 51% drop from 2020. Jalalabad, which saw the least fighting, had the smallest decrease (9%). Overall, between 2016 and 2021, per capita own-source revenue increased only in Bamyan (by approximately 39%). In the same period, per capita own-source revenue fell in Kandahar by 60%, in Jalalabad by 24%, and in Mazar by 6%.

Per capita own-source revenue (Figure 2.7) generally followed the same upward trajectory as per capita *safayi* revenue between 2016 and 2019. But in 2020, *safayi* revenue fell, while own-source revenue continued to rise due to an increase in fees for urban services and other smaller revenue streams that were less affected by the pandemic.

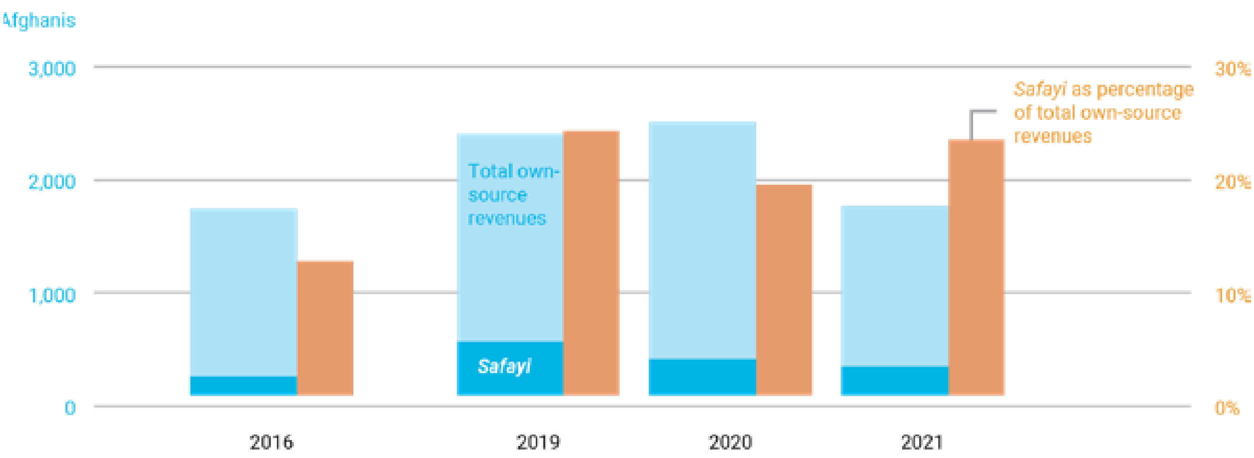
Overall, *safayi* increased as a share of total own-source revenue over time. In 2016, in the cities of Kandahar, Mazar-e-Sharif, Bamyan, and Jalalabad, *safayi* accounted for an average of 12% of total own-source revenue, but rose to 24% in 2019, and maintaining a 23% share even as *safayi* and own-source revenue fell in 2021.

Expenditures

Total expenditures

Increasing tax revenue is not an end in and of itself. Rather, it is important because it allows expenditures on public services to be increased, so benefiting residents and promoting state-building. While all the cities except Kandahar boosted their own-source revenues between 2016 and 2019, total expenditures increased only in Kabul. Two cities (Bamyan and Mazar-e-Sharif) had higher expenditures than revenue in 2016, which resulted in reduced expenditures between 2016 and 2019 despite the revenue increases.

Figure 2.7 Total own-source and *safayi* revenue per capita, Kandahar, Mazar-e-Sharif, Bamyan, and Jalalabad



Even though total expenditures fell in three of the four cities in Figure 2.8, all increased their expenditures on salaries between 2016 and 2019: from a mere 3% increase in Kandahar to a high of 156% in Bamyan (Figure 2.9). All except Mazar-e-Sharif also boosted their administrative and maintenance expenditures. On the other hand, development expenditures[7] – a rough proxy of outlays on public services – fell in all cities except Kabul.

In 2020, own-source revenue rose in Bamyan and Kandahar, but fell in Mazar-e-Sharif. Expenditures, on the other hand, went up in Kandahar and Mazar-e-Sharif. Kandahar's 2020 expenses rose due to a 104% increase in development expenditures. However, this increase did not result in Kandahar's per-capita development expenditure surpassing the 2016 amount. In 2021, affected by fighting, per-capita own-source revenues and per-capita expenditures decreased in all three cities. Across cities, between 2020 and 2021, the only two expenditure categories to increase were both in Kandahar: per-capita staff salaries increased by 3% and benefits and administrative expenditures increased by 11%. Development expenditures fell the most, on average, across the cities.

Between 2016 and 2021, the only per-capita expenditure categories to increase were staff salary and benefits, and administrative expenditures. All three cities with data for this period increased their per-capita staff salary and benefits expenditures: by 122% in Bamyan, 39% in Mazar, and 7% in Kandahar. In Bamyan, per-capita administrative expenditures also increased between 2016 and 2021 by 240%.

Impact of the Taliban takeover on *safayi* collection

The increased fighting and insecurity during 2021 hampered programme and municipal operations. The year brought decreased revenue, compliance, and expenditures. Yet, after the Taliban takeover a few of these impacts were reversed. *Safayi* revenue increased by 90% between quarters 1–3 and quarter 4. Compliance rates also increased 72% in October–December. This can be attributed to the resumption of programme activities in October 2021, the increased stability, and the Taliban's influence on compliance. The perception of increased stability was from the Taliban assuring citizens that the war was

7 Development expenditures include capital expenditures and service delivery related expenses. This category also includes capital expenditures on equipment.

Figure 2.8 Change in per capita total expenditures and own-source revenues, 2016–19

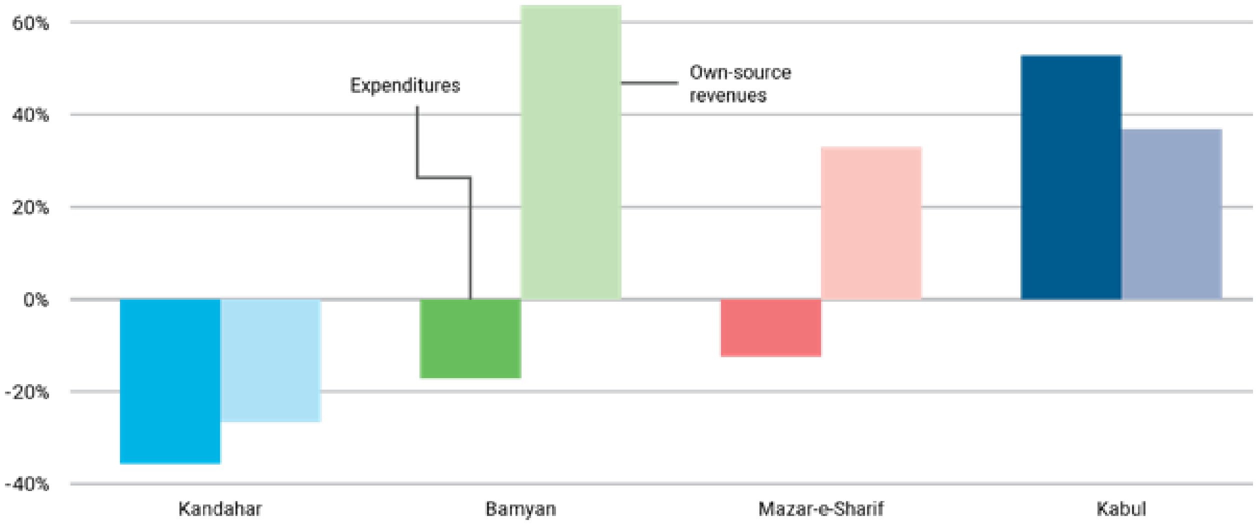
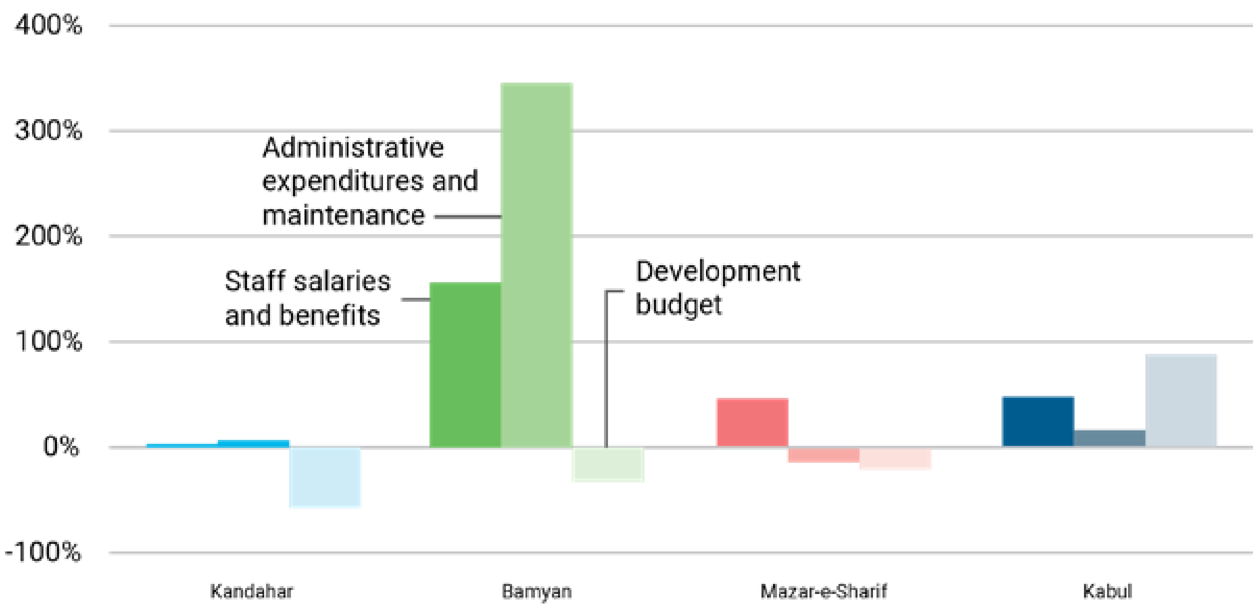


Figure 2.9 Change in per capita expenditure components, 2016–19



over and they were in charge of government, and their safety and security were protected. On the other hand, the Taliban's influence on compliance was by intimidation. It is thought that many citizens paid *safayi* out of the fear of victimization for non-payment.

Programme impact on public perception and governance

As mentioned in the introduction, tax systems have the potential to improve governance in multiple ways, including the improvement of public services achieved through accountable and responsive governments. This reform programme was designed specifically to improve governance. But according to the expenditure data, development expenditures decreased in all cities except Kabul. This suggests that the tax reforms did not result in improved service delivery, accountability and responsive expenditures in any city other than perhaps Kabul. Nonetheless, interviews with programme beneficiaries indicate the reverse.

Service delivery and expectations of government

The Kabul Strengthening Municipal Nahias Programme held an end-evaluation in December 2020 and January 2021. Over half (52%) of the respondents did not observe an improvement in service delivery, despite the increase in development expenditures in the city (Schulze and Shakir 2021). They did note slight variations between services: over half saw improvements in street lighting, electric supply and road services, but less than half saw improvements in waste and sewage collection, water supply, green areas and drainage services. At the time of the evaluation, *nahias* with the lowest number of property surveys produced the lowest satisfaction rates, implying that property surveys may correlate with improved services. Kabul beneficiaries reported low expectations of the government.

The findings of a mid-term survey with 524 respondents in the Municipal Governance Support Programme (which covered 12 cities, including 2 *nahias* (districts) in Kabul) conducted in February and March 2020 gave different results. Despite evidence of decreasing service expenditures, respondents reported improved services as a result of the programme (Van Houten and Ibrahim 2020). They suggested that the *gozar*-grant infrastructure projects had increased expectations of government (Van Houten and Ibrahim 2020). One *gozar* leader said that community members continued to ask for additional infrastructure projects after the *gozar* grant projects were implemented: “It is almost as if by building the canal people are more aware of the other things that they need to address.” In focus groups with evaluators, community members expressed unmet service delivery and construction needs. These demands demonstrate that the community had updated their expectations of what the government should provide.

Accountability and public trust

In Kabul, municipal employees reported that the reform programme, and especially the *gozar* assemblies, made municipal staff feel more accountable to constituents (Schulze and Shakir 2021). Nevertheless, the evaluation concluded that the public still lacked strong measures to hold the government accountable. This, combined with a lack of service improvements, resulted in no increase in public trust.

The Municipal Governance Support Programme beneficiaries felt the opposite. They said that the government was more accountable and improved service delivery increased trust in it (Van Houten and Ibrahim 2020). The beneficiaries also reported increased knowledge of municipal operations, including *safayi* fees, occupancy certificates and strategic planning.

Capacity

The government capacity in service delivery, land management, urban planning, public engagement and infrastructure improvement rose in both the CFA programmes. But the lack of service improvement in Kabul and the resistance to taking over the maintenance of *gozar* infrastructure in both programmes highlight potential capacity deficits. Further interventions would be needed to ensure improvements are maintained.

Spill-over benefits

Spill-over benefits included the development of an electronic central database for land data and increased land tenure. All *nahias* linked property data to a GIS map maintained in a central database in Kabul that national government agencies can access. This data can be used for a myriad of other purposes. Land tenure was strengthened by the issuance of occupancy certificates – though delays resulted in fewer issuances than anticipated. Additionally, the uncertainty around enforcement and the inability of certificate holders to use them as collateral for loans means the benefits of land tenure were only partially unlocked. Nevertheless, the certificates are a positive move towards more assured tenure and made beneficiaries feel more secure in their land occupancy.

Discussion and conclusions

Overall, the impact on the City for All and Land-based Finance programmes on the public–government social contract, state building, and stabilization appears to be mixed. Where service delivery improved, public trust grew. The municipalities increased their capacity, but they still could not maintain the improved practices after the end of the programmes.

The programmes aimed to improve taxation and municipal capacity to enhance the delivery of services. Higher taxation without benefits to citizens is not a positive outcome. Despite reports of service-delivery improvement by beneficiaries of the Municipal Governance Support Programme (part of City for All), development expenditures did not rise in cities other than Kabul. Kabul did increase its development expenditures by 89% between 2016 and 2019, but this did not result in an improved public perception of those services. We can therefore assume that the increase in these expenditures was insufficient to satisfy constituent needs. If services did improve in cities without an increase in development expenditures (as shown by the Municipal Governance Support Programme survey results), those improvements are likely to be a result of UN-Habitat's intervention expenditures.

One goal of the City for All programme was to move service and infrastructure expenditures onto municipal budgets. We have no evidence that this occurred outside Kabul. The service improvements are not sustainable without continued international support.

The lack of increased development expenditure indicates a missing link in the tax-bargaining cycle. The change model posits that a well-designed tax programme will spur tax bargaining between the public and the government, and the government will alter expenditures to encourage tax compliance. The programme was designed specifically to create a conducive environment for tax bargaining. Reforms focused on improving transparency, inclusive engagement, fairness, and public awareness – four characteristics that have been shown to encourage links between taxation and government accountability (Prichard 2016).

Against expectations, these interventions did not elicit improved spending from municipalities. Components of the tax bargaining cycle were present:

- The public knew more about the taxation process and municipal operations.
- Public expectations of government increased as a result of this knowledge and

through seeing the infrastructure projects come to fruition.

- *Gozar* assemblies and strategic action plans offered channels for the public to voice concerns and communicate their needs.

- *Gozar* assemblies made government officials feel more accountable to the populace.

It appears that the missing link lies in the government's ability or willingness to act on citizen demands. Multiple factors may have contributed to this missing link.

Tax revenues may be simply too low to cover municipal operations in addition to development expenditures. Studies in Ghana and Sierra Leone have shown that local-government tax revenue is sufficient to cover only the cost of collection and some recurrent operating costs (van den Boogaard et al. 2022). In Afghanistan, local governments increased their staffing and administrative expenditures instead of increasing service delivery expenditures. Low staffing levels prior to the CFA programme had resulted in a lack of capacity to deliver invoices. So to continue the capacity-intensive operations instituted by UN-Habitat, increased municipal staffing was necessary. UN-Habitat itself advocated for adding "revenue mobilizers" to payrolls to sustain invoice delivery. Of the four cities with available data, three increased revenue staff between 2016 and 2019. Kabul boosted such staff numbers by 59%, including 89 revenue mobilizers absorbed onto the municipal budget from the project. Mazar-e-Sharif increased its revenue staff by 47%, and Bamyan by 200%. Only Kandahar cut its revenue staff, by 27%. Because municipalities need to maintain revenue gains to ensure money for development expenditures in future budget cycles, increased staffing expenditures may be a prerequisite of increasing service expenditures.

Unrealistic expectations Insufficient capacity can result in a vicious cycle of taxpayers refusing to pay taxes and governments lacking sufficient revenues to increase enforcement or provide payment-motivating public goods (van den Boogaard et al. 2022). Realistic expectations of government expenditures should be set by programme interventions from the outset. In low-revenue environments like Afghanistan, raising public expectations of the government's ability to increase expenditures can lead to increased public mistrust and reduced future engagement when the expectations are not met. Establishing realistic expectations may lead to more constructive public-government engagement. On the other hand, unrealistic public demands can be an incentive for improvements in government performance.

If government revenue is insufficient to cover increases in development expenditures, improved local tax revenue can still be beneficial as a signal to donors and central governments that local governments are committed to raising revenue. This can spur increased external investment in local infrastructure and services, as evidenced in Sierra Leone. Additionally, increased revenue can improve municipal creditworthiness and lay a baseline for leveraging loans and other monetary assistance.

Inadequate incentives for governments to acquiesce to public demands The lack of municipal elections may have diminished government incentives towards accountable spending and service improvement. In Sierra Leone, competitive municipal elections spurred elected officials to overhaul the taxation system and clarify the links between taxation and service delivery (Jibao and Prichard 2015).

Property-tax reform in Kananga, Democratic Republic of the Congo, a city which also has limited opportunities for local democratic participation, had results comparable to those in Afghanistan. Citizens' expectations of government increased as a result of the programme, yet there was also lower confidence that tax revenue would be returned as public benefits (Weigel 2020).

Declining compliance The declining compliance rate suggests that the public chose to evade taxes rather than engage in tax bargaining. This may have reduced the collective power of the demands. Environments with deep-seated government distrust (such as Afghanistan) may require supplementary measures, such as earmarking, to increase transparency and trust of taxation (Prichard 2016). Although expanding the tax base did increase fairness, taxation was still not universal, which may contribute to tax avoidance rather than bargaining. But even Bamyan, which completed a city-wide property registration drive and had the highest compliance rates in 2018, 2019 and 2021, cut its per-capita development expenditures. This casts doubt on the correlation between taxbase expansion, compliance and accountability.

Equity improvements in other aspects of taxation or light coercive elements may be needed to reduce avoidance and spur bargaining. Without a basic enforcement ability, voluntary compliance may have limited impacts on tax collection (Jibao and Prichard 2015). This effect is further pronounced in fragile states with low state legitimacy (Fjeldstad et al. 2018). While coercive methods of tax collection should be avoided, a lack of state trust may require a foundation of light coercion to engage citizens in tax bargaining. Tax reforms in Sierra Leone highlighted the positive impact on revenues from a foundation of enforcement, especially enforcement of elite taxpayers (Jibao and Prichard 2015).

Time Tax bargaining may require longer time periods to result in improved expenditures. Improved results may only come after continuous payment resistance from the populace (Moore et al. 2018). The decreasing compliance rate and onset of demands may be an indication that this cycle is in process.

Expenditure focus In fragile contexts with limited public accountability mechanisms, tax reforms aiming for long-term improvements to service delivery might consider including expenditure-focused goals in the programme design. One example of this is in Kampala, Uganda (Kopanyi and Franzsen 2018). Kampala's reforms included a target that 30% of revenues should go towards service delivery, as well as specific targets to improve public perception of services. Including these metrics as formal programme goals would not only focus programme actions on the direct goals of governance improvement, but would also provide better data to gauge the effect tax reforms on governance and reducing fragility.

Nonetheless, including expenditure goals in programme design does not guarantee long-term links to governance. The public benefit of expenditures in other countries has been questioned. In addition to contested spending in Sierra Leone, earmarking tax revenue in Ghana did not guarantee productive uses (Moore et al. 2018). Regardless of whether expenditure goals are explicitly included in programme design, it is important to strengthen public accountability and monitoring mechanisms to ensure public funds are used productively.

Outlook

The Taliban's takeover complicates the goal of institutionalizing *safayi* revenue improvements. On one hand, Afghan citizens indisputably need improved urban services, which require increased revenue. But the Taliban's lack of expenditure transparency casts doubt over whether *safayi* revenue will be used to provide citizens with adequate basic services (Byrd 2022). Additionally, the Taliban's history of coercive taxation suggests that increased transparency and inclusive tax bargaining will not be on their agenda.

Given the scale of Afghanistan's current financial crisis, the Taliban has been able to maintain an impressive level of national domestic revenue since their takeover. From December 2021 to August 2022, collections of AFN 100 billion exceeded the previous year's collections (World Bank 2022a). This is primarily due to increased border revenues, as inland taxes declined 18% from the previous year. Non-tax revenues also performed well due to increased coal-mining fees, com-posing 54% of total inland revenue, up from 30% in the prior year.

At the time of the Taliban's takeover, programme activities, including the institutionalization of reforms through legislation, hiring permanent staff, and training staff on technology, were still underway. Large numbers of properties still need to be surveyed in Herat and Kandahar, but the municipal staff who remain do not have the capacity to complete this task. As of May 2022, some cities had discontinued the programme practices, including invoice delivery, transparent disclosure of income and expenditures, participatory budgeting, and technology usage. Only Bamyan and Jalalabad municipalities still deliver invoices to properties, and the use of Excel to record and report *safayi* collections has been scaled back. The integrated financial management system has not been operational since the Taliban's takeover. Additionally, there has been significant staff turnover due to the Taliban's replacement of municipal leadership with people loyal to them, the dismissal of lower-level staff in some cities, the flight of other employees, and the ban on women workers.

Given the different changes across municipalities since the takeover, *safayi* collections and service delivery may vary significantly between municipalities in the coming years. Though it seems likely, given the national fiscal deficits, the reduction in foreign aid, and the need for greater staff capacity to continue programme practices, *safayi* collection activities will be greatly scaled back. All of this casts doubt on the ability of municipalities to maintain service delivery. The Taliban's taxation tactics may still turn out to improve the collection of own-source revenues without the programme's interventions. It remains to be seen whether they will also prioritize the provision of public services in the medium to long run.

Conclusion

The City for All and Land-based Finance programmes focused on the expansion of inclusive and fair property taxation as a catalyst for improved governance, including improved land management and service delivery. *Safayi* revenue was increased and maintained despite the impacts of the covid-19 pandemic and internal violence. Additionally, the programme improved land management and tenure in Afghanistan by surveying and digitizing property records and issuing occupancy certificates to property owners. Capacity building, services and perceptions of governance improved in some (but not all) programme municipalities.

Contrary to expectations, the programmes' focus on transparency, public engagement, and fairness did not elicit increased municipal development expenditures. Development expenditures actually decreased across all cities except Kabul between 2016 and 2019.

These results add to the evidence that, even under adverse conditions, local governments in fragile and conflict-affected states can increase property tax revenues if given adequate resources and technical assistance. They demonstrate that programmes targeting expenditure changes in fragile states should not assume increased revenue will result in increased service expenditures.

To ensure expenditure impacts, interventions need to ensure all components of the tax bargaining process are in place, including effective government incentives and mechanisms for the public to hold the government accountable. During this programme, the first few steps in the tax bargaining process were present, including updated citizen expectations for service delivery and increased feelings of accountability by the government. But the lack of increase in accountable spending could have multiple causes. Further study is needed to understand the missing links in the *safayi* tax bargaining process, including the possibility that impacts on development expenditures require a longer period to appear, and analysing the extent to which low-revenue environments are able to generate enough revenue to cover both operational and development expenses.

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Annex

Table 2.1 Urban population in selected cities in Afghanistan, 2016–21

Urban population	2016	2017	2018	2019	2020	2021
Kandahar	448,262	461,864	490,820	506,794	523,259	540,231
Bamyan	13,218	13,524	14,054	14,394	14,742	15,097
Mazar-e-Sharif	415,053	427,647	454,457	469,247	484,492	500,207
Jalalabad	232,901	239,968	255,012	263,312	271,867	280,685
Herat	491,967	506,896	538,673	556,205	574,276	
Kabul	3,817,241	3,961,487	4,141,165	4,273,156		

Table 2.2 Per capita *safayi* revenue in selected cities in Afghanistan, 2016–21

Per capita *safayi* revenue	2016	2017	2018	2019	2020	2021
Kandahar	0.17	0.20	0.19	0.29	0.25	0.16
Bamyan	0.23	0.23	0.30	1.11	0.69	0.50
Mazar-e-Sharif	0.11	0.14	0.11	0.22	0.19	0.15
Jalalabad	0.15	0.18	0.17	0.34	0.20	0.24
Herat	0.29	0.22	0.21	0.31	0.20	
Kabul	0.16	0.22	0.19	0.19		

Table 2.3 ***Safayi* revenues by category, selected cities in Afghanistan, 2016–21**

City, category of *safayi* revenue	*Safayi* revenue (AFN 1000)					
	2016	2017	2018	2019	2020	2021
Kandahar						
Residential	26,568	32,958	31,197	33,431	43,834	24,412
Commercial	47,246	53,991	55,908	69,411	67,318	53,679
Industrial		1,639	1,538	2,109	753	567
Institutional	4,434	4,811	5,697	8,566	7,181	2,649
Arrears				33,568	12,769	4,677
Total	**78,248**	**93,398**	**94,340**	**147,085**	**131,855**	**85,984**
Bamyan						
Residential	184	791	1,145	2,840	2,572	2,228
Commercial	212	372	660	1,880	1,428	981
Institutional	2,704	1,954	2,391	8,443	4,516	1,776
Arrears				2,743	1,616	2,514
Total	**3,100**	**3,117**	**4,196**	**15,906**	**10,132**	**7,499**
Mazar-e-Sharif						
Residential	27,324	32,607	19,841	22,785	20,358	29,954
Commercial	11,391	13,835	6,300	9,446	9,629	10,692
Industrial	1,341	1,012	865	1,654	1,891	1,074
Institutional	4,711	2,235	2,271	5,576	2,132	425
Arrears		11,781	19,629	62,304	58,965	32,437
Total	**44,767**	**61,470**	**48,906**	**101,765**	**92,975**	**74,582**
Jalalabad						
Residential	17,184	19,649	20,173	24,759	19,070	24,476
Commercial	13,101	13,735	14,107	20,728	17,677	20,507
Institutional	3,157	6,038	5,807	6,392	4,776	2,097
Arrears	2,537	3,117	2,936	36,564	11,560	21,166
Total	**35,979**	**42,539**	**43,023**	**88,443**	**53,083**	**68,246**
Herat						
Residential	78,536	31,475	29,180	27,389	23,962	
Commercial		39,625	37,682	39,195	35,728	
Industrial	16,764					
Institutional		12,179	16,177	13,408	14,051	
Arrears	49,823	26,860	28,535	90,672	38,598	
Total	**145,123**	**110,139**	**111,574**	**170,664**	**112,339**	
Kabul						
Residential		141,723	130,445	162,512		
Mixed residential & commercial		64,933	70,606	75,442		
Commercial		202,754	289,723	273,977		
Properties on hills		40,983	38,816	44,599		
Institutional		432,425	244,123	235,484		
Total	**604,455**	**882,818**	**773,713**	**792,015**		

3

Land and property tax reform in Puntland and Somaliland

Exploring the connection between revenue optimization and service delivery

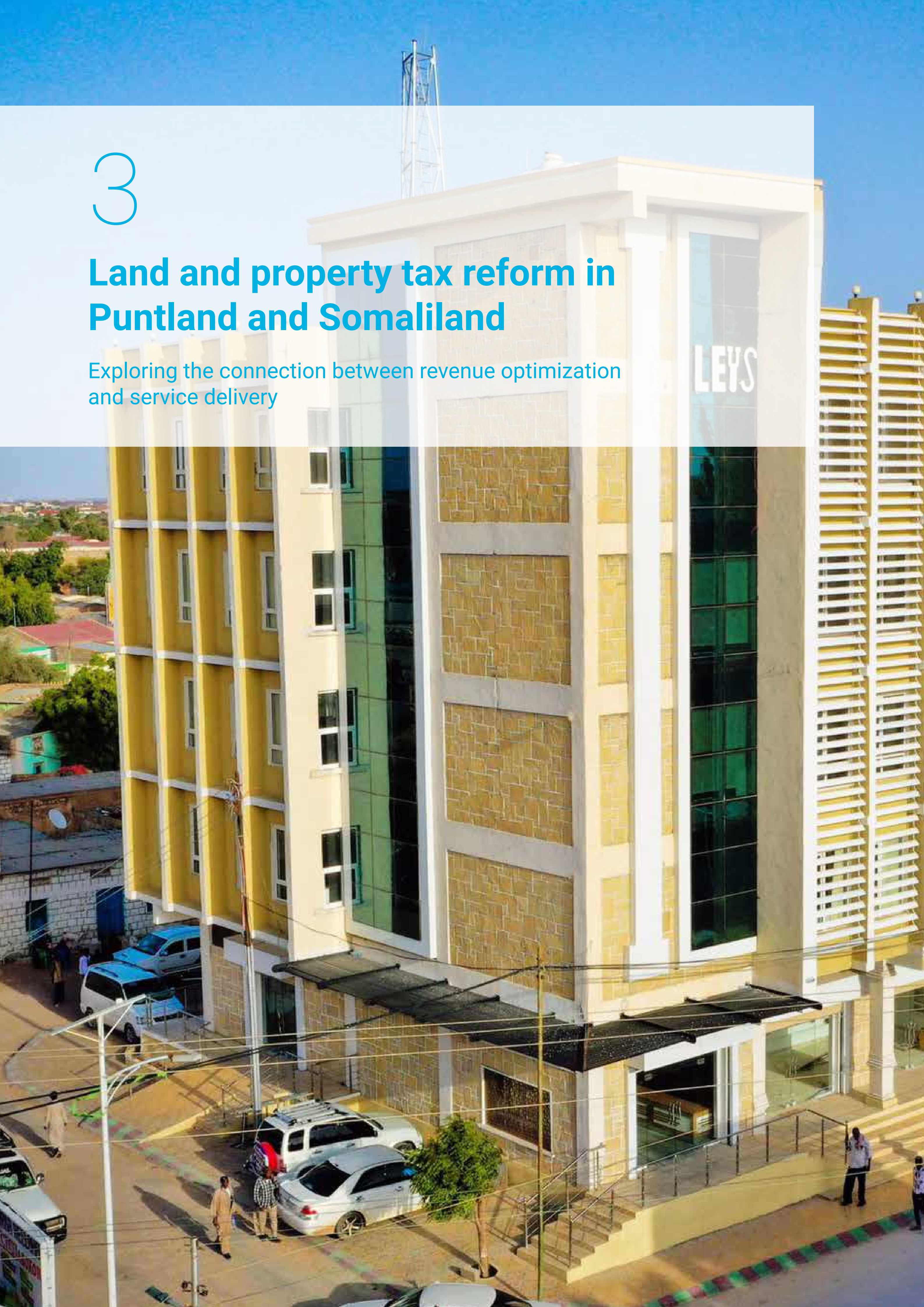


Photo on previous page: Burao, Somaliland. Siirski (CC BY-SA 4.0)

3

Land and property tax reform in Puntland and Somaliland

Exploring the connection between revenue optimization and service delivery

Lennart Fleck, Balqesa Sheikh and Abdishakour Said[1]

In the past years "fragile states" have become a key priority of the international development community. By 2030, up to two-thirds of the world's extreme poor (1 billion people) will live in countries characterized by fragility, conflict and violence (McLoughlin 2012). Failure to address this fragility will continue to have serious implications on human life in fragile states themselves and pose the risk of insecurity and conflict spill-overs into neighbouring countries.

While addressing state fragility has become a priority, finding a way out of it has proven difficult. One promising approach is decentralization. Rather than having to improve the situation over vast areas all at the same time, strengthening local governance can build a functioning state from the bottom up. Successful local governance in turn requires operational local financing mechanisms. Generating revenue locally has been proposed as a way of funding the delivery of services, increasing the efficiency of public expenditure, and establishing or restoring trust between local governments and their constituencies (Bahl and Bird 2008, Martinez-Vazquez 2006, Slack 2009, World Bank 2001, Fjeldstad and Semboja 2000).

The logic is that where local governments are required to raise their own taxes and fees (commonly known as **own-source revenues**), they will need to engage more closely with their citizens and negotiate for tax compliance based on improved governance and service delivery. Land and property taxation is a major potential source of revenue for local governments (Slack 2009). They are regarded as an appropriate source of revenue for local governments since the benefits from local government services (schools, roads, public parks, sewage, etc.) are capitalized into property values, so should be shared with the community. These taxes may be collected on the basis of use or occupation, not necessarily ownership.

The theoretical appeal of boosting local taxation and particularly land and property taxation is clear. But more research is needed to better understand how revenue reforms play out in practice. Two places that seemingly

1 All authors: UN-Habitat

Somali cities are often laid out on a neat grid pattern of streets – but lack basic amenites

lend themselves to a more in-depth analysis are Somaliland and Puntland. Both of these have become autonomous only recently. They are not sovereign states: Puntland is an autonomous state within Federal Somalia, while Somaliland is a self-governing area which aspires to be considered a sovereign state but has not yet attained international recognition. Both decentralized their delivery of services in 2010, providing local governments with a significant authority and capacity over revenues. Their experiences should shed light onto the effects of land and property tax reform in fragile states.

This paper starts by looking at the context of Puntland and Somaliland. Generalizing from their experience requires an understanding of conditions before the decentralization reforms, as well as of the broader economic, financial and security situation. The second section assesses the outcomes in terms of land- and property-tax revenue and service delivery. The third section analyses the results and offers explanations for why revenue increases stagnated, and explores the relationship between revenue and expenditure. The paper concludes by providing policy recommendations and outlining areas of further research.

The reforms increased land and property tax revenues, but they did not help local governments attain their land- and property-tax potential. This is likely due to the lack of local government capacity and insufficient reform incentives. Changes in the revenue administration were not accompanied by improvements in service delivery in more recent years. Even had revenues from land and property taxes increased more substantially, this would not likely have led to improved service delivery since public expenditure is not just a function of revenue increments, and since improved governance may not be the main survival strategy for local governments in fragile contexts.

Analytical framework

If there is any chance of contributing to broader state-building processes via decentralized governance, it must be possible for local governments to increase their own financial space even if the state's capacity is limited. In fragile states, national governments cannot provide sufficient transfers to local governments to allow for the reconstruction and delivery of needed public services and infrastructure. So local governments need to develop their own ability to raise revenues. However, it is not clear whether local governments with little institutional capacity are capable of leveraging local taxes – and particularly property taxes, given the widely known technical challenges of using this tax (Slack 2011).

Are local governments in fragile and low-income contexts able to generate enough additional revenue? This is questionable. Optimizing land and property tax is often not in the interests of tax collectors, politicians or economic elites, all of whom benefit from tax loopholes, a lack of enforcement, or reduced business or property tax rates (see e.g., Burgess and Stern 1993, Fjeldstad and Semboja 2000, Franzsen 2007, Prichard 2017, Piracha and Moore 2015, Tanzi 1998). After all, tax collection, like policing, can be a major channel for state-licensed rent-seeking (Piracha and Moore 2015).

It is also important to understand the mechanisms behind those reform aspects that bring about improvements (or cause problems). It would be difficult to learn from the reforms without an understanding of which aspects were most critical.

Furthermore, even if local governments in fragile states were to increase land and property taxes, it is not clear whether this would increase their accountability and efficiency. The idea that higher tax revenues bring about more accountable and efficient public spending is at the heart of interpretations of statebuilding and the emergence of representative governments in the West (North and Weingast 1989, Lindert 2003). But does this also apply to fragile states? Are local governments in such states likely to adopt a long-term or developmental approach? Or will they merely channel the extra money towards immediate regime survival, for example by supporting salaries and other government costs or, less benignly, sponsoring clientelist networks and key partners? Some research suggests that optimizing own-source revenue is indeed likely to lead to expenditure improvements. Gadenne (2017), for instance, found that as the own-source percentage of local government revenue in Brazil increased, so did the efficiency of expenditure (i.e., the quantity and quality of municipal education and infrastructure). Martinez-Velasquez (2016) found a similar mechanism at work in local governments in Colombia. This empirical evidence builds on the theory that as citizens pay higher taxes, they expect improved services and so exert greater pressure on their governments to improve the delivery of those services.

But some suggest that improvements in local taxation will not directly bring about improvements in service delivery (Reinikka and Svensson 2005, Olken 2007, Milán-García et al. 2022, Balaguer-Coll et al. 2021). It seems the direct causal link, the "Wickselian connection" (Bird and Slack 2014), cannot be assumed since local expenditure decisions are taken not just taken based on efficiency considerations but depend strongly on factors such as the composition of local communities as well as the private interests of specific interest groups (e.g., Albassam and Camarero 2020).

In his study of tax collectors in Somaliland, Campos suggests that tax-collection practices help shape perceptions of the state and of the role of citizens in it (Varming 2017). Just as effective practices can build citizenship, inefficiencies and lingering corruption in collection systems can erode the social contract and overall trust in government. Where local governments increase their revenue, but embezzlement and bribes by tax collectors remain common, citizens are unlikely to fundamentally change their perception of the state. They will be unlikely to hold local governments accountable for the services they provide. Furthermore, even where revenue increases are generated at the local level, citizens may not know which level of government to hold accountable, given the multiplicity of taxes and the complexity of revenue and expenditure responsibilities across different levels of government (Smoke 2013).

This paper seeks to answer three key questions:

- Can decentralizing revenue authority (particularly for land and property taxation) and associated building of local government capacity lead to significant increases in local government revenue?
- What explains changes in land and property tax revenues? Can reforms help local governments to attain their land and property tax potential?
- What impacts have revenue reforms had on public expenditure and service delivery?

In trying to answer these questions, the paper analyses the data from a Norad-funded project in Puntland and Somaliland. The information includes budgetary data: actual revenue and expenditure figures, execution rates, and performance metrics of land and property taxes including registration, billing, and compliance ratios. Since the project was designed to achieve an impact on the ground, not purely for research, the data are not sufficient to provide a comprehensive assessment and scientifically rigorous answer to these questions. An effective measurement of expenditure efficiency in particular would have required information on outputs rather than on inputs to discern whether the quality or quantity of service delivery was affected. The interventions were carried out in a dynamic environment, making it difficult to unpick causal mechanisms.

Despite these shortcomings, we can still shed light on the broader mechanisms of local revenue reform and how it can impact service delivery and governance.

Context

State building and security

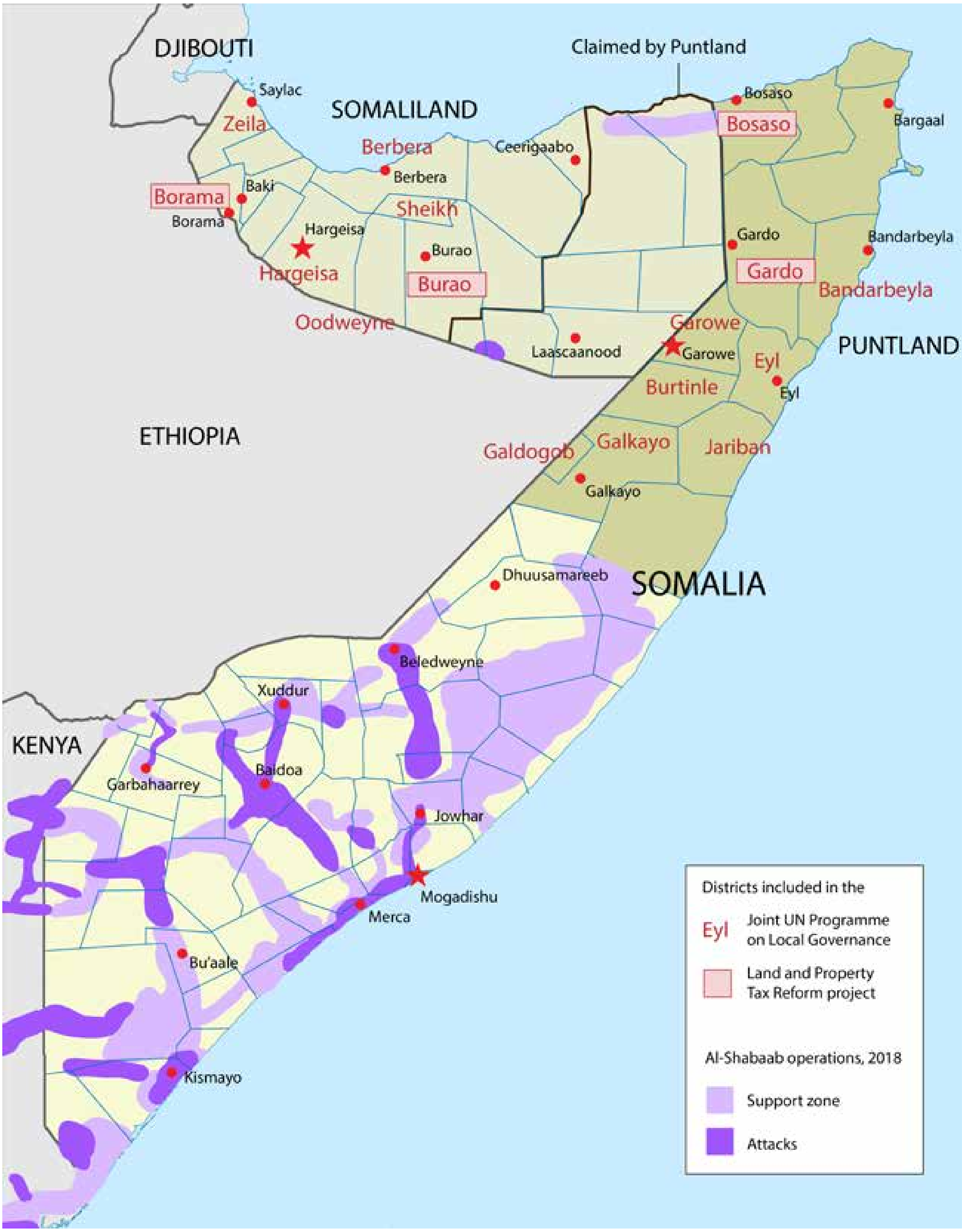
The former Italian territory of Somalia and the British territory of Somaliland achieved independence in 1960. After a brief period of multi-party politics, Siyad Barre came to power in 1969 in a military coup. After consolidating his power, Barre launched a modernizing state-building project, expanding the Somali army, developing a centralized command economy, building infrastructure, and seeking to create a national Somali identity which would supersede tribal affiliations. Barre also sought Soviet support to develop a powerful army. However, following a failed invasion of the Ogaden region in Ethiopia, Barre's hold on power started to wane. After a failed coup in 1978, Barre adopted new survival strategies: switching from Soviet to US support, fracturing the army, and engaging in divide-and-rule policies by instrumentalizing clan identity to drive local conflicts. Opposition grew to his increasingly authoritarian rule and ultimately led to his overthrow in 1991.

The power vacuum that ensued was characterized by in-fighting of various clans and rival warlords. The collapse of the central government also brought about the secession of **Somaliland**, which declared its independence in 1991. While it has not managed to gain formal international recognition as a sovereign state, it essentially functions as an autonomous self-governing region.

A few years later, in 1998, **Puntland** also declared itself as an autonomous State of Somalia. Unlike Somaliland, Puntland continued to remain a formal part of Somalia, however. The Somalia National Peace Conference, held in Arta, Djibouti, in 2000, and the Somali Reconciliation Conference in Eldoret, Kenya, in 2002, led to the establishment of the transitional federal government. Puntland is one of the five federal member states of Somalia.

By the early 2000s both Puntland and Somaliland (Figure 3.1) were operating as semi-autonomous, self-governing entities. The devel-

Figure 3.1 Project districts in Puntland and Somaliland, and Al-Shabaab areas of operation, 2018



Adapted from Hoch (2015) and Critical Threats (2018) opment of these two northern regions was favoured by considerably more stability than experienced in southern parts of Somalia. While clan infighting and border disputes (notably between Puntland and Somaliland) do occur, they are less frequent and less intense than in the south (Landinfo 2020). The militant Islamist group Al-Shabaab, which has since 2006 formed the key opposition to the Federal Government of Somalia and is held responsible for 70% of the 1,154 civilian casualties in Somalia (Danish Immigration Service 2020), has not managed to establish any territorial control in Somaliland, and has not conducted any major attack in Somaliland since 2008. Puntland also remains less affected by Al-Shabaab than the southern parts of Somalia. But the Al-Shabab has managed to gain a foothold in in the Galgala mountains, south-west of Bosaso, Puntland's largest city and an important coastal business hub, and has been a cause of instability within Puntland. In 2021, Al-Shabab stormed a prison in Bosaso, killing several guards and freeing over 400 inmates.

Economy and public finance

Thanks to a relatively stable overall security environment, the economies of both Puntland and Somaliland have experienced moderate growth since the early 2000s. The Puntland economy has grown by an average of 3% per year, and that of Somaliland by 1.9% since 2012 (Puntland Statistics Department 2021, Somaliland Central Department of Statistics 2021). Nonetheless, both regions remain amongst the poorest in the world with a GDP per capita of USD 372 (Puntland) and USD 700 (Somaliland). Actual income is likely to be significantly higher in both regions (some 20–40% in Puntland) due to remittances from the Somali diaspora (World Bank 2017). The largest economic sector in both regions is livestock, which makes up 40% of GDP in Puntland and 30% in Somaliland.

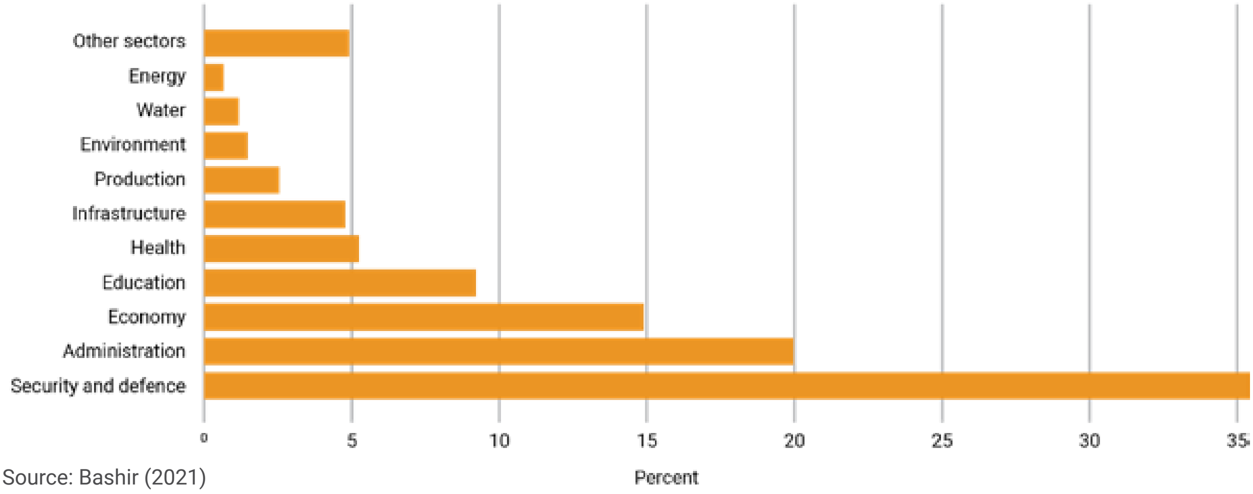
Both Puntland and Somaliland have relatively small central government budgets. In 2022 the budget of Puntland was USD 354 million, or 19% of GDP, while that of Somaliland for 2020/21 was USD 339 million, or around 13% of GDP. A considerable part of that budget, especially in Puntland, comes from donors: around 60% of the Puntland budget for 2022 (Somali Dispatch 2021). These low budgets are partly a result of very low tax-to-GDP ratios, at 3.9% in Puntland. For comparison, Kenya and Ethiopia collect around 18% of GDP in domestic revenues. The majority of domestic revenues are generated in Puntland and Somaliland via custom duties levied at the ports of Berbera and Bosaso; these generate over 50% of overall tax revenue.

The majority of funds are allocated as per agreements with the donors. Nonetheless, some questions arise over the overall use of public funding (Puntland Post 2021). Historically, a large majority of funding (an estimated 60% of the 2014 budget) was spent on security, with only 6% allocated to health and education (Varming 2017). In Somaliland, a majority of the budget (85.9%) is spent on current or non-development-related expenditures (salaries, allowances, utilities expenditure, travel expenses, vehicle maintenance, machinery and interest payments). Government wages alone constituted 50% of the budget, with only 16% going towards the health, education and water sectors. The single largest sector of the budget is security, which received over 35% of the total budget (Figure 3.2) (Bashir 2021).

Decentralization

Neither the rule of Siyad Barre nor the tumultuous years of conflict that marked the 1990s were conducive to the development of local governance. Siyad Barre's rule had initially been largely premised on building a strong, homogenous and centralized nation state (Hoch 2015). Only when his hold on power started loosening after his failed invasion of the Ogaden did he start engaging in local politics, playing different clans off against each other to avoid the emergence of a unified opposition. Local governance until independence in both Puntland and Somaliland was thus largely shaped by clan-based service provision and rivalry. Formal service provision at the local level was weak, and revenue

Figure 3.2 Somaliland 2021 budget by sector



Source: Bashir (2021)

generation was close to non-existent. Citizens paid taxes either to the national government or informally to their clan, their community or other non-state actors. While local administrative structures did exist, these largely operated without intact budgeting processes, without guidelines for delineating revenues from expenditures, without expenditure controls, and with generally low administrative capacity.

The situation for land and property was equally void of proper administration before the independence of Puntland and Somaliland. In the midst of war and conflict, significant amounts of land-ownership and registration documents were lost. Furthermore, due to the prolonged absence of a clear central government authority and the subsequent erosion of the rule of law, land and property have been subject to extensive illegal occupation and land grabbing. It this insecurity over land ownership which continues to be one of the main sources of violent conflict in both Somaliland and Puntland. These challenges around land and property ownership have resulted in local governments largely avoiding transactions relating to land and property.

All this changed in the early 2000s, with the creation of Puntland and Somaliland and the introduction of decentralized governance in both regions. Local governments were provided with substantial revenue and expenditure assignments and received training and equipment in the form of accounting systems and hardware to manage their newly granted revenue authority.

Governance

Puntland as per its 2001 Constitution is an independent but integral part of the Somali Federal State. It has a multi-party system and decentralization of government power, with Somali as its official language. The Somali Federal State is responsible for immigration, defence, foreign relations, postal services and currency control. The constitution states that the power of the state is split between the House of Representatives, the Judiciary Council and the Executive Council. The Executive Council is headed by the President of Puntland and is to be elected every 4 years based on universal suffrage for a maximum of two terms. The last presidential election in 2019 marked the fourth such election since 1998. However, due to deep-rooted inter- and intra-ethnic clan divisions, Puntland has experienced election delays, making the recommended reconciliation process long and difficult. Territorial conflicts with Somaliland in the contested borderlands of Sool and Sanaag remain a threat to Puntland's fragile clan-consensus.

Box 3.1 Services to be delivered by local governments in Puntland

Slight differences from this list are possible due to recent changes

1. Koranic schools, kindergartens and primary schools
2. Water, electricity, and transport
3. Streets, squares and public places including gardens and open spaces
4. Public housing
5. Public libraries
6. Traffic control and regulation
7. Street lights
8. Town planning
9. Water reservoirs
10. Building regulations
11. Public health and sanitation
12. Mother and child health
13. Livestock, agriculture, land conservation, animal husbandry, forestry and fisheries promotion
14. Business licenses
15. Emergency management including evaluations
16. Local economic development including local market
17. Demography
18. Arts, sport and culture
19. Cemeteries and burial regulations
20. Trade or commercial for public interest

At the subnational level, Puntland consists of regions and districts. Regions are headed by a regional governor, who supervises all government activities. Within the regions there are districts which are administered by the district administration. The district administration is composed by a mayor elected by the district council, which is constituted by community groups. The exact authority and responsibilities of district administrations are regulated under Local Government Law No. 7/2003, which is supported by a decentralization policy adopted in 2015 that clearly delineates and offers the councils the power to establish departments deemed necessary for a functioning local government. It also mandates the local governments to provide basic urban services to local communities, in an accountable and efficient manner (Box 3.1).

While the constitution and various pieces of government legislation mandate regular elections at the local level, the first election at the district level took place in October 2021. While the election was widely proclaimed to be fair and participatory, it took place in only 3 of Puntland's 50 districts. *De facto*, district administrations therefore are elected by community groups and the central government.

In **Somaliland** the political system was traditionally based on a formula of power-sharing along clan lines. In 2001 it was replaced by a constitution, endorsed by popular referendum. The constitution recognizes a three-tier governance structure with central, regional and local governments – similar to that in Puntland. The head of state as well as the legislative and the district councils are all elected through the ballot. Since the constitution was adopted, several rounds of elections have been conducted, including presidential elections in 2003, 2010 and 2017, parliamentary elections in 2005 and 2021, and local elections in 2002, 2012 and 2021.

Local governments are an independent tier of government and are led by councillors elected directly by the citizens. The key law governing local governments' powers and responsibilities is the Regions and District Law No. 23/2002. This is supported by a decentralization policy that defines the functions to be devolved to the local government and the conditions to be met for devolution to be fully implemented. As per this law, Somaliland has a total of 81 districts divided into 4 further subcategories.

The largest districts, centred on provincial capitals, are called "A districts", are also known as electoral districts, and 20 of them elect their councillors in line with electoral laws. These districts are governed by a local council, of which a member is elected as mayor. The official responsible for managing

Box 3.2 Devolved revenue authority in Puntland

The revenue of a local government shall consist of:

1. Proceeds of rates, taxes, and fees of the following:

- **Building and dwelling value tax**
- Taxes on the sale of animals and animal husbandry
- Trade licensing fees except where it is prescribed by law that a different authority shall levy and collect any such trade license fee
- Entertainment tax
- Agricultural tax
- Taxes on sign boards
- **Land value tax**
- **Land registration**
- Fees for permitting building or renovation of buildings
- Goods and khat tax
- Abattoir and butchery tax
- Local production tax
- Skin and hide tax
- Fees for electricity, water and other public services provided by the local government
- Fees for certificates of birth, death and identity cards and any other services on this regard provided by the local government
- Fees for issuing business licenses
- Fees for public transportation
- Fees for environmental sanitation such as sewerage and rubbish removal
- Fees for water reservoirs provided by the local government
- Fees for public housing provided by the local government
- Any other tax or fees assigned to local council by the state.

2. Proceeds of commercial and business activities carried out by the local government, subject to this law or any other federal or state law
3. Revenue from investments made by the local government or fees for services provided to the public
4. Fines and penalties
5. All other revenue accruing to the local government from the federal and state government of any state, other local governments or from any other sources as grants, contributions, endowments or otherwise.

Source: Law #7, government of Puntland. Land-related revenues in **bold.**

the local government administration is the executive secretary, who is appointed directly by the Ministry of Interior (Local Government Law 2019).

Elections in Somaliland have led to considerable shuffling of elected officials. Two opposition parties won a majority of the seats in the latest parliamentary elections in 2021. The two opposition parties also won a majority of seats in the municipal elections. While these elections may lead to merit-based selection of leaders, it also creates tension between the national government and local councils, with potential for political strife and standstill (International Crisis Group 2021).

Local revenue

Puntland and Somaliland are young states whose governance structures came about post-independence in the early 2000s. Before that, while they were an integral part of Somalia, there was little formal decentralization of revenue authority. While the new government structures *de facto* incorporated traditional power structures and clan-based realities, local governance could not really leverage them to raise entirely new revenue sources, such as land and property taxes. The outcome of the reforms in both Puntland and Somaliland was thus only to a limited extent predetermined by the conditions on the ground before the start of decentralization.

Local governments in Puntland and Somaliland now have several revenue sources at their disposal:

- Local government revenue taxes and duties, other revenues from economic sources it created, or services rendered to the public (Box 2)
- Profits from business ventures
- Debt and borrowing
- Funding from international donors and diaspora communities. Funding from donors has historically, however, been channelled primarily to national government institutions rather than to local governments directly.

The most important source of revenue for most local governments continues to be central-government transfers. Transfers to local governments in Puntland are *ad hoc* and not based on standard criteria nor a distinct formula. Instead, non-earmarked funds get allocated through negotiations with local governments based on political and economic circumstances. In Somaliland, the overall volume of inter-government transfers is predetermined by law (see Law No.23/2019). It consists of 12.5% of the total revenue collected from import duties. It is distributed among the districts such that the "A districts" receive 6%, "B districts" 2%, "C districts" 3%, and "D districts" 1.2%. Additionally, local governments receive customs revenue, also referred to as "municipal tax" (see law no. 12/2000) which is collected by the national government on behalf of local governments and channelled back to the later. Customs revenue represents around 10% of overall import duties and is allocated primarily to those local governments with custom ports (Berbera, Gebilay and Zeila).

Land and property tax

The second most important source of revenue for local governments in both Puntland and Somaliland is own-source revenue. The most important of these is a tax on property (*canshuurta guryaha*), followed by a tax on land (*canshuurta dhullka*), which are both levied based on land or property ownership, not usage. Vacant land is taxed, but government-owned land and property (mosques, schools, universities) are exempt from both property and land taxes. In Puntland, the tax is based on a simple fit-for-purpose, area-based valuation approach, based on the area (dimensions) of the parcel or property and its location.

In most local governments in both Puntland and Somaliland, the area is based on the size in square metres and does not consider the property height. The rate applied to the area also depends on the type of housing (commercial, residential) and the location in the city. Commonly, local governments charge just two different rates for properties: in the centre or in the periphery. The actual tax rates vary from district to district as determining tariffs is the mandate of local governments.

In Puntland, the property valuation approach has been revised from a flat rate to an area-based approach that takes into account the location and infrastructural amenities in the neighbourhood as well as whether the property is commercial or residential. In Somaliland the commonly applied rate ranges from a low of USD 0.006 per m^2 to USD 0.16 per m^2 at the high end (Haas 2018). The revised valuation, introduced through the Land-Based Finance Property Tax Reform project, factors in the height of the property (Table 3.1). This process will require a lot of community engagement and full adoption of the reforms for it to succeed across all districts.

Uncertainties around the ownership of vacant land make it difficult to register and tax it. Before the fall of the Said Barre-led administration, vacant land outside the cities was administered by the central government. The local government's role was to provide title deeds that capture ownership information whenever the land was purchased by a new owner. Managing unoccupied land was challenging: land grabbers acquired vast amounts

Table 3.1 Property tax reforms in Somaliland

Type of property tax	Valuation (SLS per m^2)		Example of new tariff calculation
	Old	New	Property size 15 m × 15 m = 225 m^2
Residential property	600	600	225 × 600 = SLS 135,000
Vacant land	600	600	225 × 600 = SLS 135,000
Commercial building	600	900	225 × 900 = SLS 202,500
Multistorey buildings	600 (ground floor only)	900 × number of floors	225 × 900 × 5 floors = SLS 1,012,500

SLS: Somaliland shilling. Changes in red

of land through their positions in government or with the help of associates. Frequent changes in administration made this difficult to identify and resolve.

The situation has gradually improved, but the local government is still battling a lack of adequate documentation that has led to a variety of scenarios. In some instances, numerous people claim the same parcel of land; in others, vacant land has been inherited from the original owner without clear documentation, fueling conflict.

The Ministry of Public Works and Housing in Puntland adopted the Urban Regulatory Framework under the Joint UN Programme on Local Governance (JPLG), which aims to address some of the issues relating to vacant and unused land. However, additional interventions are required, such as for the state government to create a cadastral map in each district that is consistent with state-wide georeferencing and forms part of a comprehensive database. This will reduce land-based conflicts while also helping the districts to manage the vacant land in terms of taxation, inheritance, endowments and transfers between individuals.

Land-Based Finance Property Tax Reform project

UN-Habitat's Land and Property Tax Revenues for Service Delivery, Reconstruction, Citizenship Building and Sustaining Peace in Fragile States (or **Land-Based Finance Property Tax Reform** for short) was implemented in Puntland and Somaliland from 2020 to 2022, with funding from Norad. It was designed to learn from and build on predecessor and ongoing projects, such as the Joint Programme on Local Governance and Decentralized Service Delivery.

The project started with a land and property taxation business process evaluation – or "diagnostic assessment" in April 2020. This aimed to understand the conditions on the ground and set up project baselines, learn from ongoing and previous land and property tax interventions, and identify strategic quick-wins and reform entry points. Using the insights gained, the project team developed recommendations for local stakeholders to consolidate and enhance their land and property tax processes and systems. It agreed on work plans for 2021 with the national ministries and local authorities and identified pilot sites for further tax reform: Burao (also known as Burco) and Borama in Somaliland, and Bosaso and Gardo in Puntland.

The workplans were implemented between April 2021 and December 2022, covering interventions in four areas: policy and valuation, land and property registration, community participation, and capacity building.

Policy and valuation

The project reviewed policies and laws in Puntland and Somaliland using a valuation methodology. This tried to move to valuation approach that would be more sensitive to the land values in specific neighbourhoods, so fostering fairness in taxation. It also sought to introduce new opportunities for taxing vacant land.

In Burao, the revised tariffs were put into effect in 2023. Borama is gradually adopting the new system and will use the revised tariffs in 2024 financial year

Registration

In **Puntland** (Bosaso and Gardo), records for 37,239 properties (27,169 in Bosaso, 10,070 in Gardo) were registered, cleaned and uploaded into the financial management information system by the end of 2022. This system is managed by the Ministry of Finance but was devolved and expanded to districts with the support of UN-Habitat under the previous JPLG programme. A unique plate number was attached to each of the registered properties to make it easier to recognize them and to deliver invoices. Twelve technical staff in the Bosaso and Gardo city administrations were trained to handle this work. Billing is now done through the system.

In **Somaliland,** by the end of 2022, a total of 80,591 properties were registered (55,977 in Burao and 24,614 in Borama). The property data was updated and uploaded into two information management systems: one for accounting and another for billing. Four neighbourhood offices were established in Burao to help with tax collection and to bring local government services closer to the taxpayers.

All cities required properties to be re-registered to improve the accuracy of the data. Four technical staff were trained on property-database management and joined the four project districts of Puntland and Somaliland. They assist with system troubleshooting and manage the property database. A reliable backup system for the database migration is needed to ensure a consistent approach and easy updating and data management.

Community participation

A sensitization workshop was held with local communities in **Somaliland** in September 2022 to inform them about the project, the reason for registering properties, and the results of the project up to that time. During the fourth quarter of 2022 and the first quarter of 2023, 12 sessions for consultation, participatory budgeting and auditing were held with over 600 youth to build trust between the community and the local government. UN-Habitat specialists advised communication teams from the Burao and Borama local governments on how to use social media and online platforms to publicize revenues, expenditures and services delivered. Although both municipalities have an active social media platform, particularly Facebook, they are inconsistent in publishing revenues and expenditure. The specialists discussed with the municipalities the importance of transparency and accountability through the provision of accurate information on expenditures.

Capacity building

In early 2022, 34 municipal staff from the revenue departments of partner local governments were trained on optimizing their own-source revenue. This training covered best practices for the collection of such revenues from around the world and offered suggestions on how to tackle the challenges facing the cities.

Some 80 municipal staff (including from the revenue department) from Burao and Borama attended a workshop on comprehensive engagement with the community (including youth and women) in budget planning, expenditure reporting, and auditing. The trainees shared some lessons from other districts and discussed approaches to engage the community in an inclusive way.

Project results

Little reliable data from local governments in Puntland and Somaliland is available. Most of the data on government budgets in this report comes from the annual financial reports (*xisaab xirka*) from municipalities and may include discrepancies and gaps.

Local governments in both Puntland and Somaliland realized substantial increases in locally generated revenues through the reforms described above. Their revenues from land and property taxes increased substantially up to 2018, but then stagnated. They started to rise again after the project interventions. It seems that the rise in property tax revenues was at least initially a result of improvements in registration and billing. But the local governments are still far from achieving their potential in land and property taxation. There still is a significant gap in compliance. Expenditure indicators suggest that there have been no significant changes in expenditure efficiency over the past few years.

Voluntary and compliant tax-collection methods are more effective than coercive compliance. In Somalia, the local government used to remove the property's main door if the owner failed to pay taxes. But when citizens were engaged and informed about the rules and policies for noncompliance, they were more likely to pay. Streamlining property taxation, including a review of policies and bylaws, as well as the imposition of strict measures to enforce compliance by all property owners, regardless of social status, is critical to encourage and sustain voluntary tax declaration and payment. If all property owners are treated equally, noncompliance will gradually decrease, and efforts to strengthen property taxation institutions will yield better results.

Potential to boost local government revenues

Can decentralization of revenue authority (particularly land and property taxation) and associated building of local government capacity lead to significant increases in local government revenue?

Data from Gardo and Bosaso in Puntland and Borama and Burao in Somaliland show that revenues significantly increased in the past decade as fiscal decentralization deepened (Figure 3.3). Their own-source revenues also increased rapidly in the first few years, but then slowed down slightly. The four municipalities derive a significant percentage of their revenue from their own sources. The most important of these, land and property taxes, stagnated in Puntland over the past few years but showed modest improvements in Somaliland.

Reasons for changes in tax revenues

What explains changes in land and property tax revenues, and have reforms helped local governments to attain their land and property tax potential?

The four municipalities could still further improve their administration of land and the property taxes. Since the start of decentralization, they have made major achievements in registering property. But over the past few years these efforts have plateaued somewhat because the municipalities had to re-register properties. This was necessary because some existing data had become corrupted, the approach to valuation changed, and the data had to be migrated from separate accounting and billing systems to an integrated financial management information system. This is why property registration

Figure 3.3 Total annual revenue, 2008–21

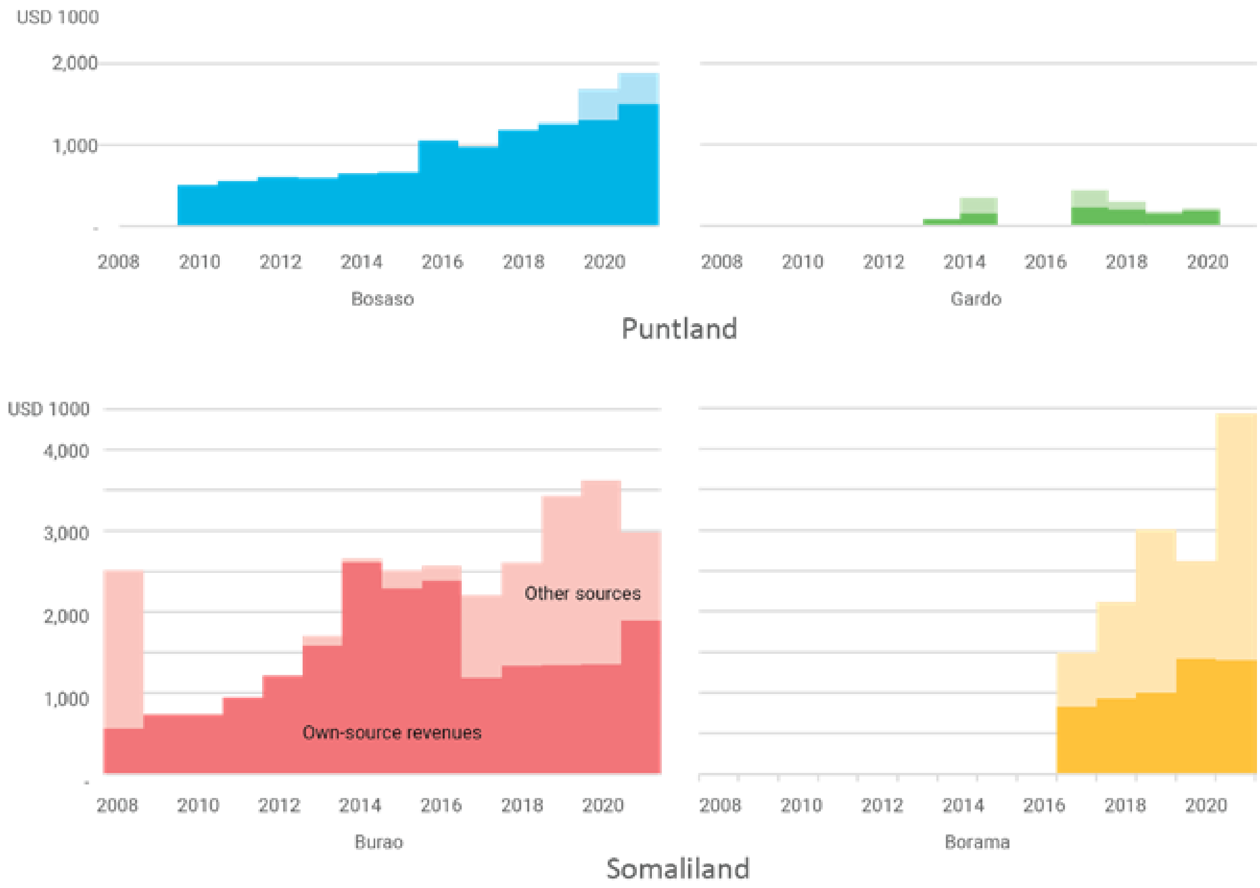


Figure 3.4 Land and property tax revenue, 2019–21

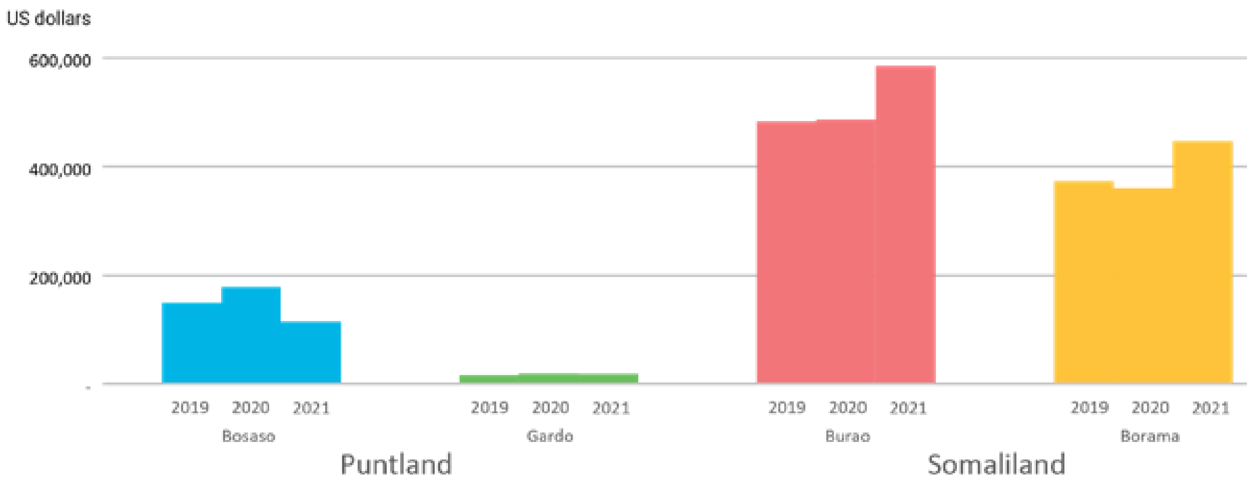


Figure 3.5 Estimated property tax gaps, 2021 (number of properties)

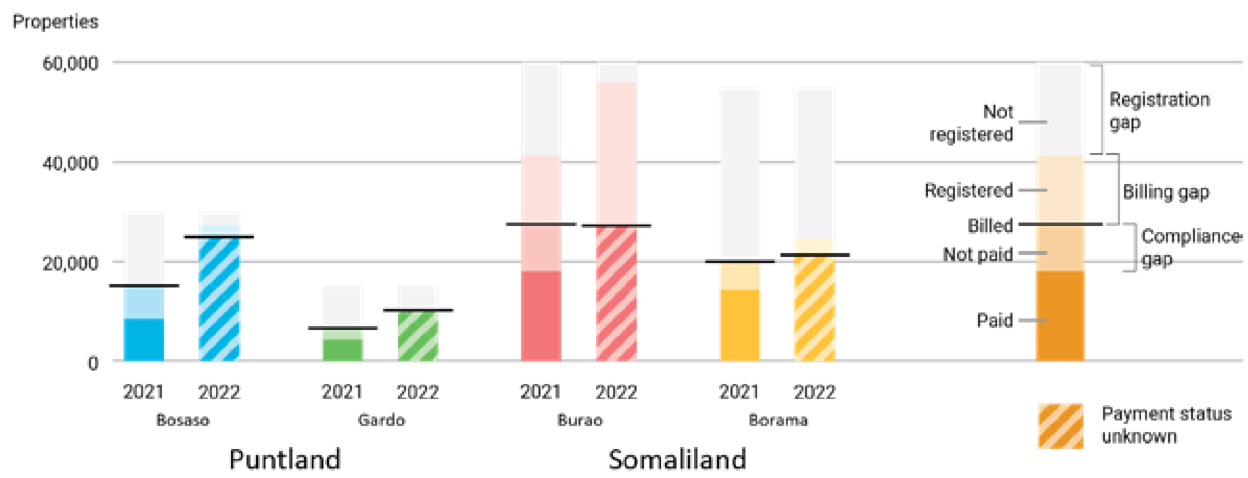
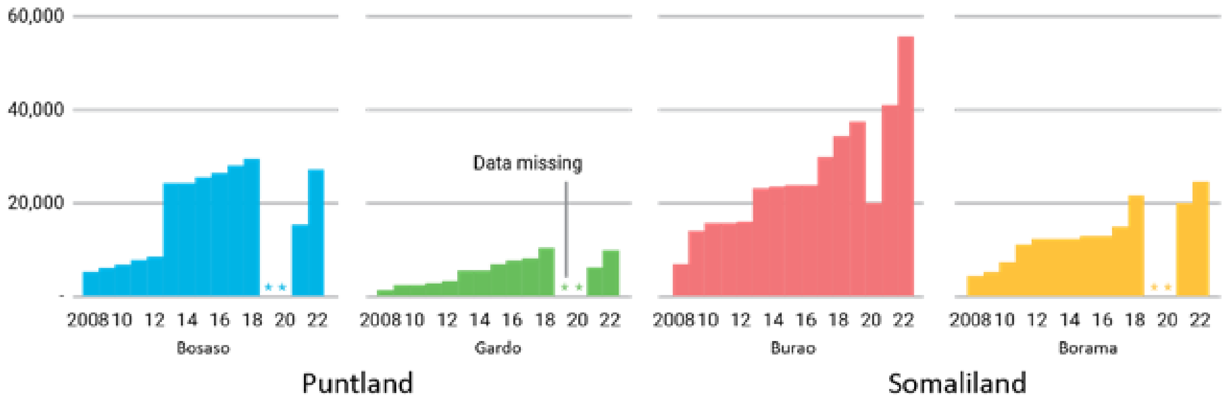


Figure 3.6 Properties registered, 2008–22



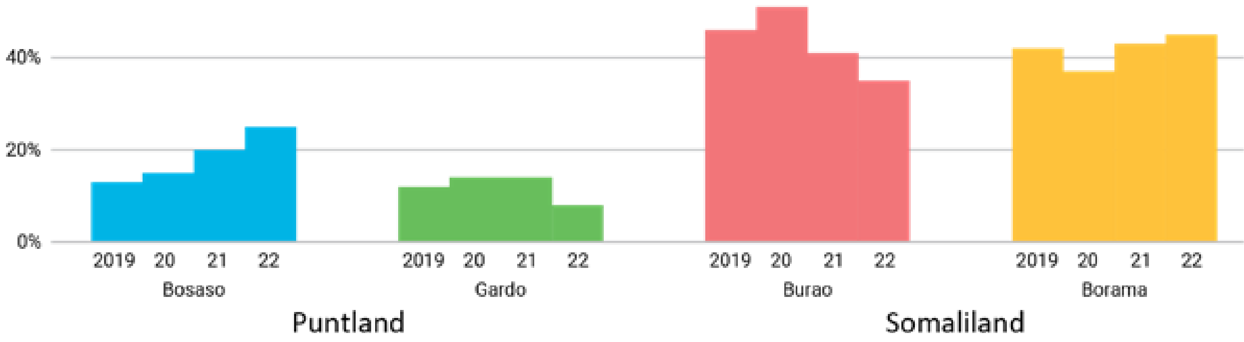
numbers decreased across all cities in either 2020 or 2021.

We can identify three types of gaps in the taxation system (Figure 3.5). A comparison of the estimated total number of properties[2] in the cities shows a significant **registration gap**: a large number of properties have not yet been registered. While unregistered properties are likely to be on the outskirts of the cities and subject to smaller tax liabilities, the gap may amount to over half of the potential total revenue. Significant improvements in the registration gap were made across all four cities in 2022 (Figure 3.6).

Except in Burao, there does not seem to be much of a **billing gap**: in 2021, most of the registered properties in the system were issued with notices demanding the annual payments. Interviews with municipal tax officials suggest that the automated billing software made it possible to speed up the printing of demand notices. GIS identifications made it easier to contact taxpayers and to send the notices to the correct locations. Given that the demand notices were largely computer-generated and contained (mostly) accurate taxpayer information, the taxpayers were more inclined to believe in the accuracy

2 These total number of estimated properties were provided during workshops with revenue officials.

Figure 3.7 Percent of budget allocated to development expenditures



and legitimacy of the process. Yet despite this, the billing gap increased in three of four cities in 2022 (Figure 3.5).

Despite these improvements, there continues to be a significant **compliance gap** in all four cities. On average, only around 64% of total registered properties paid their tax liabilities in 2021.

Impacts of revenue reforms on expenditure and services

What impacts have revenue reforms had on public expenditure and service delivery?

Since the start of decentralization reforms, progress has been made in the management of local government budgets. Before the reforms, budgeting processes were essentially at the discretion of local leaders, without much legislative oversight or opportunity for public participation. The budgeting processes have now become far more inclusive and transparent. To sustain this, it is necessary to disseminate budget and expenditure reports widely by various means, including social media. Doing so is critical to maintain momentum and increase community participation, as well as to improve accountability and build trust between the community and the local government. Budgeting documents clearly outline revenues and expenditures in a relatively consistent manner. Expenditure controls are in place, and few local governments appear to be running annual deficits.

These clear improvements have been accompanied by less encouraging results in other areas, leading to a mixed picture overall. Except in Bosaso, there have been no clear improvements in the proportion of budgets allocated to development expenditures (Figure 3.7). There have been significant improvements in capital expenditure per capita in Gardo and Bosaso (Figure 3.8). Budget execution rates for development expenditure (Figure 3.9) of development budget) and the proportion of budgets spent on wages (Figure 3.10) also show mixed results. There have been no clear improvements in service delivery, despite the increased total annual revenue in two of the four cities.

Data from other sources suggests that actual expenditure has largely remained on current rather than capital outlays. In 2012, 80% of the expenditure by Garowe municipality (the capital of Puntland) went to staff salaries and development, while 13.5% went to water supply and 4.5% to health (Puntland Ministries of Interior and Finance 2013, Varming 2017). This trend seems to have persisted: in 2014 and in 2016, districts in Puntland and Somaliland earmarked more than 70% of expenditure for salaries and administrative expenditure in the municipalities (Salah 2014). While there are some challenges in local budgeting and reporting, the UN Joint Programme on Local Governance (an initiative of

Figure 3.8 Annual per-capita capital expenditure

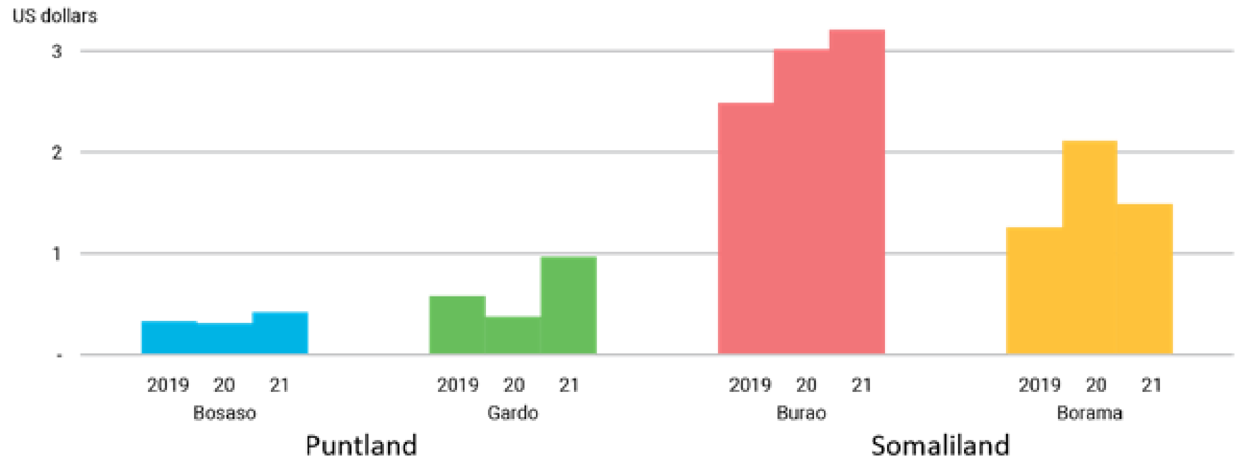


Figure 3.9 Budget execution rate (percent of the budget actually spent) of development budget

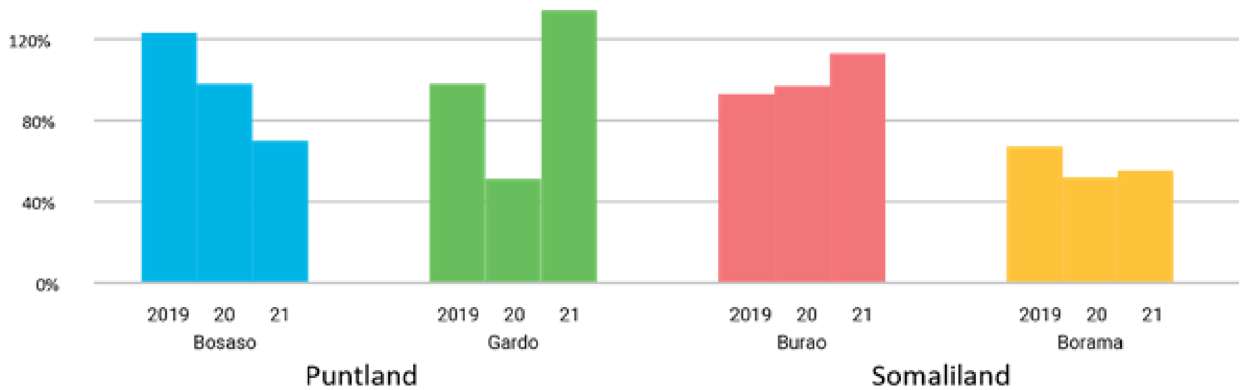
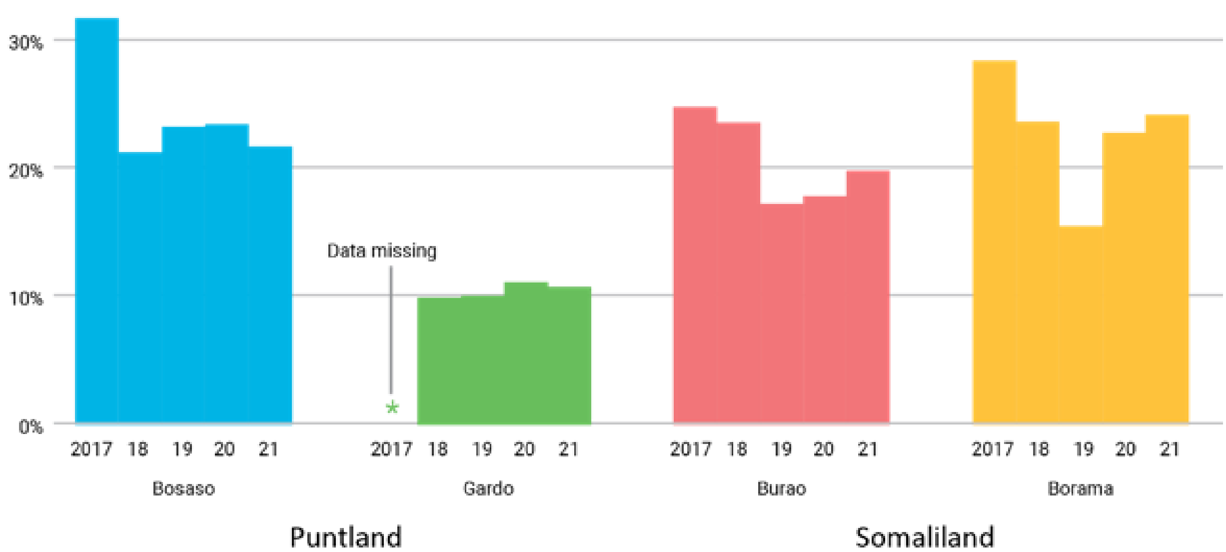


Figure 3.10 Wages as percentage of total expenditure



Private investment in buildings is often not matched by investment in pubic infrastructure (such as surfaced roads). Photo: Lennart Fleck

several United Nations institutions) reports a somewhat different picture. According to reports by this programme, local governments spent between 28% and 50% of their budgets on service delivery. A large proportion of this expenditure was on roads (56.9%) followed by education (9.2%) and health (7%) (UNCDF 2019).

We are left with a somewhat mixed overall picture of progress in terms of expenditure efficiency and service delivery. Further research and data are needed to provide a more detailed analysis of progress in service delivery. Data on budget execution rates, audit reports of local government spending and measures of citizen perception, which have not been available for the current study, are needed to gain a clearer view of the situation.

Discussion

The period under scrutiny spans a whole decade and a multiplicity of reforms in a dynamic context. This makes it difficult to explain some of the observed results, and even more difficult to attribute causality to distinct interventions. Nonetheless, it is interesting to reflect on why revenue improvements, in general across cities, have started losing steam. This section explores several possible reasons for the plateauing of property-tax revenues: the impact of covid-19, local government capacity, and reform incentives. It then also analyses whether revenue increments are likely to have led to improved service delivery. We suggest that improvements in public expenditures may not be required to improve revenue collection. Indeed, improving services may not be a dominant regime-survival strategy for local governments in fragile contexts. This reduces the likelihood that higher revenues will lead to direct improvements in services.

Why has the momentum for reforming property-tax revenues stagnated?

Covid-19: Unlikely to be a cause Covid has affected local government revenues all over the world (Fjeldstad and Therkildsen 2020). In Somaliland and Puntland too, decreases in revenue seem to coincide with start of the pandemic. At the national level the impacts of the pandemic on GDP appear rather dramatic. Falls in national revenues were caused primarily by global supply disruptions, concomitant declines in port operations (the main source of domestic tax revenue), and a ban on khat imports by the Somali government and the loss of the associated tax revenue (Heritage Institute 2020). While such decreases in tax do not necessarily manifest themselves at the local level, the overall economic decline is bound to have harmed taxpayer ability and willingness to pay, as well as the efficiency of tax collector operations.

However, the pandemic is not a very useful way of explaining the revenue/expenditure situation in Puntland and Somaliland. The stagnation or decline in revenue data observed across cities in both states started in 2017, two years before the pandemic. While the pandemic may well have aggravated the situation, other issues are likely to be at work.

In recent years, Somalia has been hit by a devastating famine, which has harmed livestock, food production and security. Food prices have risen, and the drought has forced many people to flee their homes, bringing the total number of displaced people to an all-time high – and also posing a challenge for billing and enforcement. Higher temperatures due to climate change also cause problems. Higher summer temperatures in Puntland, particularly in Bosaso, a commercial hub, force residents to relocate to Gardo and other neighbouring cities with more favourable climate conditions. This means that tax collection is impossible during the summer, delaying it and perhaps pushing it into the next fiscal year.

Local government capacity: Probable cause Another common explanation for the slow progress in revenue reform is the lack of local government capacity (Farvacque-Vitkovic and Kopanyi 2014). This also features as a prominent issue within various annual reports of the UN Joint Programme on Local Governance (UNDP n.d.). Workshops in 2022 in the four cities pointed to a lack of functional hardware and skilled staff as a cause of wrong data entries, etc. Employee turnover is high, and trained staff leave gaps when they depart.

Poor policy and decision-making on own-source revenue are also a problem. Many municipalities have too many different sources of revenue. In 2016, one had 67 individual sources and over 1,000 different administrative line items to levy them (Haas 2018). The multiplicity of such sources drives up administration costs and can cause taxpayer fatigue. It also seems that the resources for collecting taxes are not strategically allocated. Of the 70 tax collectors in Borama, an estimated 16 were collecting market rates, which are a minor source of revenue, while only nine collected property taxes, which probably has by far the largest revenue potential (UN-Habitat 2022). The tax-collection systems in all four municipalities lack an underlying understanding of the profitability of collecting each revenue stream.

Municipalities have struggled to deal with the switch from separate accounting and billing systems to a single financial management system. Data have been lost, databases have not been synchronized, and data management has become more difficult. To some extent the municipalities are at the mercy of their national ministries to support the digital transition. In Bosaso, officials have re-registered 15,000 properties, but only a fraction have been uploaded into the financial management system as data entry is controlled by the Ministry of Finance, not by the Bosaso administration. Problems with software latency, network and data privacy also occur (World Bank 2020). Local governments would certainly benefit from being able to access national government data on taxpayers to complement their revenue systems (Haas 2017).

Own-source revenues incentives: Very probable cause In addition to lack of capacity at the local level, and coordination issues with the centre, common incentive issues at the local level appear to prevent revenue optimization. Without considering incentives it is difficult to explain why some local governments have failed to improve on registration when this clearly is a serious drawback for revenue generation. Borama, for instance, was estimated to have lost over USD 600,000 in 2022 due to an incomplete property-tax database. Registering all properties would cost only around USD 200,000. There is a clear business case for all the cities to invest in the registration of all properties. Yet despite some increases in recent years, the local governments have failed to register properties with urgency.

Tax-collector management is another area where one would expect more reform in the interest of revenue optimization. All four districts employ a commission system for tax collectors to incentivize collections. In

Bosaso the tax collectors receive 10% of the funds collected. But few other mechanisms are used to monitor tax collectors. Inspection of tax collectors is not systematic, and few (if any) collectors have been officially sanctioned for malpractice. When the newly elected mayor of Borama came into office in 2021, he replaced tax collectors at checkpoints and saw weekly tax revenues increase by 400% as a result – a clear indication of the extent of previous embezzlement. Despite these successes, none of the four municipalities have introduced more systematic reforms of tax-collector management. Inaccuracies in taxpayer data and the slow registration of taxpayers may also result from a lack of interest within the administration, and not just a lack of capacity.

A lack of political incentives for taxation also seems to underpin the dips in some cities' revenue that accompanied the local and presidential elections in 2017 and 2020 (JPLG 2018). It is not unusual for local governments to be less stringent in enforcing tax collection to court voters' favour. Politicians may prefer to use taxation (and not improved services) as a trading chip. The suspension of property tax in Bosaso in October 2020, on the grounds that residents could not afford the payments, also suggests a lack of will to enforce payments (Garowe Online 2021, Radio Kismayo 2020). Local officials often see cadastre renewal as a means to benefit monetarily, and as a result the database is renewed every few years without the intent to build an effective property-tax system. As a consequence, local governments often engage in hollow or half-hearted reforms, squeezing higher tax contributions out of low-income taxpayers who pose no significant strategic risk, while refraining from broader reforms that may stir up significant political resistance. No local government in Puntland and Somaliland has attempted to copy the revenue reforms carried out in the 16 districts of the UN's Joint Programme on Local Governance (Figure 3.1), strongly suggesting the existence of deeper issues of political incentives (UNCDF 2019).

Would revenue increases have brought about expenditure improvements?

Revenue increases do not require better services While total own-source revenue increased in three of the four municipalities in 2021, these improvements have not resulted in better municipal services. Instead of correlating with improved services, revenue increases seem to have coincided with improvements in public financial management. In Puntland, for example, after airport visa fees were automated, collections increased by around 70% in one month (World Bank 2021). In a survey in 2018, 45% of respondents strongly agreed that fraud and embezzlement were a key issue for revenue collection. Evidence from Somaliland also indicates that tax collectors extort money when businesses are thriving (Campos 2016, Tellander and Hassan 2016).

The two cities with increased property tax revenue, Burao and Boroma, achieved these increases primarily by registering taxpayers (Burao) and ensuring that a larger percentage of the tax base was billed (Borama) – and not by improving their services or through voluntary compliance. Increases were also achieved by introducing more effective accounting systems to keep track of non-payment, print demand notices and follow up with taxpayers. Because services did not improve, the higher revenues likely resulted from more systematic registration, billing and harsh enforcement measures such as the removal of front doors, rather than improvements in the social contract and voluntary compliance. A recent survey (World Bank 2021) found that local governments throughout Somalia are less trusted than most other non-state groups that solicit (or enforce) informal tax payments. Only 41% of the respondents trusted their local government, compared to 57% for religious leaders, 61% for clan elders and 74% for village councils.

Another study (Van Den Boogard and Santoro 2021) found that informal taxing authorities are more effective tax collectors than the state, with informal taxing authorities having greater legitimacy and taxpayers perceiving informal payments to be fairer than those levied by the state. (This study did not formally include Puntland or Somaliland, so may only provide anecdotal evidence of a larger tendency.) Citizens in Garowe are quoted as saying that "you pay Al-Shabaab once, and the government four times".

It can indeed be challenging to understand which revenues go to the local government and what services they provide from that revenue, as opposed to services from the central government. Perhaps local governments are also less trusted because they charge over 50 different local taxes and fees, whereas Al-Shabaab levies (or extorts) just one (albeit often hefty), *zakat*-type tax in exchange for protection.

Since a multitude of factors shape public perceptions of the government and its interaction with citizens, it is difficult for local governments to attempt to strengthen the social contract by simply providing improved services. In fact, they need to develop ways of generating revenues that do not require improved service delivery. One source that they use effectively are fees at security checkpoints. Here they have a very strong enforcement power – one that is usually not based on voluntary compliance. In Bosaso, revenue from checkpoints is by far the largest type of own-source revenue, making up around 50% of the total, almost eight times that from property taxes.

Enhancing public expenditure is not a key to survival An assumption that underpins the idea that revenues will lead to improved service delivery and governance is that improving governance is a dominant survival strategy for local governments. In reality, though, a "developmental" mindset is rarely part of the tactics of incumbent local or national elites (Wade 2018). It is difficult to fault a mayor of Bosaso for using higher revenues to bolster his personal security, when he is faced with the ever-present threat of being targeted by Al-Shabaab bombings. Adopting a long-term strategy that prioritizes service delivery over immediate safety is a privilege that leaders in fragile contexts can seldom indulge in at will.

In Somaliland, the immediate threat of violence and removal from office may be less present in the strategies of city leaders. Nonetheless they still need to manage a range of political challengers: the national government, local opposition, clan leaders, etc. More effective strategies exist to deal with them than enhancing overall service delivery. Indeed, locally elected officials can jeopardize their own ability to stay in office if they try to boost tax revenues and then improve service delivery. Successful governance may actually make the centre more interested in getting rid of a mayor from an opposition party. In his first year, the mayor of Borama faced two attempts by national actors to remove him from office.

The optimization of revenues can also bring about push-back from tax collectors and wealthy taxpayers. This trend is apparent not just in property taxation; it also applies to general taxation, where companies and wealthy individuals are too well-connected, powerful and capable of swaying public opinion (for example by instigating strikes) to be forced to comply with tax regulation (Moore et al. 2018.

Enhancing revenues to optimize service delivery can be a risky strategy if vested interests favour sub-optimal revenue systems. Such interests are common in developing countries. Improving services by generating local revenues is not always a dominant survival strategy for those in charge.

Conclusion

The municipal finance reforms carried out in Somalia after 2008 were initially successful in enhancing locally generated revenues, including that from land and property taxation. Property-tax revenue increases were at least partially a result of improvements in registration. But these improvements could not be sustained, and most reforms have stalled as a result of limited government capacity and poor incentives for reform.

On the expenditure side, there have not been clear improvements in service delivery. Capital expenditure as a percentage of total budgets has remained constant across most districts for which data was available. The percentage allocated to municipal wages and allowances has also remained constant at around 20% of the total.

While further research is needed to validate these initial findings, it appears that interventions to reform property-tax collection do not spur local governments to improve service delivery. Local governments have ways to enhance revenue without attempting to increase voluntary compliance through improved service delivery. Indeed, improving local revenue generation and services is often not a dominant survival strategy for elected officials.

Tentative policy recommendations

Enhancing revenue reform

- Strengthen the political incentives for local governments to raise their own-source revenues and prevent avoidance by taxpayers and financial mismanagement by officials.
- Prioritize combatting corruption within the tax administration.
- Carry out systematic revenue mapping to create realistic baselines for all own-source revenues.
- Establish zero-tolerance policies for embezzlement within local tax administrations.
- Consider levying fewer types of own-source revenues on smaller tax bases, but administering these effectively, rather than expanding the tax base and tolerating larger losses to administrative inefficiencies.
- Fix existing issues before adding new own-source revenues and making the tax system more complex.
- Develop continuous monitoring and impose strict user-right limitations (to prevent unauthorized people from making changes in the tax records) for local government financial and accounting systems.
- Ensure that property registration includes proper data management and continuous data updating to avoid database errors and the need to repeat property registration every few years. Initiatives to re-register taxpayers should be based on reliable data that demonstrates the extent of inaccuracy within the property records, and not solely on subjective political decisions.
- Put in place long-term strategies and approaches to address the issue of registering and taxing vacant and underutilized land.
- Improve the enforcement of compliance.

Improving service delivery and strengthening the links between revenue and expenditures

The national and local governments should consider the following:

- Designing simpler fiscal decentralization systems with a clearer distinction between revenue and expenditure assignments of different levels of government and a small but powerful range of own-source revenues.
- Earmarking revenues for specific types of services.
- Improving budgeting processes to increase transparency, readability and

accessibility of budgeting documents to the public.

- Linking intergovernmental transfers to adherence with public financial management principles and expenditure performance (execution rates of development expenditure, etc.).
- Employing user fees more extensively for the provision of public goods to create a direct connection between revenue and expenditure.
- Ensuring inclusive and consistent community participation.

Further research

Most of the data presented in this paper was collected from four municipalities. Their experiences may not be entirely representative of local governments in Puntland and Somaliland (or indeed in Somalia as a whole). Collecting more data from the 16 districts that took part in the Joint Programme on Local Governance (Figure 3.1) could help substantiate these findings. It would also be helpful to study revenues and expenditures in districts that were not part of the Joint Programme.

We need to better understand how to strengthen the incentives for optimizing local revenues expenditures. More research is needed on how the revenue systems of non-state actors work – such as those of private utility companies and of Al-Shabaab. Perhaps they have practices that could be transferred to the public sector.

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4

The role of digital technologies in revenue mobilization in fragile states

Photo on previous page: satellite view of Lashkargah, Afghanistan. Axelspace Corporation (CC BY-SA 4.0)

4

The role of digital technologies in revenue mobilization in fragile states

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THE CONVERGENCE OF pressures from the covid-19 pandemic, conflict and climate change are likely to render Sustainable Development Goal 1 on eliminating poverty by 2030 unattainable without prompt and innovative policy actions, says the World Bank (2020). And according to the International Monetary Fund, the pandemic caused a severe setback to improving living standards globally, especially in fragile states (IMF, 2020). This widening gap between the need for funding and the available public resources highlights the importance of raising domestic revenue equitably and sustainably (ICTD 2022).

The 2015 Addis Tax Initiative, which brings together 70 partner countries, development partners and supporting organizations, includes commitments by the international community to double its assistance to developing countries to strengthen their tax systems and administration by 2020 (International Tax Compact 2017). However, this commitment has yet to be fulfilled. An insignificant portion of development assistance is currently targeted towards developing tax systems in these countries. By 2015, only 0.13% of worldwide official development assistance flows went to fund tax systems (Fjeldstad et al. 2018).

A renewed declaration by the same group in 2025 focuses on promoting political buy-in and strengthening the commitment to finance socioeconomic development through domestic revenues as sustainable and reliable funding sources. Building on the 2015 declaration, this emphasizes the need to develop transparent and efficient revenue administrations, equitable tax policies, capacity development and accountability mechanisms. The initiative further stresses the need for countries to reform their revenue mobilization, plug revenue leakages, and enhance tax morale, social fiscal contracts and cohesion (ICTD 2022).

Tax systems around the world (and especially in developing countries) have been adopting new technologies to improve

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Box 4.1 Key messages

Improved revenue mobilization is critical in fragile states for state building, promoting sustainable development, recovering from covid-19, and escaping from fragility.

Local governments in fragile states face significant challenges in mobilizing revenues. They have weak institutional capacity, poor governance and systematic corruption. They lack up-to-date data on taxpayers and revenues. Taxation systems are haphazard and may be informal. Conflict disrupts revenue generation and the delivery of public services. Citizens have low tax morale. States and local authorities are overdependent on foreign aid.

Reforms and policy actions are needed to overcome these challenges, increase the effectiveness and transparency in tax systems, and enhance accountability in the use of public funds. Digital technology offers a promise to meet these goals.

A range of digital technologies can be applied. They include geographic information systems, remote sensing, integrated revenue administration systems, mobile money, artificial intelligence and machine learning, and electronic devices. They are being used to enhance revenue mobilization in developing countries and in some fragile states.

Digital technologies have proven beneficial to expand revenue bases, increase the efficiency and transparency of tax processes (and so reducing corruption), improve tax compliance and morale, minimize fraud and evasion, increase the accountability of tax authorities, improve employee satisfaction, and enhance the ability to identify risks and project revenue flows.

Implementing digital technologies in fragile states faces various limitations. These include the high costs of setup (which may constrain already weak revenues), resistance from taxpayers and officials (often due to inadequate awareness of the technology), a lack of infrastructure such as electricity and internet connectivity, the limited availability of data, a lack of regulatory policies for the integration of technology into tax systems, and limited capacity to maintain the technology.

Digital technologies have potential for transformation. But success is not certain, and many barriers must be overcome. Nonetheless, these technologies indicate an aspirational way forward for planning the mobilization of revenue in fragile states. Functional and stable administrative systems are a precondition. Where local capacity is lacking (as is common in fragile states), a strong drive and support from the central government is vital.

their administrative processes, compliance and effectiveness at mobilizing revenue. These trends have been accelerated by the widespread adoption of digital technology in different facets of life, a rise in virtual interactions, and the expansion of digital infrastructure. Digital technologies now include the internet of things, sensor networks, machine-to-machine communication, artificial intelligence, 3D imagery, geographic information systems, remote sensing, drones, blockchains, cryptographic computing, and big-data processing and visualization. The application of these technologies in tax administration has been successful in some developing countries, but little is known about how they are used in fragile states. This poses an important question: **can fragile states use digital technologies to improve their revenue mobilization at the subnational level?**

To answer this larger question, this paper explores the following:

- What does the literature tell us about the use of information and communication technologies in fragile states to mobilize revenues?
- What types of technologies have been used to mobilize revenue in fragile states?
- To what extent can digital solutions solve the problems faced by fragile states?
- What shortcomings are faced in setting up and operationalizing a digital tax system in fragile states?

This paper begins by reviewing the literature on digital technologies for local government revenue administration. It then identifies the available technological solutions and the role they can play in revenue mobilization, and provides some examples of how they have been used in fragile states. Finally, it suggests some policy recommendation on applying these technologies in fragile states at the subnational level.

Subnational governments in fragile states

Subnational governments (regional and district administrations and municipalities) around the world are responsible for delivering basic services such as clean drinking water, waste management, power and healthcare. But they often lack adequate funds to do so, especially in developing countries. To bridge the gap in funding, they need to collect revenue efficiently so they can become more self-sufficient and less dependent of transfers from national governments. Mobilizing domestic revenue is also important to address pressing infrastructure requirements, provide and maintain basic public services, promote stability and achieve development (Besley and Persson 2014 and Gaspar et al. 2016, Akitoby et al. 2019). The ability to mobilize revenue is undoubtedly a key element in exiting fragility (OECD 2015, 2016).

But municipalities and other subnational governments in fragile states face especially difficult challenges in providing public goods and services and maintaining public infrastructure. The lack of security, mistrust of government, low levels of expectations, uncertain incomes, overall poverty levels, a lack of capacity in government, and many other factors undermine the municipality's ability both to generate revenues and to spend it in ways that benefit residents.

Local governments need to develop a revenue-enhancement strategy that supports strong and predictable local sources of revenue. A well-functioning local revenue stream strengthens their autonomy and enables them to be more responsive to local economic, social, political, and cultural needs. Own-source revenues can also strengthen civic engagement and government accountability – creating the fiscal framework for the social compact, whereby citizens fund local governments to provide the public goods and services.

Faced with such challenges, systems, approaches and technologies that can overcome these capacity issues, rapidly build the tax base and facilitate efficient and effective administration are invaluable.

The promise of digital technologies

Revenue administrations at the subnational level are increasingly looking to digital technologies as potential game changer for some of their problems. The digitization of revenue departments can help local governments reach the goal of good financial governance. Research shows that digital technologies can have positive effects on revenue collection. Fosu and Ashiagbor (2012) found evidence for this through the introduction of the Local Government Revenue Mobilization System in Ghana. In Homa Bay, Kenya, Otieno Odoyo et al. (2013) found a strong correlation between the deployment of an own-source revenue-management system and improvements in revenue collection.

The promises of digital technologies seem limitless. They can provide governments, businesses and citizens with access to information and allow them to communicate, permitting them to make informed decisions and enabling more efficient processes and services (Asian Development Bank 2010). Technologies such as the internet, portal solutions, social media, mobile platforms, cloud computing, aerial imagery, artificial intelligence, machine learning and big data are creating opportunities for the local revenue administrations to change how they go about their work (OECD 2016b).

Digital technologies can be a transformative tool that can support local governments in their efforts to administer revenues that they generate themselves (their "**own-source revenues**"). As these technologies become both more capable and cheaper, they are changing the ways governments interact with citizens and how they deliver services (World Bank Group 2016). Digital technologies are also challenging local governments to think about their revenue administration, and to look critically at whether their services and business models are suitable (OECD 2016a).

Potential benefits for revenue departments include the better management of the tax base and taxpayer data, faster processing of information and data, fewer resources and reduced collection costs. Caneres (2016) argues that the use of digital technologies can result in more transparent and accountable revenue-generation systems that benefit both government and taxpayers. By increasing transparency, they can be a powerful tool in tackling corruption and reducing the opportunities for bribery and revenue leakage. Databases permit revenue authorities to identify and address non-compliant taxpayers (McCluskey et al. 2017). They can improve the accuracy of data, make tax billing more accurate, and aid revenue collection by adding ways to make payments electronically. In addition, more comprehensive and complete databases improve the ability of councils and revenue authorities to undertake tax-compliance analysis and enable more accurate revenue forecasting – both key aspects for improved budgeting.

Adapting to this new environment requires revenue administrations to embrace processes that are strongly data-driven. Doing so makes them more agile in responding to the changing expectations of taxpayers (citizens and businesses) for more user-friendly services, such as on-line services and easier and more convenient payment options (Bird and Zolt 2008). These increasing expectations heighten the requirement to ensure that digital technologies support the delivery of high-quality, fair and efficient services. Digital technologies can maximize the revenue from existing sources – and by providing more efficient and faster revenue collection, can tap untapped sources that are currently hidden behind opaque internal processes and high operational costs.

Revenue systems, particularly in developing countries, often entail in-person interactions between revenue officials and taxpayers. Limited digital equipment, for example to handle electronic payments, creates an environment that is vulnerable to corruption, both in terms of collusion between revenue collectors and taxpayers to evade taxes, as well as extortion of taxpayers by officials. Traditionally, local taxation has consisted of manual assessment, processing, collection and reporting, all of which are susceptible to subjectivity, arbitrariness and corruption. This in turn harms the capacity of local governments to raise funds and discourages local investments. County governments in Kenya, for example, lose millions of shillings each year through fraud and errors related to manual revenue collection. The adoption of automated systems by some county governments in Kenya has transformed revenue collection and improved service delivery (Karimi et al. 2017). Manual systems also typically have high costs of enforcing compliance, further reducing receipts. The resultant low fiscal capacity limits the ability of local governments to provide services (Gordon and Li 2009, Besley and Persson 2014).

Manual approaches are fundamentally restricted by a lack of information for sensemaking and contextualisation of the current and potential performance of revenue streams. A solution lies in data-driven revenue administration. Much of the data necessary or potentially useful for mobilizing revenue already exists and could be accessed and used. Sharing data among government departments would make it possible to use the data collected for one revenue stream to enhance another stream.

Digital challenges

There are, however, challenges in the adoption and implementation of digital systems. These constraints which can be particularly daunting in fragile states. Table 4.1 lists a number of these challenges and possible ways to overcome them.

Weak administrative systems

Several studies have shown that weak local administration has been a cause of poor revenue performance (Kelly and Musunu 2000, Fjeldstad 2006, McCluskey and Franzsen 2005). Weak administration may be due to ineffective data collection and management, data sharing, reliance on manual, paper-based systems, poor billing and collection practices, and weak enforcement (Moore 2013, McCluskey et al. 2017).

The continued reliance on manual administrative systems, supported by the use of paper-based demand notices, receipts, and handwritten ledgers, leads to high collection costs, fraud and corruption, underpayment, revenue leakages, and inefficient data management (Prichard 2014, Fjeldstad and Heggstad 2012). Systems that use manual recording and inventories for properties and taxpayers struggle to maintain their data, given the large number of properties and taxpayers involved. Problems include estimating how many property taxpayers and other customers (such as business licence payers) are missing from the registered rolls, how many of those who are registered are inactive, and how much revenue is foregone through non-payment and ineffective billing systems (Fish 2015). Even when taxpayers are registered, complete and reliable information on their tax liabilities, tax payments made and arrears often does not exist (Garzón and Freire 2014). The data for taxable objects (e.g., properties or businesses) and taxpayers may be inaccurate or simply incomplete – making billing, collection and enforcement challenging, if not impossible.

Creating a sustainable tax administration system that can administer such revenues in an efficient and cost-effective manner is a goal shared by many national subnational governments around the world. The improvement in efficiency and the reduction of administrative and compliance costs are central issues for all revenue departments (McCluskey et al. 2017). Key objectives driving the development of a revenue management system are to:

- Assist in raising more revenue
- Improve internal organization and reporting
- Ensure greater accountability, transparency and integrity in relation to collected revenues
- Improve taxpayer trust and hence voluntary compliance.

The digitization of records through the use of spreadsheets and databases is an initial step away from traditional analogue procedures. The provision of digital services through, for example, electronic demand notices (via the internet and mobile phones) and payment platforms are revolutionizing how local government clients interact with and consume public-sector services. For example, improving services to taxpayers (through a range of e-services and e-payment options) can make the process of paying taxes and fees simpler and faster, in turn reducing compliance costs.

Data overload

The digital character of modern data calls for digital infrastructure – a prerequisite for collecting, exchanging, storing, processing and distributing data (World Bank Group 2016). Revenue departments are data-rich organizations. At the most basic level, there is more potentially useable data than local governments have capacity to utilize effectively. Trends include the following:

- The movement from analogue to digital has produced massively more data, but that data is often trapped in the transactional, siloed systems with limited sharing and lack of openness between institutions

- Mobile devices allow field workers access to critical information in real time, which can enhance their problem-solving abilities

- Social media provide opportunities for community engagement in the coproduction of city services

- Cloud computing and open-source systems allow workers in one city to benefit from applications developed in another, provided sharing protocols are in place.

Information available to local governments has traditionally been collected in a variety of ways. It is not always conducive to subsequent multiple uses and may be held in different systems and formats which are potentially incompatible. An example is the capture of and digitization of land records using "folio numbers" (unique numbers to identify the parcel or record) as opposed to a spatially enabled addressing system. Another is keeping spatial-planning and building permits records in separate systems from that used for revenue, with limited (if any) interoperability. A comprehensive and holistic approach to the sourcing, collection and management of data is central to better support revenue collection.

Local governments can often be overwhelmed with the amount of data they have to manage. They are dealing with "Big Data", which is often characterized by the three Vs:

- The large **volume** of data.

- A wide **variety** of data types, gathered from a large range of sources and in different formats.

- The **velocity** at which much of the data is generated, collected and processed.

These features require systems that facilitate the storage, processing and analysis of the data to support the government activities.

Big Data comes from a large variety of sources including the internet, social media, sensors, text messages, video, images and audio files as well as other often unstructured sources. For businesses, such data has become a significant business asset (OECD 2016b).

Local governments must also come to see maximizing value from their data as a core objective. The issue is how best to do so to generate value in terms of providing better services, and in promoting greater transparency of processes and information to achieve enhanced customer and citizen experience. The idea is to provide better services through better systems of desktop and field data capture, more sophisticated data analytics and intelligence and the introduction of integrated data management to ensure an efficient and robust data service to underpin revenue activities.

Data-collection methods have been revolutionized. Remote sensing using aerial and satellite imagery, for example, can provide information on land and buildings: parcel size, built-up area, improvements, shape and type/style of properties, as well as factors such as accessibility, neighbourhood, land use, environment, and utilities.

Local governments are now embracing such opportunities to gather information remotely. Ayalew and Deininger (2016), for instance, show that remote sensing can be used to measure the height of buildings – useful for assessing property taxes, estimating floor areas, and determining the types of construction materials. Jain (2008) acquired socioeconomic attributes, roof material, shape, structure of buildings, and the age of construction from high-resolution imagery for the purpose of property taxation.

Nonetheless, digital systems also have limitations. Deriving precise property characteristics needed for valuation for taxation

Table 4.1 Digital challenges and remedial actions

Challenge	Remedial actions
Lack of understanding and awareness of how digital technologies can benefit revenue administration	Provide for a digital strategy to improve staff awareness
Limited information technology skills and knowledge of revenue administrations	Train staff on the use of the system
Infrastructural limitations: intermittent electricity and weak internet connectivity	Identify infrastructure gaps and develop remedial actions
High cost of system development, maintenance and licences	Analyse costs and benefits to measure potential revenue gains from implementation. Base the introduction of digital technologies on sound analysis and appreciation of how and where benefits will arise
Systems with complex functionality	Develop a fit-for-purpose strategy to address operational issues
Opposition from those threatened by digital-based revenue reform – larger property owners and smaller owners who see few benefits from tax revenue	Identify winners and losers of reforms; create transparency
Reluctance by central governments to support reforms that may expand local fiscal autonomy	Local government ministry to champion the reforms to support subnational autonomy
Need to understand the broader property-tax environment, including complex and inefficient property information and valuation, billing, collection and enforcement procedures	Analyse the current situation to identify where digitalization will make a significant difference.
Digital revenue systems that are not compliant with national systems	National government to provide guidelines to ensure that procured systems are compliant
Digital reforms unsustainable due to a lack of technical support	Factor cost of upgrades into the budget
Ignorance of the importance of digital solutions to benefit citizens	Plan and deliver sensitization, promotion and awareness campaigns
Lack of local accountability	View digital initiatives as a way to improve governance and strengthen accountability mechanisms
Technology development rendering the current system obsolete	Identify funding to cover replacements; obtain donor support
Lack of knowledge on digital-based governance interventions	Donors and other development agencies to develop knowledge on digital governance and provide practical experience

purposes depend on high-resolution imagery (Abrowski and Latos 2015). Governments may be challenged by overly complex processes and, if web-based, the fragility of internet connectivity (Prichard 2014). Other constraints include the lack of finances and qualified, experienced staff. Such approaches require initial and substantial governmental support to gain traction, build awareness, and create technical capacity.

Data privacy and cybersecurity

Data privacy and cybersecurity issues pose a further set of challenges. Relying on digital systems means that cybersecurity incidents that compromise the confidentiality, integrity or availability of data present a serious threat. Information security is recognized as a key risk, with a growing awareness that local governments must ensure the protection of data held on citizens. They must be alert to new vulnerabilities and the potential for external attacks on infrastructure and data.

With the growing recognition of the use, misuse, and underuse of data, the responsible management of data has gained importance. This is important at both national and subnational levels. Ensuring the security of network infrastructure and elements over which both personal and nonpersonal data flow is important to create and maintain trust. Cybercrime laws give teeth to cybersecurity policies. Although there is no universally accepted definition of cybercrime, the concept encompasses both a narrow view (criminal activities targeting information and communication technologies and software) and a broader view (traditional crimes committed in cyberspace) (World Bank and UN 2017). In practice, cybercrime is typically understood to include hacking (unauthorized access to a computer system), unauthorized monitoring, data alteration or deletion, system interference, theft of computer content, misuse of devices, and offences related to computer contents and functions.

While governments around the world face such risks, they are particularly a challenge in fragile states because of the government's limited capacity to deal with them. Following best practices in data gathering, handling and storing in a transparent manner also helps prevent the misuse of data by the state itself and the risk of insurgents (common in fragile states) gaining access to sensitive data.

Digital technologies for revenue mobilization

A weak capacity to raise taxes is a hallmark of fragile states. Strengthening their ability to do so depends on various factors: tax-collection mechanisms, the availability of modern infrastructure, accountability and transparency in revenue administration, the morality of public officials, the availability of accurate, up-to-date revenue data, suitable tax policies, and citizen awareness on tax compliance. Many developing countries are applying information technology as a way of improving their performance this these areas.

This section explores the various digital technologies that can be used to mobilize revenues (Figure 4.1), drawing on case studies of fragile states, as well as from other developing countries where suitable examples from fragile states are unavailable.

Data collection: Remote sensing

For data collection, remote sensing (measuring the physical properties of a location without actually having to visit it) holds great promise. Remote sensing refers to the process of detecting and monitoring the characteristics of an area by gauging its reflected and emitted radiation at a distance, mostly from satellite or aircraft (USGS 2022). It provides "eyes in the sky" as opposed to "feet on the ground" – though the latter is still important for ground truthing (checking that the interpretation of the remotely sensed information is in fact correct). Two types exist:

Figure 4.1 Types of digital technologies

Digital technologies in revenue mobilization

Data collection
- Remote sensing

Data analysis
- Geographic information systems

Digital services
- Automated assessments
- Aritificial intelligence and machine learning
- Cloud services
- Internet of things
- Blockchains
- Customer relationship management
- Cognitive services
- Biometric identification

Revenue collection
- Integrated revenue administration systems
- Mobile money
- Electronic fiscal devices

- **Active remote sensing** uses instruments that provide their own source of light (or other forms of radiation)
- **Passive remote sensing** relies on reflected radiation.

The technology is used in different fields such as geography, land surveying, earth science disciplines, military intelligence, economic planning and humanitarian applications (Pillai and Bhatt 2018).

Remote sensing technologies

Major remote sensing technologies useful in resource mobilizatison include:

- Satellite imagery
- Drones, unmanned aerial vehicles
- LiDAR
- Change detection
- Open-source imagery.

Satellite imagery Satellites are extremely expensive to develop and put into use because they need to survive in space. According to the Union of Concerned Scientists, which keeps a record of operational satellites, there were 6,542 satellites, with 906 used for earth observation in January 2021 (Mohanta 2021). Satellite imagery has become more affordable given the level of competition between vendors, which sell data at different resolutions on a per-square-kilometre basis. Affordable prices put such imagery within reach of the budgets of both national and subnational governments.

The expense of high-resolution satellite imagery and the lack of expertise necessary to leverage this data can prevent many organizations from taking advantage of it. Governments can save money by sharing the imagery between different agencies and levels of government. For example, the Department of Lands could acquire aerial imagery on a regular basis and share it with other departments and local authorities.

Satellite images can be used to determine daily land use changes by comparing images of the same area over time. High-resolution satellite imagery can be used to extract or measure the height of buildings. This information can be used as inputs into functions such as urban planning, the estimation of floor area, and the assessment of property taxes.

Table 4.2 Remote sensing methodologies

	Unmanned aerial vehicles/ drones	Planes, helicopters	Satellites
Advantages	Very high-resolution imagery Programmable flight paths LiDAR Individual flights are cheap compared to use of planes or helicopters	High-resolution imagery Pilot-flown flight paths LiDAR	High-resolution imagery Large coverage Frequent and up-to-date imagery
Disadvantages	Small coverage Restricted to line of sight from ground controller Low altitude and highly dependent on terrain One-off imagery Internet-dependent Suspicion by local people	Expensive individual flights One-off imagery Small to medium coverage extent Pre-planned flight paths Weather-dependent	Coverage limited to orbital path Affected by cloud distortions

Table 4.2 compares satellites to two other ways of gathering remote-sensing information from overhead.

Drones Also called unmanned aerial vehicles or UAVs, these have recently become popular for various uses, such as mapping and agricultural purposes (Box 4.2). Drones are aircraft which are guided autonomously using a remote control. They carry a combination of sensors, electronic transmitters and receivers. They are much simpler and cheaper to build than satellites, are faster and have a smaller communication delay (since the signal has to travel a much shorter distance). They can be used both for reconnaissance and for communications. For the latter, they can provide reliable wireless links for ground users to transmit and receive information (Zhu et al. 2022).

Box 4.2 Using drones in property valuation and taxation

Images from drones are more suitable than satellite imagery to assess the physical characteristics, location and improvements of property. An oblique or inclined camera angle makes it possible to gather information on the condition of properties, their construction materials and facades. This allows valuers to evaluate the property more accurately. Quantitative information such as parcel area, built-up area, perimeter and distance to public facilities can also be collected.

A study in Rwanda showed that drones are ideal for national and local governments to collect data in a decentralized way (Koeva et al. 2021). But this study also identified some problems:

- Not all drones are suitable for flying in mixed terrain.
- There are no regulations in place to govern the use of drones to gather data for government decision making.
- Software and hardware investments are needed to process data.
- Poor internet connectivity (common in fragile states) makes using drones difficult.

LiDAR Lidar (light detection and ranging) is an optical remote-sensing technique that uses laser light to densely sample the surface of the Earth, producing highly accurate measurements in all three dimensions – length, width and height. The main hardware components of a LiDAR system include a collection vehicle (aircraft, helicopter or drone), a laser scanner system, a global positioning system, and an inertial navigation system. LiDAR produces large datasets of points that can be managed, visualized, analysed and shared using GIS applications. The data consists of elevations above ground level of everything that the laser beam encounters: buildings, highway overpasses, masts, trees, etc. (Hu and Ye 2013). LiDAR can also pick up different types of construction materials, such as concrete, wood and metal. One of the most important uses of LiDAR data is to automatically identify buildings (Arefi et al. 2008).

Detecting change Remote sensing can reveal changes in an area over time by comparing images taken at different times (Box 4.3). This can determine the type, magnitude and location of change. For example, new property developments in urban areas will show up on such images. Quickly urbanizing areas can be mapped efficiently using drones, given the relatively small areas involved. High-resolution imagery can reveal small changes to buildings such as extensions and swimming pools.

Open-source imagery The rapid growth in the availability of Earth observation data has been driven by the open-source policy adopted by the European Space Agency, NASA, the US Geological Survey, as well as by fleets of small commercial satellites. The potential of remote sensing using this data is growing rapidly with innovations in data science, cloud computing, computer vision, artificial intelligence, machine learning, and other methods for processing unstructured satellite data.

Many open sources of satellite data are available (Table 4.3). The providers can allow different levels of free access to permit viewing, download and processing options. Most satellite data that is available for free is either dated (from a couple of months to a couple of years old), or of low resolution. In 2015, Google Earth Pro became freely downloadable. Developments in providing free virtual mapping through satellite imagery are available from several suppliers.

Box 4.3 Remote sensing to detect illicit oil production

Oil is a commodity that is caught up in conflicts in fragile states, and illicit production and sale can form a major loss of revenue for the government. Remote sensing offers opportunities for monitoring oil (and other natural resources) to determine illegal activities, point to informal tax systems, calculate revenue losses, and inform policies (Kumar 2015).

In Syria and Iraq, Islamic State groups had begun to produce oil illicitly, but their activities were hard for outside policymakers to judge (Do et al. 2018). Satellite multispectral imaging and ground-truth pre-war output data were used to build a real-time census of oil production in areas controlled by Islamic State. The analysis revealed the amount of oil being produced, which rose to 86,000 barrels per day in late July 2014 and declined steadily thereafter, averaging approximately 56,000 bpd in the second half of 2014. Islamic State sold the oil at discounted prices of USD 20–35 dollars per barrel, below the prices charged by the Syrian and Iraqi governments (both of which sell at the international market price).

Table 4.3 Open-source satellite data applications

Provider	Application	Website
Google	Google Earth	google.com/earth
Nokia	Here	here.com
Microsoft	Bing Maps	bing.com/maps
Apple	Maps	apple.com/ios/maps
Skyline	Terraexplorer	skylinesoft.com/terraexplorer-for-desktop

Advantages and disadvantages of remote sensing

Advantages The advantages of using remote sensing for revenue collection and management include:

- Remote sensing can collect information over large areas.
- It can characterize and classify physical objects and natural features on the ground.
- It can observe surface areas and objects and monitor their changes over time systematically.
- It can integrate the data collected with other information for decision-making purposes.
- It is more cost-effective than traditional survey methods such as fieldwork or aerial photography.

Disadvantages Nonetheless, remote sensing has several challenges:

- It can be fairly expensive, especially when measuring or analysing smaller areas.
- It requires properly trained staff to manage and analyse data. Local governments, especially in fragile states, often lack such expertise.
- The data collected is prone to human error. The system relies on people to select sensors, specify resolutions, and determine what data to collect and analyse.

Remote sensing in fragile states

Capturing data using aerial imagery (a "spy in the sky") can be controversial in any setting – it may create fears about privacy and state intrusion. Such fears can be much more pronounced in contested societies. Using planes for aerial photography has increasingly given way to drones – but this puts the drone operators in the middle of the communities they are investigating. Drones are also increasingly associated with warfare, and as a mainstay of counter-insurgency and tactical awareness. So it is not surprising if residents regard local governments with considerable suspicion if they gather data in this way, particularly in areas sympathetic to the opposition. Where armed groups are operating, using a drone can be hazardous both for the drones and, more importantly, for the operators. In such circumstances it may be more appropriate to use other ways to capture images, such as planes, satellites or open-source imagery.

Data analysis: Geographic Information Systems

Geographic Information Systems, or GIS, have become widespread tools for administration and mobilization of resources for local governments. These systems combine hardware, software and spatial and non-spatial data to capture, store, manage, analyse and display geographically referenced information. They allow the user to observe, analyse and visualize data quickly and efficiently by revealing relationships, patterns and trends graphically.

For revenue mobilization, GIS systems have been used to identify and map revenue sources, property valuation, tax billing, tax collection and arrears control. By integrating and consolidating information spatially, revenue planners can understand the current situation and make revenue projections to inform decision making.

Local authorities routinely collect large volumes of spatial and non-spatial data. GIS can help transform this raw data into a form that is useful for decision making, determining policies and providing an interactive interface for citizens. Geospatial data is essential when it comes to answering spatially dependent questions that affect local growth, development and revenue management. In Afghanistan, the standardization of *gozar* (district) administrations paved way for the preparation of action plans for each municipality (UN-Habitat 2021).

As the use of open data becomes more widespread, local authorities can make their spatial data available to the general public through web-based services. For example, they can allow the public to view information such as property records and the boundaries of parcels and building boundaries.

More and more local authorities are now using GIS as they recognize the value of the geospatial data they hold. But they need to overcome barriers such as the lack of trained staff, inadequate finances and capacity, limited support for developing and maintaining GIS infrastructure, and a general lack of awareness. These can make the integration of GIS into local administration extremely difficult (Namangaya 2018).

Advantages and disadvantages of GIS

Advantages GIS offers several benefits compared to previous, manual revenue-mobilization systems. It shares many of these with other digital data-management approaches:

- The increased ability of GIS to display data spatially.
- Enhanced transparency and consistency in tax systems, via spatial search and display, helping improve citizens' confidence in the state.
- Improved workflows, promoting efficient services and saving costs.
- An integrated platform for storing up-to-date data for informed tax decisions.
- Greater traceability of tax information due to up-to-date data.
- Improved communication between government authorities through linked platforms that enable data sharing.

Disadvantages But GIS (and other digital data services) also poses limitations for local authorities:

- The need to undertake extensive awareness programmes for citizen buy-in.
- The lack of trained staff to operate and maintain the system.
- High costs of establishing and maintaining the system.
- The need for continuous internal and external change management to ensure the system is sustainable.
- The difficulty of accessing and integrating data from other departments.

GIS in fragile states

Fragile states are at the most challenging end of the spectrum with regards to digital technologies in local government. Staff with valuable digital skills are very employable in other areas of government and in the private sector. GIS skills are a specialized subset of digital skills,

Box 4.4 Use of GIS systems in Somalia

In 2008, the Joint Program on Local Governance and Decentralized Service Delivery (JPLG) was launched in Somalia (UNDP 2023). This was a joint project between UN-Habitat and several other United Nations agencies. It aimed to ensure communities have equitable access to basic services provided by local governments, and to ensure that those local governments are transparent and accountable.

One initiative under this programme was to establish automated accounting and billing systems in Somaliland and Puntland. The main aim was to come up with an up-to-date database for taxation, and to improve accountability, transparency and efficiency.

UN-Habitat established a GIS-based database of property data, containing information on urban parcels that were surveyed, classified and updated regularly. Such databases were established in seven districts in Somaliland (Hargeisa, Burao, Berbera, Borama, Gabiley, Sheikh and Odweine) and six in Puntland (Garowe, Bosasso, Qardo, Bander Bayla, Jariiban and Eyl).

The system includes information on the quality of properties, land use, infrastructure, ownership and number of occupants (Figure 4.2). This information is used to establish the property value and the appropriate tax rate, and to notify the owners on how much tax to pay to the municipality. The data is connected to the local government finance system to produce bills and to account for tax collection.

The GIS system was established first, then integrated with the Billing Information Management System registry that supports the property taxation system. An initial objective was that the GIS and billing systems would be maintained as a single system, but the high turnover of staff and scarce resources within the districts led to the depletion of the GIS department. This resulted in no updating of the GIS database.

UN-Habitat and the World Bank later introduced a Financial Management Information System to replace the billing system. This is an easily operated, secure, open-source software consistent with the standardized

continued...

Box 4.4 (continued)

financial management system across Somalia. It permits mobile payments, allowing citizens to use their mobile phones to pay their property tax and other local taxes.

As a result, in one of the cities, Hargeisa, property tax collections increased from around USD 250,000 in 2008 to over USD 1 million in 2015 (UN-Habitat, 2016). The new systems were essential for establishing and monitoring the property tax base and supported urban planning and infrastructure development. They also helped enhance the confidence of development partners that the Somali government was using public resources efficiently and in a transparent way (Nor 2019). This in turn led to a tripling of donor funding to USD 124.6 million in 2018.

The programme also showed how difficult it is for local governments to recruit and retain GIS specialists, to integrate the GIS database across departments, and to maintain the data. Some districts lacked standardized approaches to defining a fair tax rate, enforcement, notification and capacity to collect taxes. Continuous technical assistance and capacity development of local governments was vital for these systems to succeed.

Figure 4.2 The development process of a GIS-based property database

Adapted from UN-Habitat (2013)

Box 4.5 Use of GIS systems in Ethiopia

In Ethiopia, the Ministry of Urban Development and Construction at the federal and regional levels is tasked with developing policy and provide technical support, training, and capacity building for city staff (SPARC 2016).

In 2015/16, the Ministry undertook a pilot project in three cities (Bahir Dar, Dire Dawa and Mekele) to collect information on parcels (such as size, shape, topography, fertility, accessibility) and buildings (size, usage, age, condition, construction type, amenities, utilities, etc.). This was built upon base mapping provided to the cities. This is the information required to develop and maintain a fiscal cadastre, and was collected directly and indirectly through field surveys, aerial imagery and self-declaration. Details of the land/property ownership were included, along with parcel or property boundaries.

This project aimed to develop a strategy for modernizing the property tax. It generated information on the valuation options and methods, the availability and quality of data on transactions, and the capacity of city administrations. A mass data collection project in each city created the fiscal cadastre.

In Bahir Dar, information on some 46,000 buildings was collected, in Mekele on 70,000, and in Dire Dawa on 60,000. For Bahir Dar the work took 55 days and involved some 120 data collectors. The approximate cost per building unit was in the region of ETB 70 (about USD 1.30), well within the range of other typical mass-survey projects. This project demonstrated that mass-data collection surveys can be effectively delivered, but that rolling out this process to all cities will take resources and planning.

The Ministry procured a web-enabled GIS-based property tax system in 2015/16. This can handle a variety of functions, including property tax assessment, property valuation using different valuation approaches (unit area, cost, rental and sales comparison), billing, collection, report generation, and overall revenue management. The key design attributes of the system were based on research projects conducted in the three pilot cities. The data collected in each of the pilot cities has been entered into the system.

The system is currently used to run tests on the data and do revenue simulations. It is not an operational system as the draft law on the property tax has yet to be passed. City staff must be trained to use the system and maintain the data. Since the initial mass data collection in 2016, the core data have not been maintained, and information on new buildings has not been collected. This will cause problems in the future, and the pilot cities should endeavour to keep data on buildings up to date.

The property tax system can also generate bills and allow customers to view their bills on the internet. The tax collection module has an option to collect taxes in different modes, such as through the system portal, at banks, via internet banking, and through credit or debit card. With comprehensive mobile phone penetration in Ethiopia, there is the potential to use short message systems for both billing and payments made through mobile phone networks.

While the system has been developed and can be scaled up to all city administrations in Ethiopia, this will require significant investment in training and capacity building of city staff. In addition, the key activity of data inventory collection will have to be addressed as this is vital to put the system into operation. While the data entry is intended to be undertaken at the city level, it is planned that the Ministry will have oversight control and the responsibility to maintain the system. To ensure consistent and uniform data collection, the Ministry needs to develop a clearly defined national fiscal cadastre vision, digital technology solution, strategy, and national framework. Failing to do this could result in an uncoordinated and piecemeal approach to developing the fiscal cadastre.

making them much harder to acquire, recruit and retain. So while GIS and spatially enabled databases may be very valuable, doing so is at best aspirational. The more fragile the state, the more difficult introducing and maintaining a GIS will be (Boxes 4.4 and 4.5).

Like other digital technologies, GIS needs reliable power and internet connections, and servers that can handle the computational requirements and data storage and backup needed.

Power supplies in fragile states are typically unreliable, and blackouts are frequent. This hampers any technology-based solution. Government agencies in fragile states may be unable to get basic services, and they may even not be able to pay the electricity bill. A typical solution is diesel generators, but these can be damaged and their fuel stolen. Power lines and equipment may be attacked. All these risks cast doubt on the usefulness of digital solutions.

Digital services and infrastructure

Here we look at the following types of automated services and the technologies that make them possible:

- Automated assessments
- Artificial intelligence and machine learning
- Cloud services
- Internet of things
- Blockchains
- Customer relationship management
- Cognitive services
- Biometric identification.

Automated assessments Automated assessments are becoming more widespread for own-source revenues such as property tax and business licences. Both these types of revenue require an assessment of specific circumstances. For property tax this may include the type of property and its size; for business licences it might be the type of business, its location, and the number of employees. Other criteria may be added into the assessment: the location, age, presence of amenities, etc. because such an approach has a fixed structure, automation is relatively simple, making it possible to assess large numbers of objects quickly. The basis of the assessment can also be made transparent and easy to verify.

Artificial intelligence and machine learning Artificial intelligence refers to computer systems that can continuously scan their environment, learn from it, and take action in response to what they sense, as well as to human-defined objectives (World Bank 2020). The past decade has shown significant advances in artificial intelligence, mainly due to computing power, communications networks, data storage, big data and the internet of things, as well as in remote sensing with the increased use of high-resolution aerial and street-view imagery. Machine learning is the most common form of artificial intelligence used in property taxation; it is used to determine the footprint of buildings. Artificial intelligence may use computer vision and algorithms to recognize patterns in data it is given (its training datasets); it then uses these patterns to identify buildings and detect their boundaries. It can be used in a similar way to outline land parcels.

With vast amounts of data becoming available, artificial intelligence is likely to disrupt traditional ways of property data collection and assessment. The huge increase of revenue-related data offers more cost-efficient solutions and up-to-date information on property taxes, fees and charges.

A white paper by the Gloudemans and Sanderson (2021) looks at the potential of artificial intelligence in property assessment. It proposes a framework for a standard on the use of artificial intelligence in property assessment administration. Used properly, artificial intelligence can efficiently produce equally and perhaps more accurate valuations.

Cloud services Cloud-based revenue management systems help prevent revenue leakages, improve the visibility of revenue flows, reduce errors and meet the diverse needs of customers. Cloud services offer various advantages over "on-premises" systems (Billing Platform 2022):

- Lower costs due to revenue leakages, equipment maintenance and investment in digital infrastructure. It is easy to modify the capacity of cloud services.
- Improved security through software and hardware updates, policies and frequently monitored controls.
- Increased flexibility to respond to changes in the environment and client needs.
- Easy tailoring of services to meet diverse needs, so Improved customer experience and higher motivation among taxpayers.

Internet of things The "internet of things" is a network of physical devices (such as vehicles and appliances) that have electronic components, software, sensors, actuators and network connectivity that allows them to connect and exchange data. Such a network can be used to connect cash registers to tax agencies to reduce tax evasion and collect carbon tax.

Blockchains Blockchains can organize large amounts of data by storing it in blocks and distributing and duplicating it across an entire network. These blocks are interlinked chronologically, so any change in information in one block translates into the creation of a new block, which in turn has information linking it to the previous block (Catala Consulting 2023). Blockchains can enable tax authorities to monitor tax processes and enhance tax filing and collection, the prediction of fraud and risk, and reporting on compliance.

Customer relationship management platforms These are systems and tools that track and monitor an organization's interactions with its customers. They provide administrators with information on customer experiences, enabling them to make informed decisions on how to improve those experiences. They can help tax authorities understand taxpayer's needs and attitudes, tailor services to specific customer needs, and respond to quickly and efficiently to their demands. They manage taxpayers' data, and offer near real-time reporting and alerts on issues as they arise.

Cognitive services Software applications such as large language models enable the use of sophisticated human-like automated services such as chatbots, which can help tax administrators communicate taxpayers, understand them better, and improve services. This in turn can increase the taxpayers' satisfaction and voluntary tax compliance, and can be effective in predictive analytics of the tax systems.

Chatbots are computer programs that can respond to queries and give instructions. They can work on telephones (where the user listens to a question from the chatbot and responds by saying "yes" or "no" or by inputting numbers on the keypad ("press 3 to repeat this message"). They can also work on computers and mobile phones, with the user responding to audio queries or instructions on the screen.

Chatbots can make interaction with clients more efficient. They can handle multiple clients simultaneously, automate repetitive tasks, respond to routine queries, and direct clients to the appropriate department. They can be used to guide clients to fill in a form. They can be configured to provide feedback to the organization, for example on the type of query.

Biometric identification Biometric identification is the automatic identification of individuals using their biometric characteristics, such as their retina, face, voice and fingerprint recognition. Tax authorities can use it to authenticate a person's identity, so reducing tax fraud and saving time (Shakil and Tasnia 2022).

Advantages and disadvantages of digital services

Advantages Digital services offer various potential advantages in revenue generation by local governments.

- Automated services can increase taxpayer satisfaction by making services faster, more efficient and more user-friendly (for example, by guiding taxpayers through the tax-filing process), and by making it possible to tailor services to clients' needs.
- They reduce the workload of tax-agency staff on mundane and repetitive tasks, giving them more job satisfaction and permitting flexible working hours.
- They can handle high volumes of data, improving the efficiency of revenue collection.
- They reduce human involvement in tax systems and help eliminate errors (Assassa and Sawaya 2023).
- They can make it easier to detect fraud and evasion, for example by identifying individuals engaged in suspicious behaviour (Shakil and Tasnia 2022).
- They can help staff and auditors detect errors, classify taxpayer accounts based on distinct characteristics, and analyse tax laws in diverse jurisdictions (Huang 2018).
- They can help governments to monitor companies' tax information and identify anomalies, so reducing tax evasion.
- AI can assist tax authorities in reducing the costs associated with the conventional taxation processes that entail prolonged and paper intensive processes.
- The adoption of AI provides an opportunity to introduce "automation tax" to make up for the drop in income tax to governments due to the loss of jobs. Robots can be taxed as consumption goods or services, as a factor of production, as an incentive for the depreciation from the income tax base due to loss of value, or all three (Ooi and Goh 2019). Such "automation tax" offers a sustainable revenue source during technological advances.

Disadvantages But digitizing services for revenue mobilization, and especially artificial intelligence, also faces a range of challenges.

- The risk of coding errors, which may lead to miscalculations and incorrect billing
- High costs of investment and maintenance, and the difficulty of recruiting and retaining skilled staff in fragile states.
- Frequent system outages due to a variety of natural and human-made threats to power systems and ICT infrastructure.
- Slow adoption and acceptance of machines by tax officials, who fear it will make wrong decisions and lack expertise in interpreting machine-generated results. Some officials may fear their role will be reduced by the use of computers and may resent the reduced opportunity for corruption.
- A lack of tax policies and laws on the use of automation and artificial intelligence in the tax system (Huang 2018).
- High data accuracy required for authentic, reliable results. But such data may be unavailable in fragile states, requiring extensive data collection and cleaning before such technologies can be introduced, and constant updating thereafter.
- Vulnerability to hacking and fraud.
- Fears that taxpayers' rights may be infringed. Tax systems collect sensitive data on taxpayers, and digitization makes this easier to lose, share or steal. If artificial intelligence is used, its inner working should be understandable for staff, taxpayers and the legal system (Lasmar Almada et al. 2022).

- Bias and inequity in algorithms. Artificial intelligence bases its decisions on the data available, which may reinforce prejudices in a way that is hard to detect.

- Taxpayer suspicions. Taxpayers may fear errors and biases, so may be reluctant to accept the new technology.

Digital services in fragile states

The introduction of digital services faces many of the same problems as outlined under *GIS in fragile states*. Nonetheless, it still has considerable promise.

Artificial intelligence could be effective in curbing challenges in fragile states such as revenue leakage, tax evasion and fraud. Setting up such systems may be initially expensive, but in the long run, governments can reap the benefits by saving time, increasing compliance and reducing revenue losses.

Governments that digitize their services and grasp the potential of artificial intelligence can revolutionize the way they design and implement policies and provide services to their citizens.

Revenue collection

Integrated Revenue Administration Systems

Effective revenue administration is an important aspect of good governance and helps create social fiscal contracts between the government and citizens. A major way to promote voluntary tax compliance is to provide simple, harmonized tax procedures that minimize the time and need to citizens to respond to multiple agencies (World Bank 2010). Countries are integrating their revenue administration by merging tax collections and social security contributions, combining tax and customs administration, or both. Using digital systems minimizes the interaction between taxpayer and the tax office, so enhancing the taxpayer's experience.

Integrated revenue administration systems may take the form of web and mobile applications. These aid local governments to collect revenue and administer revenues from various sources. They also serve as a linkage between citizens and the government. They include three systems: filing, invoicing and payment.

Electronic filing This entails individuals and businesses filing tax returns to the relevant government authority via online software. This offers convenience and flexibility to taxpayers, saves time, improves accuracy over paper-based filling, minimizes opportunities for fraud and other illegal activities, and enhances accountability.

Electronic invoicing This is a billing system that presents invoices to customers electronically. Compared to traditional paper systems, electronic invoicing reduces errors, enhances compliance, creates efficiency in workflows, and provides web-based access to revenue forecasts.

Electronic payment systems These allow the transfer of funds through mobile money, debit cards etc. Such systems are cost-effective, efficient, fast and secure.

Advantages and disadvantages of integrated revenue administration

Advantages The key justifications for establishing integrated revenue administration systems include:

- The simplification of government tax processes.

- Efficiency in the use of resources by maximizing the economies of scale.

- Reduced costs of administration and taxpayer compliance.

- Synergies between different institutions in the collection of tax revenues.
- Improved tracking and traceability of taxpayer information.
- The data collected aids in improving operations within other government institutions.

Disadvantages Establishing integrated revenue administration must overcome various challenges, especially in fragile states.

- The limited availability of taxpayer information. This makes it hard to set up an integrated revenue administration system. It may be necessary to collect and digitize new data to feed into the system.
- Power supplies and internet connectivity. These are often limited and of poor quality in fragile states.
- Poor coordination and synergy between government institutions.
- High cost of maintenance.
- Limited technical expertise within tax agencies to operate modern tax-administration systems.

Mobile money

The ownership of mobile phones continues to rise. By 2018, 83% of adults in developing countries owned mobile phones, increasing their access to opportunities and services needed to escape poverty (Klapper 2019). This permits the widespread adoption of mobile money. Users do not need a bank account; they need only a mobile phone, a network connection and a mobile money application. They can send and receive money to and from other individuals, businesses and governments, both locally and internationally. The use of mobile money has grown quickly in developing countries because of its advantages over traditional financial services: low costs, convenience and lack of need to travel. This has had positive effects on economic growth. The M-pesa mobile money service was launched in Kenya in 2007, with retail outlets acting as banking agents. It has since expanded to Tanzania, Mozambique, DR Congo, Lesotho, Ghana, Egypt, Afghanistan and South Africa. It permits users to pay for services such as parking, utility bills and public fees.

Revenue authorities that have adopted mobile money for tax payments have collected more revenue (Logan 2017). Mauritius, for example, collected 12% more in tax revenues in the year it adopted mobile money payments, while in Afghanistan paying government salaries using mobile money is reported to have reduced revenue leakages and recurrent costs (Blumenstock et al. 2013).

Using mobile money offers easy and convenient method of tax payment through reduction of time to follow the traditional administrative process and through enabling remote payments (Scharwatt 2014).

By taxing mobile money, governments can expand their tax base. Automatic payments cut fraud, improve traceability and enable access to real-time data (Mpofu 2022). The adoption of mobile money taxes in Tanzania has resulted in less tax avoidance. Users with no history of paying taxes have started to pay property and personal income taxes (Scharwatt 2014).

Flexible rules are needed that strike a balance between encouraging access to financial services and reducing risks. Effective coordination of the various regulatory authorities is essential to ensure coordination (Logan 2017).

Advantages and disadvantages of mobile money

Advantages Mobile money brings various indisputable benefits for individuals and governments.

- Mobile money is a popular application among the public because of its convenience, safety, and ease of use. This acceptance makes it an attractive way for governments to collect taxes and user fees.

- It increases transparency and security and reduces the opportunity for diversion of cash payments by corrupt officials. In these ways it enhances the likelihood of voluntary compliance.

- Increased revenue mobilization: imposing a tax on mobile transactions can be a source of revenues for governments.

- Increases tax morale due to enhanced customer convenience.

- Increased payment compliance through client convenience.

- Security of customer information: mobile payment use encryption to protect personal data. This lowers their susceptibility to suspicious activities.

- Simplification of record-keeping: mobile payment systems make it possible to collect data in real time.

Disadvantages Despite its many advantages, mobile money has significant constraints, especially in fragile states.

- Reluctance by individuals and businesses to switch from traditional cash payments: they may lack knowledge of the technology and may fear being conned.

- Low trust: users may fear hacking or leaks of their personal information. To ensure customer buy in and trust, mobile network operators should provide simple, easy to understand contracts and terms and conditions, and be transparent with their charges.

- Limited infrastructure in remote areas: mobile money may not be feasible because of a lack of electricity and connectivity.

- A lack of regulations (or stringent rules) on mobile money may impede innovation and increase compliance costs.

Electronic fiscal devices

These are devices that monitor business transactions with consumers or other businesses. They create a fiscal obligation for consumption taxes such as sales tax or value-added tax. They often have a "fiscal memory" certified by the relevant government authority (Casey and Castro 2015). Electronic fiscal devices first emerged in the 1970s for use by large retailers in developed countries such as Italy and Greece. Since 2000, they have become more widespread in developing countries. Today they are commonplace, and are affordable for most businesses.

The use of these devices has been driven mainly by the need for effective and efficient tax administration, particularly in the informal sector and businesses that are hard to tax. Small, informal businesses are often the largest share of taxpayers, yet lack the necessary accounting and book-keeping mechanisms to determine their tax obligations. Assessing and collecting tax from them is strenuous and expensive, resulting in non-compliance and tax evasion. Some businesses end up not being taxed at all. This causes significant revenue losses to the state. Electronic fiscal devices harness information from various sources to cross-check data declared by the taxpayer to determine their tax liabilities and ensure compliance.

Types of electronic devices

A detailed history and examination of electronic fiscal devices is provided by Casey and Castro (2015). The main devices are summarized below:

Electronic cash registers These point-of-sale terminals are essentially computers attached to a barcode scanner, weighing scales and debit- or credit-card terminals. They perform various functions, including scanning product barcodes and retrieving prices from databases, calculating discounts on the item sold, calculating taxes, maintaining inventory, and recording the transaction (item purchased, time and date stamp, payment method and total record of products sold).

Electronic tax registers These are similar to electronic cash registers, but also have a fiscal memory that captures tax information in terms of goods, the value of sold goods, the tax rate and value. They are used mostly by small businesses and retail distributors. The fiscal memory is accessible only to authorized personnel (usually from the tax administration) with an electronic key, who can transfer the data for detailed verification and analysis. Attempts to interfere with the memory can be detected using anti-tampering devices. A downside of the device is the inability to process refunds or transactions on returned goods.

Electronic signature devices These are used in medium-sized businesses or retail outlets where sales are computerized. They are connected to a computer network and generate invoices with unique signatures. The signature provides increased security and validation. Such devices must be linked to another device to record the sales information and must be used in combination with a fiscal printer.

Electronic fiscal printers These devices are used along with other sales-recording devices such as an electronic cash register, mostly by large retailers or businesses. Like electronic tax registers, they have a fiscal memory. They generate a fiscal receipt and retain fiscal information for the revenue authority.

Sales control devices These combine the features of an electronic signature device with a fiscalized external memory. They are mostly used by large enterprises with different geographic sites. They allow for data cross-checking on the receipt. The receipt data is stored securely in the control unit. The device can be connected to several cash-receipting devices, eliminating the need for a fiscal printer for each register.

Advantages and disadvantages of electronic fiscal devices

Casey and Castro (2015) and Makoza (2021) have reviewed the use of electronic fiscal devices in Kenya, Tanzania and Malawi and their effect on revenue mobilization and tax compliance. Here we summarize their key policy lessons for fragile states.

A comprehensive compliance strategy is needed for these devices to be effective. This should consider the risks for different taxpayers and analyse the costs and benefits for both the administration (in technology identification, selection of devices, overseeing their deployment and monitoring) and for taxpayers in complying with the new rules and standards.

Effective monitoring and enforcement mechanisms are necessary. Without this, VAT compliance cannot be maintained – with or without fiscal devices (Casey and Castro 2015).

Ample time and proper plans are needed for the deployment, installation and support for user education, awareness and maintenance.

Stakeholder engagement is key. The introduction of fiscal devices involves change for the parties involved (the government and taxpayers). Having open dialogue can create consensus where all parties benefit, and the system can be successful.

Advantages

End users in the business community have much to gain from these developments, such as:

- Ease and accuracy of accounting

- Enhanced inventory maintenance and reporting
- Reduced opportunities for pilferage by staff.

Combining electronic fiscal devices with suitable taxation policies can significantly reduce the cost of ensuring VAT compliance.

Disadvantages

Access to the technology may be limited in fragile states, where suppliers may be reluctant to operate.

The devices are prone to manipulation by taxpayers, so some transactions may not be recorded. This reduces the tax collected by the government.

Installing and maintaining the devices takes significant investment.

Electronic fiscal devices in fragile states

In fragile states, digital revenue systems face all the same challenges identified above for geographical information systems.

Security is a particular concern. Revenue management systems hold key data on individuals, their circumstances and liabilities, they require significant security to ensure system robustness. One question is where the servers should be located. If (as is often required or preferred) they are located in the jurisdiction's own premises, they face the risk of physical loss, damage or falling into the wrong hands during a crisis. An alternative is to use cloud-based services, which allow the core data and systems to be held remotely and accessed via the internet. This carries its own security risks, but does at least insulate the revenue administration from the risk of total system loss due to fire, flood or physical incursion, any of which can be devastating to physical records or local servers. Such risks are common to all settings, but are more likely in fragile states.

The **legitimacy** of the revenue authority is an additional complication. Whilst reluctance and occasional refusal to pay tax is almost universal, fragile states often face divided loyalties amongst their taxpayer community, and significant, ongoing and organized challenge to the status quo. This can include pressure not to pay taxes and charges as a form of civil protest, and tax competition by other groups raising revenue from the affected community. The Taliban (before their takeover of Afghanistan) and Al-Shabaab in Somalia both organize relatively sophisticated tax-raising activities, both in areas they control and areas they do not. They use covert approaches, using religious justifications, coercion and threats of reprisals, while also issuing formal demands and payment receipts. While this could be seen as protection racketeering, the uncertain nature of control by the official state and the activities of armed groups in the same fiscal space presents challenges to taxpayers' willingness and ability to pay.

Online payment and mobile money can play a positive role in dealing with this. They avoid the need for taxpayers to undertake overt public actions to pay taxes and charges (such as queuing up at tax offices), where their compliance with the state can be observed and noted, and which are possible targets for violence. Automated, efficient and simplified charging systems also encourage payment in a way that administratively top-heavy traditional approaches do not. They avoid the scenario of citizens preferring to pay insurgents rather than the state because it is easier to do so.

Where they can be set up and maintained, modern digital-based revenue administration systems can help in fragile contexts. This is especially so where they make compliance easier and where the core system can be insulated from the risk of violence and other threats posed in fragile states.

Overall discussion

Various digital technologies can be used to enhance revenue mobilization. But there is little evidence of using them in fragile states. GIS and integrated revenue administration systems seem to be the most prevalent technologies in such locations. For some other technologies, such as artificial intelligence and machine learning, there is no evidence of their use in fragile states. They remain aspirational applications for adoption in the future.

Two examples of digital solutions implemented by subnational governments to improve revenue administration are described below.

The web-enabled GIS-based property tax system in Ethiopia This aims at property tax assessment, property valuation using different valuation approaches (unit area, cost, rental and sales comparison), billing, collection, report generation, and overall revenue management (Sparc 2016).

The Somaliland automated accounting and billing management system This is a GIS-based taxation system that includes information on the quality of properties, land use, infrastructure, ownership and number of occupants. It is used to establish property values and tax rates, and to notify the owners on how much tax to pay the municipality. The data is connected to the local government finance system to produce bills and to account for tax collection (UN-Habitat 2013).

These two cases share several key characteristics:

- Strong leadership from the national or local government
- The management of several revenue streams
- An enabled GIS platform connected to the data collected for each property
- Each property has been geo-referenced
- Tax can be collected through e-payments, mobile money, point-of-sale machines, or banks.

Three main characteristics emerge from the introduction of digital technologies in the management of subnational finances:

- An increasing demand for online services, particularly for improving tax administration and access to municipal services.
- New citizen participation channels in both local development planning and in monitoring municipal services.
- A closer interaction between citizens and local government.

Considerations and recommendations in introducing digital technologies

Deploying technology can be risky – for example, to start a project without a good understanding of the possible solutions or of international best practices. Municipalities have a strong potential to learn from one another and to share solutions that have been successful elsewhere. It is risky for a local government to implement a digital-intensive project in an isolated way, without being part of an integrated digital strategy. Such an integral approach towards digital services can lead to important economies of scale and promote a better communication with citizens.

Below are some success factors based on the experience of introducing digital technologies for revenue generation in developing countries and fragile states.

Technology is not a panacea for revenue mobilization in fragile states. Its success and impact depend on the tax policies and enforcement capacity of the responsible authorities. Digital technologies may create winners and losers: they may benefit some but have detrimental effects for others. The losers may resist the adoption of the technologies.

Strong and sustained political will is needed to maintain the momentum of digital reforms. Political commitment in fragile states is often compromised, causing reforms to stagnate or fail to take off. In such circumstances, international donor support is vital. Experience suggests that fruitful engagements can make significant progress. It is important to select the appropriate location and level of government where institutional buy-in exists.

Continuously improve revenue databases and widen the tax base. Fragile states need to focus on acquiring basic data in a cost-effective way, ideally from remote sources such as satellite and aerial photography, and feed it into a GIS-enabled database. This base data and functionality can underpin basic, passive revenue activity during periods of worsening fragility, while enabling rapid improvements to mobilize revenue when stability returns.

Strong institutional capacity is needed. Fragile states frequently lack this; hence the need to strengthen in-house capacities by hiring experienced staff. Learning by doing can be an effective way to enhance the technical capacity of staff while the system is being introduced by equipping them with basic IT and accounting skills. This can play an important role in drafting operational procedures, undertaking analytical projects, forecasting revenues, and proposing other reforms. Progress will be most likely where projects are well-supported.

Assign dedicated revenue officers to each major revenue source to strengthen both responsibility and revenue control. In fragile states, it is especially important to identify the best revenue sources from the set of alternatives.

Conduct detailed studies beforehand to identify challenges that hamper efficient revenue collection.

Use pilot projects to introduce and test the technology. Piloting is essential to identify and mitigate problems at a small scale before deploying a technology on a large scale throughout the country. It takes time to conduct studies of the suitability and need for different systems before setting them up, and provide supporting infrastructure before deploying the technology.

Clearly articulate action plans, and get the buy-in from senior management. Develop partnerships with a variety of institutions, stakeholders, banks and telecommunications companies. In fragile states such partnerships may be difficult to establish and subject to strains. The relative weakness of government makes such relationships, which can act as multipliers, all the more important.

Simplify processes to ensure buy-in by both staff and taxpayers. The use of digital technology can be daunting for both the operators and taxpayers. That may make them resist its introduction. Make sure that the technology is user-friendly and does not entail long or complicated steps.

Conduct campaigns for taxpayers and stakeholders before setting up a digital system to understand their needs and perceptions, teach them how to use it and what its benefits are, and inform them of their tax obligations and rights. After deploying the system, stakeholder engagement is also vital to understand any challenges or needs that arise, and to ensure the system responds.

Create channels for citizens' enquiries and feedback. These will allow users to ask questions and comment on the system.

Show how the money generated is being spent. This is particularly important in fragile states, where revenues may be diverted to support the survival of the regime and the government system. This should be minimized; instead, revenue should be used to support basic services.

There are no quick fixes. Digital solutions must be fit-for-purpose and relate to the local situation (Keen 2012). Simpler, more robust systems may be more appropriate in the short to medium term (Prichard and Fish 2017).

Integrate traditional and innovative solutions. The administration may encounter resistance from citizens who fear the use of the new technology, cannot use it, or are used to informal tax systems. The system must offer alternatives for different categories of people, such as the elderly, illiterate, or rural residents. Such issues will become pronounced in fragile states, where distrust of authority is likely to be exacerbated. This requires careful and sensitive handling to mitigate potential hostility and foster the social contract.

Conclusions

In fragile states, not all of these success factors are certain, or even likely, to be present. But they do indicate a potential road map for planning improvements in revenue mobilization. Strong leadership is by no means absent in fragile states, but leadership and coordination to operationalize plans is frequently compromised – particularly the coordination between central and local levels. Where local capacity and stability are absent, the central government may have the potential to drive progress; conversely, where the local situation is stable and leadership is strong, it may be possible to achieve progress even where the central government has less appetite or capacity to support it.

A spatially enabled tax base (one that ties information to a particular location using a geographical information system) is a cornerstone for mobilizing revenues across multiple sources. Whilst such an approach is not strictly necessary for all revenues, it does help and is potentially fully funded for property tax applications, ordinarily the largest revenue by some margin. This makes the system relatively inexpensive to deploy for the other revenue sources. Introducing such a tax base holds promise (and presents challenges) throughout the developing world, and not just in fragile states. But it does not have to be built on pre-existing systems, which have often decayed, failed or been substantially disrupted.

Much of the data can be captured using remote sensing, and the data can be stored and the system operated remotely, and hardened against the range of threats to administrative systems that fragile states face.

Digital approaches can be used to mobilize a wide range of potential revenue sources that may exist on the statute books of fragile states – so already have some legitimacy. This facilitates the "cold start" challenge that such states face. They struggle to achieve legal reform in a timely fashion. Using digital technologies in conjunction with existing laws allows policymakers and practitioners to work with the rules that they have.

Finally, mobile money is an ideal solution for fragile states – given that mobile phones are the most likely infrastructure to be actively acquired by taxpayers and supported by wider industry. Such technological innovation is fundamentally disruptive in nature – it allows developing countries to bridge the development gap with richer countries, allowing a transition from traditional and sometimes rudimentary systems to modern, more effective systems, independent of the initial situation. This quality is highly valuable in fragile settings, where the starting conditions are very difficult.

Careful, well considered, well-resourced and well-maintained digital applications have the potential to radically improve revenue mobilization in fragile states. Given the nature of fragility, this process is unlikely to run smoothly. It is subject to setbacks and has no guarantees. But this is a reality for all initiatives in fragile states, The potential of digital approaches for revenue enhancement justifies the increasing interest being given to it.

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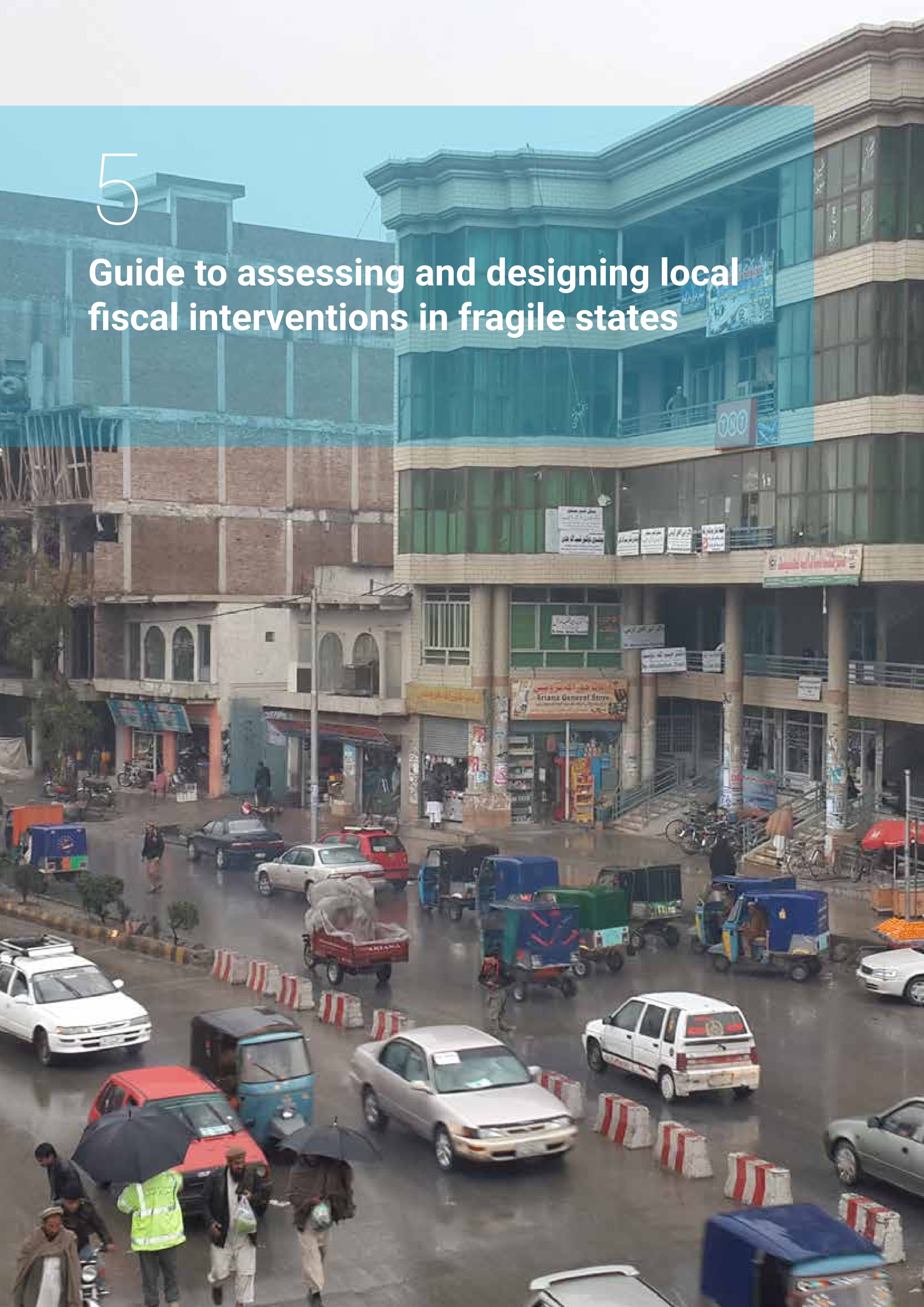
5

Guide to assessing and designing local fiscal interventions in fragile states



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5

Guide to assessing and designing local fiscal interventions in fragile states

Paterson Gauntner[1]

THIS GUIDE PROVIDES a set of tools and guidelines for assessing and planning strategies for local fiscal interventions in fragile states. Such interventions aim to build good governance and state legitimacy at the local level, with the eventual aim helping the state become stronger and more stable. Fiscal interventions include revenue mobilization, budgeting and expenditures, as well as strengthening community engagement in and influence on these processes. This guide draws on lessons from UN-Habitat interventions in Afghanistan, Somalia and other places. It attempts to bring these lessons together in a methodology than can be used in other situations.

This guide is for intergovernmental organizations, development agencies, non-profits and national-level agencies that want to support subnational governments in building a fiscal contract with their residents. It recommends a mixed approach that combines interventions on three fronts: **revenues**, **expenditures** and **community engagement and empowerment**. In reality, the responsibilities for these three components may not fall within a single organization or agency. This will require development partners to collaborate in working toward a common goal.

This guide is built on several starting assumptions:

- The project is early enough in its conceptualization or planning stage so there is room to develop and prioritize options based on a diagnostic assessment.
- The general topic is local fiscal reform and good governance in fragile contexts.
- The key players include a donor agency, an implementing agency, local or subnational government entities, and the residents of the places they govern.

Process overview The guide begins with background and a conceptual framework (Section 1), and then moves through various steps of project design (Figure 5.1).

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Figure 5.1 The project development process and associated sections in this guide

Project stages (sections in this guide)

	1 Project conceptualization	2 Feasibility criteria	3 Diagnostic assessment and generation of options	4 Prioritization of options	5 Action planning	6 Monitoring and adaptation
Tools		**Feasibility checklist**	**Diagnostic assessment**	**Multi-criteria prioritization process**	**Action planning**	**Monitoring framework**
Tool description		A methodology to assess whether the project concept is feasible in the given context	A list of questions and suggested sources of information to generate options for intervention	A systematic process to define criteria and weights, rate options, incorporate stakeholder inputs, and prioritize projects	A process to translate prioritized interventions into a workplan and roadmap for implementation	Guidance on what to include in a monitoring plan and how to select indicators

To some extent, this guide is a compilation of tools built on pre-existing methodologies (Figure 5.1). UN-Habitat developed and used a **feasibility checklist** and **diagnostic assessment methodology** in previous projects. These have been updated and revised based on project experiences. In addition, **multicriteria decision making** and **action planning** are methods used extensively elsewhere, but they have been reformulated here to focus on project design specifically for local fiscal interventions in fragile states. Any of these tools can be taken *a la carte* or used together, depending on the project needs.

Do not use the contents of this guide as a prescriptive formula that must be applied strictly. Rather, look on it as a recommendation to be modified as needed based on the situation you face.

Background: Local taxes and service provision in fragile states

There is a recognized need for the international community to intervene in fragile situations, with the central objective of rebuilding a state that can carry out basic functions and seen as legitimate by its citizens (Fleck et al. 2022, OECD 2007). The global community has also recognized that taxation plays a central role in state building (Brautigam et al. 2008). More specifically, there is a need to mobilize revenues to help governments get back on their feet, and taxes enable a fiscal contract between governments and citizens.

The idea of the **fiscal contract** is that citizens voluntarily make payments to the government in exchange for the public services they receive. It is part of a broader **social contract** between government and citizens, whereby citizens willingly give up some measure of freedom in exchange for the benefits of governance (Box 5.1). Building the social contract is key to exiting fragility (Cantens and Raballand 2021, Cloutier et al. 2021, Besley 2020, Dickenson-Jones 2020, Fjeldstad et al. 2018, Verkoren and van Leeuwen 2014).

Revenues and expenditures at the local or subnational government leve are a particularly apt place for building the fiscal contract as the link between revenues and services is often more direct than at the national level. Additionally, local governments have an information advantage, allowing them to deliver public services and respond to the needs of their constituents more efficiently than national governments. This also translates into an advantage for revenue mobilization, as local governments are closer to and have more knowledge about taxpayers (Bahl and Bird 2008, Davoodi and Zou 1998). Enhanced efficiency, transparency and accountability in the provision of government services at the local level helps incentivize taxpayer compliance (UNECA 2019). Research in Tanzania has revealed that taxpayer morale is higher if local revenues are used to visibly improve public services (Fjeldstad 2006). For these reasons, good practices for international engagement in fragile states include working with subnational governments to rebuild government legitimacy at the local level (Cooke and Downie 2015, Dickenson-Jones 2020).

1 Project conceptualization

Three types of interventions to strengthen the fiscal contract

Fiscal reforms are an entry point for establishing the social contract between citizens and government. Local expenditures on service delivery help build trust and government legitimacy. In addition, taxes are in theory associated with a "governance dividend" that does not exist with other revenue sources like natural resource income or donor grants (Box 5.1).

There is potential for a virtuous cycle linking revenues, service delivery and trust in government, shown as the three boxes at the top of Figure 5.2. Improved service delivery earns the trust of communities, who are then willing to pay taxes and fees with the expectation of continued services. Revenues arising from these payments enable service delivery, closing the loop.

The orange boxes in Figure 5.2 show factors enabling the virtuous cycle. An externally

Box 5.1 Key concepts

Local government typically refers to municipal government or the lowest level of government.

Subnational government includes local government and can also include mid-level state, provincial, district or regional governments, depending on the structure of government in a given country. The focus here is primarily on local government as it is closest to the people, but in some cases a mid-level government has more relevant revenue and expenditure authority and may be a better fit for the type of fiscal interventions discussed here.

Social contract "The process by which everyone in a political community, either explicitly or tacitly, consents to state authority, thereby limiting some of her or his freedoms, in exchange for the state's protection of their universal human rights and security and for the adequate provision of public goods and services" (UNDP 2016, p. 5). The social contract includes the idea of the fiscal contract.

Fiscal contract An underlying agreement between citizens and government where citizens voluntarily make payments to the government in the form of taxes and fees in exchange for the public services they receive.

Tax bargaining Also known as revenue bargaining. The process where citizens "demand public goods and inclusive governance in exchange for future compliance" with taxes and fees (Weigel 2020, p. 1885).

Governance dividend of taxation The "link between the state of a nation's public finances and the quality of a government's relationship with its citizens. In essence, it's posited that when governments rely more heavily on their citizens for resources and authority, mutually productive relationships between citizens and the state are more likely to emerge. Put another way, when a government relies on the economic prosperity of its citizens through tax revenue, the state will have greater incentives to allocate resources and exercise authority in a way that fosters the social and economic prosperity of taxpayers, thereby strengthening the social contract." (Dickenson-Jones et al. 2020, p. 11).

Tax compliance The act of paying the taxes or fees that are owed.

Tax morale Willingness to pay taxes or fees.

Coercive taxation Enforcement of tax compliance by harsh means that pose a serious threat to the life, freedom or safety of taxpayers.

supported project can support any or all of the three:

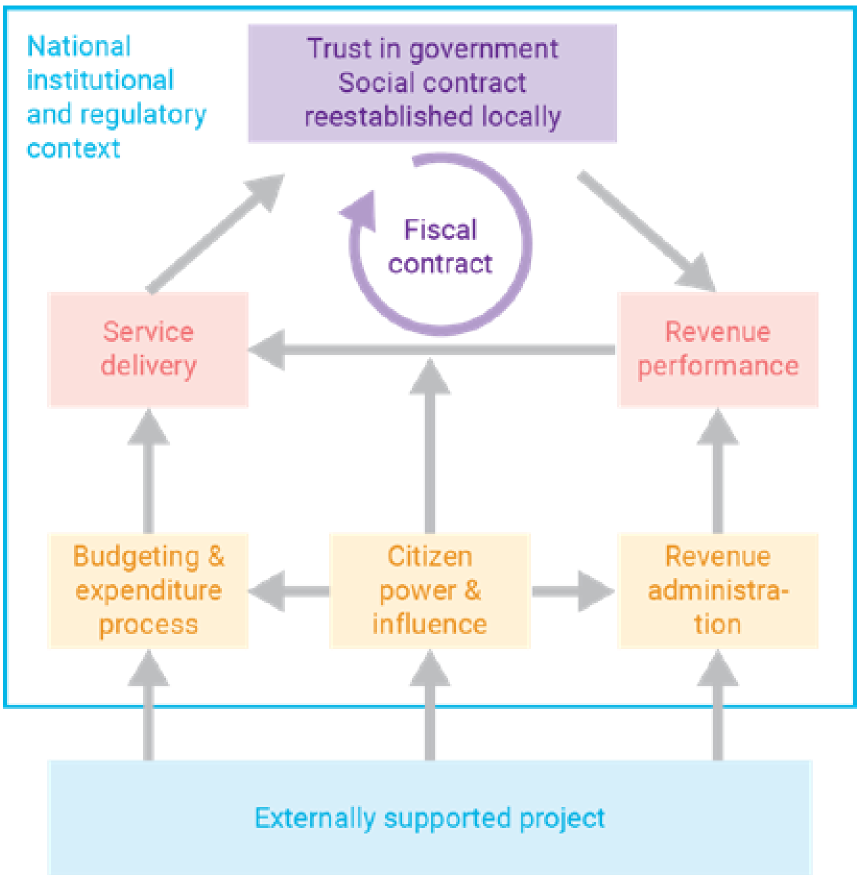
- The budgeting and expenditure process
- Citizen power and influence
- Revenue administration.

In addition, all aspects are embedded in the national, institutional and regulatory context. Interventions can work at the national level to influence budgeting and expenditures, citizen influence, revenue administration, or any combination of the three.

In order to achieve good expenditure performance, local governments need an effective **budgeting and expenditure process.** This includes efficiency in project selection and procurement, effectiveness and inclusiveness of budget prioritization, and the capacity to deliver effectively on their mandates. Similarly, in order to achieve good revenue performance, there must be effective **revenue administration.** This includes financial recordkeeping, tax and fee assessment, billing, collection and enforcement procedures. An externally supported project can impact both the expenditure process and revenue administration. Building government capacity in these areas is critical for basic fiscal operations.

A third area of intervention that is sometimes overlooked is related to **citizen power and influence** (the central orange box in Figure 5.2). This may receive less focus because it is often easier for external organizations to engage with governments than directly with the population. However, citizen power and influence are at the centre of the social

Figure 5.2 A conceptual framework for fiscal project interventions to strengthen the social contract



contract, providing the incentive for the link between revenues and service delivery, and influencing the fairness, transparency and inclusiveness of both revenue administration and budgeting. This is explained in more detail below.

While revenues **enable** service delivery, they do not automatically result in service delivery. Citizen power and influence play a role in establishing the connection. Without them, local governments have less incentive to spend revenues on service delivery, and they may instead prefer to invest in their own personal security, or in projects that benefit their own narrow interests. One of the major lessons from UN-Habitat's local fiscal interventions in Afghanistan and Somalia is that improved revenues do not automatically lead to improved expenditures.

Theoretically, one incentive for local governments to improve service delivery is to earn tax compliance and receive the resulting revenues. Indeed, the ideas of the governance dividend of taxation and the fiscal contract hinge on the concept of tax bargaining, i.e., the ability of citizens to withhold taxes if they are unsatisfied with government performance. However, coercive enforcement can negate the need to earn taxpayer morale. When citizens have no bargaining power, there is no bargaining.

There are incentives to tax coercively, especially if the interests of government and citizens are at odds. Earning taxpayer morale may therefore not be the government's priority. Local governments are particularly susceptible to coercive taxation because they do not have access to the most lucrative taxes which are reserved for the central level, and "are often almost entirely unregulated, and thus free to act tyrannically" (Moore 2007, p. 28). Local governments can "resort to extra-legal enforcement and violence to extort money from the population" (Fjeldstad and Therkildsen 2008, p. 20). Coercive taxation is particularly harmful to groups in society who are vulnerable or marginalized because their power to resist is the weakest (Cantens and Raballand 2021).

As Fjeldstad et al. (2018. p. 7) note in their paper on tax systems in fragile states:

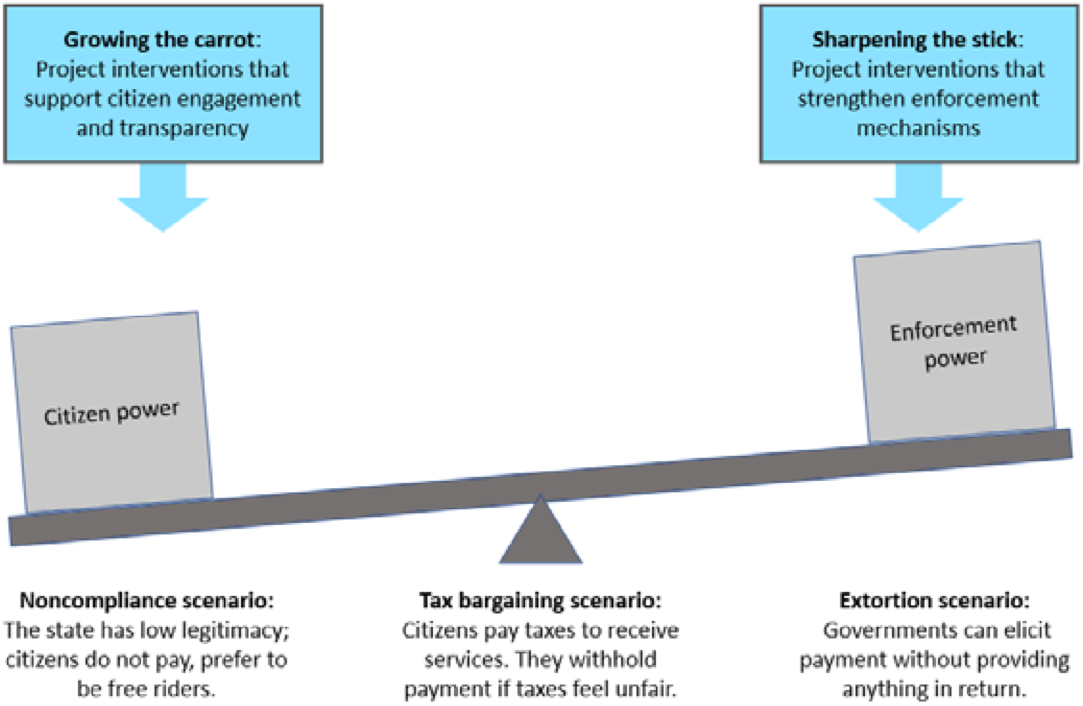
"Using taxation as a way to promote a fiscal contract between the state and citizens is not a given. […] Taxation may also leave large segments of the poor population worse off, in terms of less cash for food and other essential goods (Lustig 2016: 4). Predatory taxation has produced revolts and widespread resistance by citizens (Fjeldstad 2001, Fjeldstad and Therkildsen 2008, Meagher 2016). Thus, as argued by Long and Miller (2017: 11), encouraging extractive governments to collect more taxes, and 'keeping one's fingers crossed for a governance dividend from taxation, is likely to be naïve at best and harmful at worst.' The international community should, as argued by Joel Slemrod, 'consider whether our best advice will make the intended beneficiaries – often desperately poor people – better off, or will it make corrupt bureaucrats and politicians better off?' (Slemrod 2016: 7)."

The level of taxpayer compliance may be indicative of several factors:

- Taxpayers' **awareness** of their obligation to pay
- Their **ability** to pay both financially and in terms of ease of the payment process
- Their **willingness** to pay.

If taxpayers are aware of taxes and able to pay, then there are two major ways to earn their willingness to pay: one through a climate of fairness, trust and the delivery of quality services (the carrot); the other is through coercive enforcement (the stick). Outside interventions can strengthen either side. Improving service delivery and responsiveness "grows the carrot." Providing mechanisms to enhance enforcement "sharpens the stick" (Figure 5.3). Given the trade-offs between coercive taxation which rests on enforcement power, and tax bargaining which supports a fiscal contract, it can be argued that donors and external agencies should work to improve citizen power rather than enforcement power.

Figure 5.3 Interventions that shift the balance of power: Growing the carrot or sharpening the stick?



However, some enforcement capacity is needed in order to reduce the incentive for taxpayers to be free riders when it comes to taxes and service provision. Therefore, finding the right balance between strong enforcement and citizen bargaining power is a central challenge.

Ideally, parallel interventions at all three of the project entry points in Figure 5.2 to strengthen the social contract will be possible and will have the desired impact on the social contract. In practice, one needs to weigh the situation carefully and consider whether tackling one area alone will generate progress while managing risks. The risks of intervening at only one entry point may include the following (unless the other two areas are already functioning well).

Strengthening revenue administration alone can lead to coercive taxation. This is particularly a risk where governments have authoritarian tendencies or have interests that are not aligned with the communities they serve. Taxes on a movable base and fees for services may be less susceptible to coercive enforcement than immovable property taxes, as payers can move the taxed activity elsewhere or forego the service. Still, if the capacity to deliver responsive services is low, enhanced revenue administration may be ineffective and result in avoidance.

Strengthening citizen power alone can lead to noncompliance and parallel service delivery, further undermining state legitimacy. In fragile states, public services and basic security are often provided by donors, NGOs or militia groups, with the government being the weakest actor (Cantens and Raballand 2021). Re-establishing the role of the government will require engaging and strengthening the public sector.

Strengthening budgeting and expenditures alone is unsustainable without an ongoing source of funds to spend.

While improvements to all three project entry points (revenues, service delivery and community power) may be ideal, depend-

Box 5.2 Using the conceptual framework to assess potential risks and positive outcomes

Ideally, a project aiming at establishing the local fiscal contract in fragile states will include three entry points: revenue mobilization, service delivery, and community empowerment. But not all projects can include all three, and overcoming fragility is a long-term endeavour outside the scope of a single project.

Projects that fall short of larger, overarching outcomes may still create incremental change, building the capacity of local government officials to do their work, or even simply establishing the presence of an outside organization as a first step in a longer-term engagement. Whether these achievements are enough to justify a project depends on the costs involved as well as the risks.

A critical analysis of both the benefits and the risks based on a conceptual framework is needed. Are the likely benefits enough to justify project costs and risks? What are the chances that communities will be better or worse off during or after the project? Are some short-term risks (such as increased community frustration) worth longer-term benefits arising from increased demands for accountability?

Putting the fiscal contract building blocks into place one by one may support long-term benefits but may create short- and medium-term risks, for example the risk of the poor paying more taxes with little in return. Project planners need to carefully weigh these trade-offs.

A range of possible benefits and risks is shown in Figure 5.4. Multiple benefits and detriments may occur within the same project, and some will occur over different time periods than others. Various stakeholders face different potential benefits and risks. "The community" is not a monolith: it is comprised of various groups and individuals, each of whom may be affected differently by a project.

ing on the situation, a multi-faceted project may not be feasible under the set of donor and implementing agency constraints. In addition, enhancing the fiscal contract (and by extension, the social contract) is likely to be a longer-term endeavour. Small improvements to the current situation may still be worthwhile. However, the risks must also be understood. The worst-case scenario is not one where donor funding is wasted on a project without long-term impacts; rather it is a project that actually makes the intended beneficiaries worse off. Therefore, projects must be planned with an analysis of the intended and likely benefits as well as the potential risks of various activities (Box 5.2). The three entry points carry different risks, some more severe than others, and pursuing a balanced project intervention (Figure 5.3) may help mitigate some of these.

Fragile contexts can be complex, and even after an internal intervention is thoughtfully conceptualized, feasibility is not a guarantee. Assessing project feasibility is the subject of the following section.

2 Prerequisites and feasibility criteria

Taking time before official project launch to assess feasibility is a worthy endeavour. Some projects can be quickly ruled out in an initial screening based on donor and implementing-agency requirements. Projects that pass this hurdle merit further investigation, including hiring or partnering with experts with deep knowledge about the local context.

Many challenges and hurdles can be tackled with the right project design, but there are always some minimum prerequisites that must be in place for a project to go forward. Information on feasibility comes from multiple sides: the donor, the implementing organization and the national and local context. Feasibility is about matching the three (Figure 5.5).

Figure 5.4 Range of potential benefits and risks of project activities

Initial screening: Donor and implementing organization prerequisites

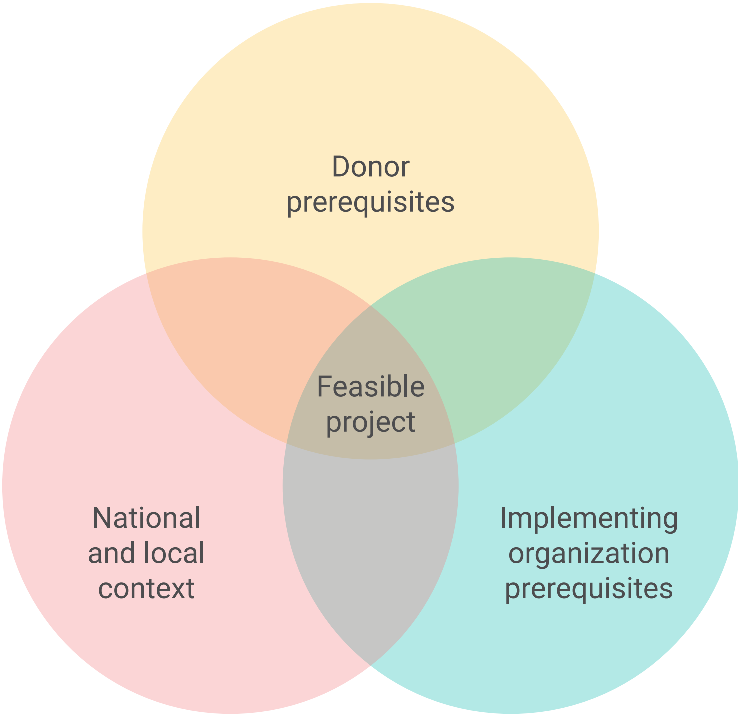
Checking the prerequisites from the donor side and implementing organization side can typically be done quickly and without deep engagement. Some proposed projects can be ruled out in this initial screening (Table 5.1). Investigation to assess factors associated with the national and local context is the next step for remaining projects.

Feasibility from the donor side Donors (and the countries they are affiliated with) typically have prerequisites for engagement and rules about countries or situations where engagement is prohibited. This is particularly relevant when a project is attempting to provide technical or financial assistance to government entities as opposed to humanitarian aid that does not benefit the government directly (Box 5.3).

Donors also have target countries and thematic areas of engagement where they focus their resources. Some focus on humanitarian aid, others on private-sector initiatives, and some on financing or grants for capital projects. In addition, locations and areas where the donor has existing engagements can help create more certainty and the ability to build on existing connections. All of these considerations go into project feasibility.

Feasibility from the implementing organization side Prerequisites and rules of engagement also apply from the side of the implementing organization. Some countries or contexts may be off-limits. In addition, organizations have their own strategic plans and areas of competency. They must operate within what they know and what they have agreed upon with their governing bodies. Planned project work should fall within these topics. At the same time, engagement in fragile contexts benefits from some flexibility around thematic areas of work in order to adapt as situations change or challenges arise.

Figure 5.5 Alignment between donor prerequisites, implementing organization prerequisites and the national and local context



From a practical standpoint, it is useful for implementing agencies to have existing relationships, prior projects or a presence in the location under consideration. This is particularly important for limited-duration projects that do not have time to establish an implementing office, staffing, contextual knowledge and personal connections all from scratch. This was the case in UN-Habitat's selection of North Kivu, Democratic Republic of the Congo, for an extension of a local land- and property-tax project (Box 5.3). The project extension was only for one year, and having a North Kivu UN-Habitat office with staffing and a deep level of existing engagement in the area was critical for the project to be able to accomplish its goals in the given timeframe.

Feasibility based on the national and local context Some key considerations are the legal and institutional context, political will and motives of key players, the level and type of context-specific needs, and risks or threats. These are discussed below.

Contextual feasibility considerations

Within the city or government entity under consideration, a number of factors affect the feasibility of a project. They may facilitate the achievement of results, or represent challenges or risks to success. Whether the challenges are dealbreakers depends on the donor's and implementing organization's ability to address them. For example, if there is no legal authority or political will at the local level to implement a project, that is usually a dealbreaker. However, some projects may address this by shifting the focus to the national level to work on policy reform or the incentives at play for the local government. Whether such a shift in focus is possible depends on the available time, resources and competencies, and the focus desired by the donor and implementing agencies. Most projects in fragile states cannot wait for the national and local context to be perfectly ready, but they can start only where possible and lay the groundwork for systems to improve gradually.

Table 5.1 Initial screening checklist: Donor and implementing organization prerequisites

Donor considerations		
Is engagement with the target country, location or government allowed by the donor?	Yes	No
Does the donor have a programmatic focus on the project area under consideration?	Yes	No
Does the donor have existing connections or projects in the target country or location?	Yes	No
Does the donor have a list of priority countries/locations for engagement?	Yes	No
If so, is the target country, location or government within that list?	Yes	No
Implementing agency considerations		
Is engagement with the target country, location or government allowed by the implementing organization?	Yes	No
Does the implementing agency have a programmatic focus on the project area under consideration?	Yes	No
Does the implementing agency have a project office or presence in the target country or location?	Yes	No
If not, is the project under consideration planned for more than two years?	Yes	No
Does the implementing agency have a list of priority countries/locations for engagement?	Yes	No
If so, is the target country, location or government within that list?	Yes	No

Red flags Any red flag means the project is not feasible.

Orange flags Problems that may mean a project is not feasible, especially if multiple orange flags are identified.

Green A facilitating condition

Box 5.3 Country selection for UN-Habitat's Land-based Finance project

In 2021, UN-Habitat was implementing a project to improve local land and property tax for service delivery in two fragile states: **Afghanistan** and **Somalia**. An extension of the project into new countries was also being considered. Both the rules of engagement and existing relationships played a major role in selecting the project's new locations (Gauntner 2023).

After the Taliban takeover of **Afghanistan** in August 2021, the project there was put on hold due to violent conflict. It was finally closed in December 2021, in part due to a UN-wide rule prohibiting activities that support the *de facto* government in Afghanistan.

UN-Habitat considered extending the project to support local governments in **Syria**, where there is already strong UN-Habitat engagement. However, the donor for the project (the Norwegian Agency for Development Cooperation, or Norad) was bound to rules of engagement that prohibit activities supporting the government of Bashar al-Assad. This ruled out engagement in Syria.

North Kivu District in the eastern **Democratic Republic of the Congo** was eventually selected for a number of reasons. These included the existing presence of UN-Habitat in the country and ties that Norad already had there.

The **legal and institutional context** of fiscal decentralization should permit local authorities to collect the revenue streams in question, implement key budget expenditures that serve the local population, and interact with the population on both the revenue and expenditure sides of the budget (i.e. all three entry points in Figure 5.2). In addition to being permitted under law, these activities must be enabled by higher levels of government. For example, land records are often under control of a central authority. If updating the fiscal cadastre is necessary to improve the local property tax, this can create a roadblock to property tax reform unless the ministry or agency in charge is on board.

The capacity of the entities who would be involved in the project is also a factor affecting feasibility. However, capacity is generally amenable to intervention, whereas changing laws, regulations and institutional practices is often difficult and can take many years. Legal changes may be feasible, but only under some conditions and with adequate time.

There must be **political will** to implement the project among the key players. This includes the stated political will among various stakeholders, as well as the motives that may lie under the surface. For example, local governments may gain legitimacy from meetings with international agencies, and agree in principle to a project while using it as a publicity exercise rather than a tool for real change. Assessing political motives is perhaps the most challenging component of assessing project feasibility. But it is necessary, as projects without political will for reform are probably doomed to fail. Assessing the level of political will among key players will also provide useful insights for the strategic design of the project.

Standard approaches to tax reform emphasize intervening in ways that maximize revenue (for example, Kelly et al. 2020). However, politics and power dynamics matter more where institutions are weaker, including in fragile settings. In their paper on taxation reforms in fragile states, Cantens and Raballand (2021, p. 7) note that tax outcomes are "the result of bargaining processes between powerful actors" and therefore:

"should be primarily evaluated in terms of their likely political impact, … [rather than simply] the quantitative approach to taxation, which would favour tax measures in developing countries that generate the most revenue".

Critically, motives should be investigated around all three project entry points: revenue enhancement, expenditure improvements, and community engagement and empowerment. Sometimes government entities may have strong political will to improve revenue collection, but no incentive to improve services to the local population or for meaningful community engagement. In such a situation, strategic analysis and planning is needed in order to avoid supporting extortionary practices that harm rather than benefit the poor. Coercive tax collection has long colonial roots in some places, and the extent of coercion is in opposition with the bargaining power of the taxed (Cantens and Raballand 2021, Fjeldstad and Therkildsen 2008). Donors should avoid neo-colonial parallels that support taxation by coercion rather than consent. This requires paying attention to the balance of power between taxpayers and government.

Assessing political motives is important because changes to the status quo can pose a threat to those in power who may act to derail a project. For example, as UN-Habitat was considering extending the land and property tax project to local governments in **Palestine**, it became clear that despite a decree from the Prime Minister's office that property taxes be administered by local governments on a pilot basis, the Ministry of Finance had no intention of transferring the data and information necessary for local governments to do so, preferring to keep this power for itself.

Another example comes from **Somalia**, where local governments were keen to improve land and property tax revenues, but were less willing to enforce compliance among the rich, undermining the intended equity of the selected interventions. In addition, officials sometimes preferred to invest in government vehicles and personal security to help them survive violent conflict in the area, rather than expanding local government services to the population.

Assessing political motives requires considering questions of incentives and power dynamics:

- What does the local government administration need to do to stay in power?
- To what extent does it need to please voters, civil society, central government or local elites?
- Are revenue collections or expenditures a source of personal enrichment for some government staff or leadership?
- Are political parties in alignment or opposition between local government, central government and other powerful entities?
- How do threats posed by conflict, climate, or other insecurities shape what local leaders want?

Answers to these questions are not easily obtained without a trust-based relationship or insider knowledge. Experts familiar with the incentives and power dynamics at play will be invaluable for this type of assessment and for the project in general, should it go forward. And, while such questions should be examined to the extent possible when assessing project feasibility, a deeper understanding may only become available during implementation.

At the feasibility stage, it is also prudent to assess the **level of need** for the project interventions. At a general level, fragile states need improved government legitimacy and repairing of the social contract between government and citizens. Taxes linked to service delivery can help achieve this. However, in a given location, the most pressing needs may be different. For example, where famine causes high child malnutrition or the risk of conflict threatens lives each day, an external intervention to strengthen the performance of the property tax may feel tone-deaf or callous. Health and safety are generally more pressing needs than local government services, although they are often connected.

Even where repairing government legitimacy is the prime concern, tax and expenditure reforms may not be the most effective approach. Other institutions, such as the courts, police, public health, or management of public services funded from other sources (aid, or government transfers) may need more urgent attention. The only way to know what the needs are is to talk to people. Although a comprehensive community survey would provide excellent data on this front, experts and representatives may more easily provide the information necessary, so long as they come from a variety of backgrounds (i.e., not just government, and not just the social groups who hold the most power).

One other factor related to the need for the project is the activities of **other internal and external agencies** and the potential for overlap or collaboration. Duplicating efforts is to be avoided, but support activities can build on each other. As the OECD (2007, p. 3) *Principles for good international engagement in fragile states and situations* point out, coordination between international actors is necessary and can lay the groundwork for more effective engagement, such as working together on "upstream analysis; joint assessments; shared strategies; and coordination of political engagement."

Last, feasibility depends on the **level of risk** inherent in the context and the availability of mitigating measures. Fragile states face a variety of risks that can impact the activities of external agencies, which may include those associated with conflict and insecurity, lawlessness, natural disasters and disease. The implementing agency must have the experience and protocols in place to mitigate the context-specific risks to its staff, property and finances.

Table 5.2 gives an example of a feasibility checklist. The information to answer the questions will come mostly from expert knowledge. Hiring or partnering with experts with deep knowledge about the local context is necessary. In addition, a review of legal and budget documents can also shed light on some questions.

As the questions above are answered, any **changes on the horizon** should be noted in addition to the current state of affairs. Pending legislation, the timeline of elections, or changes to levels of threat or risk can bring changes that should be considered early on in project feasibility and planning.

Whether the risks identified through this checklist are enough to disqualify a project from going forward depends on how they interact with donor and implementing agency requirements and abilities. For each risk identified, project staff must consider whether it is reasonable to assume it can be overcome. The amount of time, funding and staff resources available for a project, as well as the level of relevant knowledge and experience, will shed light on whether specific challenges can be addressed. The number and severity of major feasibility risks may warrant the project's reconsideration. Alternatively, the project may be reformulated to either directly confront or sidestep them.

3 Diagnostic assessment and generation of options

Overall approach to diagnostics

A strategically designed project begins with good diagnostics and a thoughtful analysis of the context. However, diagnostics can be resource- and time-intensive, and there are trade-offs to consider. Is it best to do a careful situational analysis before beginning the work to avoid making costly mistakes? Or is it better to act early on the known issues and adopt a learning-by-doing approach, making adjustments along the way? The right balance of planning, analysis and action depends on the context, state of existing knowledge, timeline and goals regarding knowledge generation vs. results on the ground.

Three general approaches can be taken to the diagnostic phase (Table 5.3):

- **Thorough diagnostics and careful planning**
- **Trial and error, or learning by doing**
- **Experimental design.**

In reality there may be a mix of components from the approaches above: some careful diagnostics, some adaptation, and some experimentation. The approach should fit the goals, the state of existing knowledge, and the available time for the project.

What to collect

Some projects benefit from deep knowledge grounded in prior engagements, whether from the donor or implementing agency, or from development partners willing to share information. Other projects have a more difficult task of gathering much of the basic contextual knowledge from scratch. Either way, it is important to ensure some basic information is available to inform strategic project design and implementation. While an agency may go into a context with a preconceived project idea, taking a step back to review important factors at play can be useful. As noted by Walters (2020, p. 18), when reflecting on what to prioritize, "it may seem that the needs are painfully clear. However, … we fail more often because we ask the wrong question than because we get the wrong answer".

Tables 5.4 to 5.6 contain a draft list of questions organized by the three project entry points in Figure 5.2: revenues, expenditures, and citizen influence. The goal is to inform project design. Diagnostic assessments should avoid data collection for the sole purpose of putting together a background report

Table 5.2 Example feasibility checklist: National and subnational context

Legal and institutional context			
Revenues	Do the subnational governments in question have legal authority to collect revenue from substantive but underutilized sources?	Yes	No
	If yes, do the competencies required to collect the tax or fee revenues rest with the subnational government entity? *This includes keeping records of the tax/fee base, assessing the tax/fee, collecting payments, enforcement, and retaining a significant portion of the revenues to be utilized for expenditures.*	Yes	No
	If competencies are NOT fully within the subnational entity, are the government entities in control of aspects of tax or fee collection on board with efforts to improve local collection and have a collaborative relationship with the subnational government in question?	Yes	No
Expenditures	Do the subnational governments in question have legal authority to spend tax and fee revenue on infrastructure or services that visibly benefit taxpayers?	Yes	No
Citizen influence	Do the subnational governments ihave legal authority or mandate to engage taxpayers in dialogue about revenues and expenditures and to factor community input into decision making?	Yes	No
Political will and motives			
Revenues	Do leaders of the government entities involved (including at higher levels) have an interest in making improvements to subnational revenue collection?	Yes	No
	Are government officials or staff benefitting from current problems in revenue collection (such as lack of compliance, uneven enforcement or corruption)?	Yes	No
Expenditures	Do leaders of the government entities involved (including at higher levels) have an interest in improving subnational government service delivery and strengthening the benefits of government expenditures for the local population?	Yes	No
	Do government officials or staff benefit from current problems in subnational expenditures (such as a high wage bill for underperforming staff, pet projects or corruption in contracting)?	Yes	No
Citizen influence	Do leaders of the government entities involved (including at higher levels) have an interest in pleasing taxpayers, civil society or the population in general?	Yes	No
	Do leaders of the government entities (including at higher levels) have an interest in dialogue and feedback related to subnational revenue administration and expenditure performance?	Yes	No
	Is it the case that citizen influence is reserved for the social or political elite?	Yes	No
Level of need			
	Are improvements to the services delivered by subnational governments among the top needs of the local population?	Yes	No
	Do severe basic health and safety concerns of the local population make a subnational revenues and services project seem like the wrong priority for external assistance?	Yes	No
	Are various agencies already working on the issues at hand?	Yes	No
	If yes, is further support needed?	Yes	No
Level of risk and mitigation			
	Does the implementing agency have the experience and protocols in place to mitigate the context-specific risks to staff, property and finances? *These risks may include those associated with conflict and insecurity, lawlessness, natural disasters and disease.*	Yes	No

Red A potential challenge or threat to project feasibility that will be very challenging to work around

Orange A potential challenge or threat to project feasibility that may be more possible to work around

Green A facilitating condition.

unless such a report is part of the ultimate goal. In most cases, for the sake of efficiency of time and resources, diagnostics should be closely tied to project decisions.

Some of the information will already be available based on the feasibility assessment (described above) and can be carried over or deepened here. Other recommended information sources include the following:

- **Local expert(s)** hired by the project. Finding the right person (or people) to bring on board who can provide deep insights into the local context is perhaps the most critical decision during the diagnostic phase. Local experts should have existing knowledge about local institutions, subnational government operations and the local culture around civic engagement.

- A review of **legal documents** or information about the regulatory framework governing subnational revenues, expenditures and community engagement.

- A detailed **budget** for the subnational government in question (multiple years if possible) and supplementary financial documents regarding key revenue sources and major projects.

- A community or taxpayer **survey**. This can provide invaluable information on taxpayer morale, perceptions of revenue and expenditure fairness and service delivery, and the ways the community accesses revenue bargaining power. If time or resources are too constrained to conduct a community survey, interviews with a sample of community leaders (including some from marginalized groups) can substitute.

- **Government contacts** willing to provide information and insight. The more relationships and trust are established, the better the information is likely to be. Information should be requested in person rather than relying on calls or emails.

It will be important to manage the politics inherent in data collection. Some topics are likely to be sensitive, and topics of community bargaining power and government enforcement power may raise questions of "whose side are you on?" on the part of government or community leaders. The hope is that the project will leave all parties better off rather than creating winners and losers; however, the issues at hand are nuanced and will require political sensitivity.

After the set of questions under each entry point in Tables 5.4 to 5.6, the final question on each topic involves brainstorming a list of options for intervention. This can be done by project staff, but input from key stakeholders can be factored in during a workshop or a series of one-on-one conversations. The nature of brainstorming is to propose a list of options without evaluating or eliminating them. Any proposed intervention will face difficulties, and some of the most impactful interventions may be associated with bigger challenges. Therefore, finding the right balance of interventions will likely benefit from a methodical examination of all options together. This is the subject of the next section of this guide.

Beyond project design considerations, another role of initial diagnostics is to establish baselines from which to monitor and evaluate project progress and success. Baseline data is particularly critical in the fragile state setting, where the factors at play can be quite complicated and projects that are not performing as expected may need to be adjusted. In addition, because knowledge about what works in fragile states is still limited, setting a baseline that enables a clear evaluation of project impacts will play a valuable role in filling knowledge gaps.

Indicators to be measured depend upon the project's goals and activities, posing a timing challenge. If the project strategy and workplan cannot be developed without the diagnostic assessment, and baselines are measured at the start the diagnostic assessment, they cannot wait for the project workplan to be fully developed. However, it is possible

Table 5.3 Three approaches to diagnostics

Diagnostic approach	Description	Pros	Cons
Thorough diagnostics and careful planning	Thorough research and analysis of baseline conditions and context, with care to measure baseline indicators and take contextual nuances into account during project design.	Understanding the context is critical, including political realities, which takes time. Allows for establishment of benchmarks for tracking progress. Findings can make meaningful contributions to the global knowledge base and state of practice. Taking time during diagnostics can foster relationships with stakeholders and implementing partners, and can help them take ownership of the process.	Can be a wasted effort in situations that may change frequently or unexpectedly. Can use large amounts of time and resources to produce a list of problems that are already known.
Trial and error, or learning by doing	Designing a project intervention based on prior knowledge and beginning implementation quickly, without a new diagnostic process, in combination with monitoring and making adjustments along the way.	Often tried-and-true approaches are already a good starting point. Context-specific knowledge may already exist based on prior engagements. Trying to implement something can be a better way to identify barriers and hurdles than analysis that is a step removed. Can start producing results and addressing pressing needs more quickly.	Errors can be costly. Changing a project's direction is not always simple, especially when multiple stakeholders and partners are involved. The right starting points may not be easily apparent.
Experimental design	Testing an intervention in a randomly selected set of locations, and monitoring the results compared with a control group.[1]	Can allow for more certainty on questions of whether outcomes are due to an intervention or outside factors. Can set the stage for scaling up of effective interventions. Can make meaningful contributions to the global knowledge base and state of practice.	Does not allow much room for adjustment due to changes or unforeseen circumstances until results are documented. Requires existing expert contextual knowledge for initial design. Requires adequate project scale to reach a sample size of test cases that can lend statistical power[2] to findings in the context of high variability between places. Requires adequate time to achieve impact, measure it, and act on the results.

1 For example, Weigel (2020) documents the impact of tax reforms rolled out in a randomly selected set of neighbourhoods in the city of Kananga, Democratic Republic of the Congo.

2 Statistical power refers to the ability of a statistical test to show true effects. Generally, the more variability there is within a sample, the larger the sample size needs to be to demonstrate true effects and provide the certainty that they are not a result of chance or outside factors.

Table 5.4 Diagnostic assessment questions and sources of information: Revenues

Questions	Suggested information sources	Timing of data collection
Overarching question Which revenues source(s) have high untapped potential?		
1. Which revenue sources are legally available?	Legal review.*	At the start of the project, to inform workplan.
2. Which revenue sources are **used in practice**, and with what result? For each revenue stream: A What is the **coverage ratio** of tax records or billing (complete tax records / total tax base) B For property taxes, what is the **valuation ratio** (total valuation on books / actual total value of properties) C What is the **compliance ratio**? (amount paid / amount owed) D What are the **total revenues**? *Some of these figures may need to be estimated if data is not available.*	Budget detail. Financial records. Site visit to observe and estimate the tax base if possible. If land records are in question, satellite imagery can be useful if jurisdictional boundaries are available. A sample of properties with recent sale or rental information can provide market price data.	Knowing which revenue sources are used is helpful at the start of the project. In-depth analysis of revenue streams may be initially done for a promising subset, with further analysis later. May be useful for benchmarking.
3. For each revenue stream, what percent of the available tax is actually being **collected**? *This can be found using the data from #2 above:* *A × B × C = percent of available tax being collected.* *Remove B from the equation if valuation is not part of the tax or fee assessment.*	Data from #2 above.	Useful at the start of the project for a promising subset of revenue streams.
4. For each revenue stream, what is the potential revenue available from improving administration? *This can be found using the data from #2 above:* *D / (A × B × C × 100) × (1 – (A × B × C)) × 100 = the additional revenue available from improving revenue administration* *Remove B from the equation if valuation is not part of the tax or fee assessment.*		

* Using or building on data from the feasibility assessment.

Questions	Suggested information sources	Timing of data collection
Overarching question What intervention(s) would be required to improve revenue compliance?		
5. For each revenue stream, what factors are impacting **compliance** and to what extent? Consider the following: ▪ **Awareness:** Do taxpayers know about the tax and are they aware if and when they have to pay? ▪ **Salience:** Is there invoicing or other action that reminds taxpayers when it is time to pay or brings the tax/fee to their attention? ▪ **Morale:** Do taxpayers believe the tax or fee revenue will be used for something important? Are they willing to contribute because they believe the tax/fee is fair, appropriate and necessary? ▪ **Enforcement:** Do taxpayers believe that failure to pay will result in a consequence they want to avoid? ▪ **Ease:** Is the tax payment process easy, or are there challenges that make it hard or impossible for some taxpayers to pay?	Community or taxpayer survey. If a survey is not possible, interviews with experts including community representatives.	May be assessed during the course of project implementation. However, may be useful for benchmarking.
Overarching question How much effort is associated with various revenue streams?		
6. What is the **collection process** for each revenue stream? ▪ What are the steps involved in assessment and collection? ▪ How much staffing and other resources are dedicated to assessment and collection?	Information from government contacts. Financial records.	Useful at the start of the project for a promising subset of revenue streams. May be useful for benchmarking.
Overarching question What would be required to improve revenue transparency?		
7. To what extent are revenues **transparent**? What revenue information is available and how can the information be accessed?	Information from government contacts or local experts.	May be assessed during the course of project implementation. However, may be useful for benchmarking.
Overarching question Which revenue stream(s) are the most fair and equitable?		
8. For each revenue source, how **fair and equitable** is policy and the current process of revenue administration? How does the tax burden differ for various demographic groups (by income, gender, age, formal vs. informal, etc.)?	Information from government contacts, local exerts, and community representatives. A community survey can shed light on perceptions of fairness.	Useful at the start of the project for a promising subset of revenue streams.

Questions	Suggested information sources	Timing of data collection
Overarching question What is the nature of political will around reform of various revenue sources?		
9. For each revenue source, what are the **government's interests** and motives? How do government officials and staff benefit from the status quo and who has an interest in changes?	Information from government contacts and local exerts.* This can be challenging to ascertain without established relationships.	Useful at the start of the project, but may need to be gathered mostly during project implementation.
Overarching question What are the options for revenue intervention?		
10. Considering the answers to questions 1–9 above, what **options** are available for enhancing revenues? For each revenue stream, brainstorm options in the following categories. Do not yet evaluate their merits. ▪ Policy changes ▪ Ways to improve administration, including the coverage ratio, billing, valuation ratio and transparency ▪ Ways to improve compliance by addressing awareness, salience, morale, enforcement or the ease of payment ▪ Ways to make revenue policy or administration fairer and more equitable ▪ Other issues that require attention.	Implementing agency staff with input from government contacts, local experts and community representatives. See Box 5.4 for some additional considerations related to targeting a revenue instrument.	At the start of the project to inform workplan.

* Using or building on data from the feasibility assessment.

Table 5.5 Diagnostic assessment questions and sources of information: Expenditures

Questions	Suggested information sources	Timing of data collection
Overarching question Which categories of expenditure have the highest potential for improvement?		
11. Which categories of expenditures are **mandated** responsibilities of the government by law?	Legal review.*	May be assessed during the course of project implementation.
12. What is the composition of **budgeted and actual expenditures**? *This information should be detailed enough to know the actual projects (or specific types of projects) funded by the budget, rather than broad categories.*	Budget detail. Financial records. Information from government contacts.	May be assessed during the course of project implementation. However, may be useful for benchmarking.
13. Which categories of expenditures are mandated but **not made in practice,** and why?	Comparing the answers to #11 and #12. Information from government contacts and local experts.	May be assessed during the course of project implementation.
14. Which current or past government programmes, services or investments have been the most **popular**, or had the most **tangible benefits** for the local population?	Information from government contacts, local experts and community representatives. Can also be sourced from a community survey.	At the start of the project to inform workplan.
Overarching question What is the level of capacity to finance capital projects?		
15. To what extent does the government have **legal ability and capacity** to manage the finances of capital projects, including: ▪ Financial planning and project preparation for major investments ▪ Large project procurements ▪ Borrowing from government or private sources ▪ Designing and implementing PPPs ▪ Ongoing maintenance to keep major public assets in a state of good repair.	Information from government contacts and local experts.	During project implementation unless building capacity for capital project financing is likely to be part of early project activities. May be useful for benchmarking.

* Using or building on data from the feasibility assessment.

Questions	Suggested information sources	Timing of data collection
Overarching question How are various expenditure types currently performing?		
16. To what extent are programmes and ongoing operational expenditures being **funded and managed effectively** (consider any available metrics of coverage or quality), including categories such as: ▪ Health services ▪ Education ▪ Public transit ▪ Permitting, building codes, land management ▪ Courts ▪ Police and security ▪ Basic utilities (water, sanitation, solid waste, electricity, digital connectivity) ▪ Parks, markets and public spaces.	Information from government contacts, local experts and community representatives. Perceptions of and satisfaction with services can also be sourced from a community survey.	May be assessed during the course of project implementation. However, may be useful for benchmarking.
Overarching question What would be required to improve expenditure transparency?		
17. To what extent are expenditures **transparent**? What expenditure information is available and how can the information be accessed?	Information from government contacts and local experts.	May be assessed during the course of project implementation. However, may be useful for benchmarking.
Overarching question Which expenditure types are the most fair and equitable?		
18. How **equitable** is service delivery? Do expenditures primarily benefit elites, or do they respond to locations and households with the greatest needs?	Information from government contacts, local experts and community representatives. Perceptions of equity can also be sourced from a community survey.	May be assessed during the course of project implementation. However, may be useful for benchmarking.
Overarching question Where are the potential entry points for improving budgeting?		
19. What are the steps in the **budgeting process** (by law and in practice) and who is involved in decision making?	Information from government contacts.	Likely to be useful at the start of the project to inform workplan.
Overarching question What is the nature of political will around reform of various expenditures?		
20. When it comes to expenditures, what are the **government's interests** and motives? How do government officials and staff benefit from the status quo and who has an interest in changes?	Information from government contacts and local experts.* This can be challenging to ascertain without established relationships.	Useful at the start of the project, but may need to be assessed during project implementation.

* Using or building on data from the feasibility assessment.

Questions	Suggested information sources	Timing of data collection
Overarching question What are the options for expenditure intervention?		
21. Considering the answers to questions 11–20 above, what **options** are available for improving expenditures? Brainstorm options in the following categories. Do not yet evaluate their merits. ▪ Policy changes ▪ Institutional changes related to intergovernmental relationships ▪ Changes to the process of budgetary decision making ▪ Capacity building related to capital project planning, financing and implementation ▪ Capacity building related to government programmes and operations of various types ▪ Transparency of expenditures ▪ Ways to make expenditures more equitable ▪ Other issues that require attention.	Implementing agency staff with input from government contacts, local experts and community representatives.	At the start of the project to inform workplan.

Table 5.6 Diagnostic assessment questions and sources of information: Community engagement and influence

Questions	Suggested information sources	Timing of data collection
Overarching question What is the current process for public input in local fiscal decisions?		
22. To what extent do taxpayers and the public provide **input** about revenue administration, expenditures and service delivery? To what degree does this input impact actual decisions?	Information from government contacts, local experts and community representatives. Perceptions can be sourced from a community survey.	At the start of the project to inform workplan. May be useful for benchmarking.
Overarching question What is the level and nature of community power related to local fiscal decisions?		
23. What laws or regulations govern the **relationship** between citizens and the subnational government entity? To what extent do laws give citizens power or influence, and to what extent are they enforced or implemented?	Legal review.* Information from local experts.	At the start of the project to inform workplan.
24. To what extent is community influence on government decisions shaped by **societal power structures**? Are wealthy and elite voices the only ones with influence? Are specific groups (women, youth, minority ethnic groups, the poor, etc.) included in public dialogue and influence?	Information from local experts. Perceptions can be sourced from a community survey.	May be assessed during the course of project implementation. However, may be useful for benchmarking.
25. Which groups (civil society, religious groups, the business community, etc.) are organized enough to take or influence **collective action** (strikes, protests, withholding taxes, voter mobilization, etc.)? What is the level of influence of each group?	Information from government contacts, local experts and community representatives.	At the start of the project to inform workplan. May be useful for benchmarking.
26. For each revenue stream listed in #2, how much **bargaining leverage** do taxpayers have to withhold payments based on the strength and severity of enforcement and the interest of the government is earning payment compliance? *For example, withholding certain payments may risk harsh enforcement (forceful eviction, detainment, etc.), and in other cases, revenues may be too small to impact total revenues much. In either situation, taxpayer leverage is low. Alternatively, in some cases, both (a) taxpayers can avoid payment by relocating the activities being taxed, or forego the government services they are paying for without threats to their health or safety, and (b) the payments are also an important revenue source. If both of these are true, then taxpayers have strong bargaining leverage.*	Information from local experts and community representatives. The answer to this question may also be deduced based on information about enforcement practices and budget documents showing where revenues come from.	May be assessed during the course of project implementation. However, may be useful for benchmarking.

* Using or building on data from the feasibility assessment.

Questions	Suggested information sources	Timing of data collection
27. For each type of expenditure listed in #11, which groups **benefit** most, and how do they show their approval for government (ex: through tax compliance, voting, keeping the peace, etc.)?	Information from local experts and community representatives. Some information can be sourced from a community survey.	May be assessed during the course of project implementation. However, may be useful for benchmarking.
28. What are the government's interests or motives related to **pleasing taxpayers** and the local population? To what extent and how does approval of the government impact their ability to stay in power?	Information from local experts.*	Useful at the start of the project, but may need to be assessed during project implementation.
Overarching question What are the options for interventions supporting community influence in local revenue and expenditures?		
29. Considering the answers to questions 22–28 above, what **options** are available for improving citizen engagement and influence in the fiscal contract? Brainstorm options in the following categories. Do not yet evaluate their merits. ▪ Policy changes ▪ Procedures to solicit community input in revenue administration and budgeting ▪ Improving the existing citizen engagement process to be more inclusive ▪ Implementing a "community contracting" approach to donor-funded project implementation ▪ Strengthening the ability of specific groups to organize and take collective action in general or by withholding payments as part of the tax bargaining process ▪ Other issues that require attention.	Implementing agency staff with input from government contacts, local experts and community representatives.	At the start of the project to inform workplan.

* Using or building on data from the feasibility assessment.

Box 5.4 Which revenue instruments to target?

When it comes to revenue enhancement, various revenue instruments have differing potential, and there are several factors to consider as a project determines which instrument(s) to focus on. Questions 1–10 of the diagnostic assessment in Tables 5.4 to 5.6 can help project staff consider the revenue potential of various instruments, as well as the cost of administration, options for improvement, the associated political will for reform, and the social equity of each revenue source. Other broader considerations may factor in. For example, Walters (2016, p. 19) proposes the following criteria for rating the merits of any local tax:

*“**Independent and autonomous revenues** In order for a government to be able to reliably budget resources, the government needs control over its revenues and flexibility in adjusting revenues to meet community needs. While other levels of government may determine the legal environment and range of acceptable rates, governments need to be able to raise or lower revenues at least at the margin in response to local needs.*

***Adequate and stable revenue** In order to facilitate effective budgeting, own-source revenues should be sufficient to meet basic expenditure needs and should be largely reliable.*

***Immobility of base** Locally imposed taxes should be levied on a tax base that cannot be easily relocated to avoid the tax.*

***Benefit principle** The taxes paid by a given taxpayer should correlate with the benefits received from government by that taxpayer.*

***Ability to pay** The taxes paid by a given taxpayer should take into consideration a taxpayer’s income capacity and ability to pay.*

***Compliance costs** The costs borne by taxpayers to understand the tax, calculate their tax obligation and pay the tax should be kept to a minimum.*

***Ease and cost of administration** The costs incurred by government to administer the tax, including assessment, notification and enforcement, should be kept to a minimum.*

***Transparency** Tax policy should be clear to both administrators and taxpayers, including the method used to calculate the tax obligation, the amount of tax due, along with all payment and enforcement provisions.*

***Political acceptability** Tax compliance is in direct proportion to the public’s understanding and willingness to pay the tax. Political support from community leaders and the public is essential.*

***Horizontal equity** Similarly situated taxpayers should pay a similar tax.*

***Minimal economic distortions** There should be relatively few changes in consumption or investment decisions made by taxpayers in response to tax policy. Any changes that occur should be minimal.”*

Based on these considerations, Walters concludes (as have many others) that land-based revenues such as the recurring property tax are often the best local revenue source. However, the specifics of fragile states may make land and property taxes more challenging and less beneficial as an area of focus. Property-tax administration involves many steps (leaving room for corruption or mismanagement), can be costly to administer, and can be difficult to understand.

UN-Habitat’s revenue-mobilization efforts with local governments in Afghanistan and Somalia, which focused on property taxes, found that such taxes were levied on buildings rather than the value of land, and property valuation posed a challenge. Taxing vacant land was impossible, and enforcement was uneven, with wealthier landowners less likely to comply. While revenues did improve significantly under the projects, they were not associated with improvements in local service delivery. Thus, the local populations ended up paying more, but they often did not benefit from associated local government expenditures. In addition, based on UN-Habitat’s experience and additional research, is seems that taxes on immovable property tend to be more associated with extortionary enforcement measures, because they are more difficult for taxpayers to avoid.

If the goal of revenue-enhancement project activities is to help establish a fiscal contract between citizens and government, then fees for specific services such as water or waste management may provide a more direct link between revenues and services, be simpler to assess, and be less prone to harsh enforcement measures. However, the best revenue entry point depends on the local context, the time available for intervention and the goals of the project. An evaluation of the level of effort required for reform, the likely benefits, and the potential risks for various revenue streams is needed.

Table 5.7 Potential indicators for setting baselines and tracking progress

Indicators	Diagnostic assessment questions (see Tables 5.4 to 5.6)
Revenue	
Performance of each revenue source	2
Collection process	6
Revenue transparency	7
Public perception	5
Expenditure	
Budget composition	12
Financing capacity	15
Expenditure transparency	17
Service delivery (coverage or quality; equity)	16, 18
Citizen engagement and influence indicators	
Extent and representativeness of public participation in revenue and expenditure decisions	22, 24
Perceptions of citizen influence in governance	22, 24, 25
Willingness of decision-makers to engage with the public	28
Evidence of tax bargaining (payment of taxes/fees in exchange for public services)	25, 26, 27

A newly paved street in Kabul. Photo: Anthony Lamba

to propose some broadly useful indicators for the type of project discussed here (Table 5.5), drawing upon the data collected in the baseline assessment. Initial indicators can be adjusted as needed if the project strategy departs from the original project conceptualization in a major way.

The questions listed in Tables 5.4 to 5.6 are fairly open-ended, but more specific indicators can be defined depending on the context, the information available, and the source of information (e.g., community survey vs. interviews).

Indicators should be indicative of the desired project impacts and also easily measurable for the sake of ongoing monitoring and adjustment (Table 5.7). This can pose a trade-off. For example, some of the most important indicators are around public perception, including the perception of revenue collection fairness, satisfaction with expenditures and service delivery, and perceptions of citizen influence. However, tracking indicators of perception over time may be challenging if the methodology is resource-intensive (such as a community survey). Therefore, a survey with a smaller sample size or stopgap metric based on interviews with community representatives may need to be used for monitoring.

In addition to indicators to track progress on revenues, expenditures and citizen engagement and influence, a project may need to track other intended impacts. This may include tenure security (e.g., perception of eviction threat; secure property titles or other records) or additional metrics of public financial management (e.g., timeliness of intergovernmental transfers, budget reliability, procurement procedures). Other areas of intended impact may include climate resilience, economic development, peace and the threat of conflict, etc. These topics can be covered by indicators customized to match the specific project goals.

4 Prioritization of options

As part of the diagnostic assessment, options for intervention should be brainstormed (see questions 10, 21 and 29 in Tables 5.4 to 5.6). The next step is to prioritize them through a systematic consideration of the challenges and potential benefits. There are various methodologies for considering and prioritizing options. **Multi-criteria decision analysis** (MCDA) is one methodology for systematically prioritizing options based on a variety of stakeholder-defined criteria. A 10-step MCDA process is outlined below.

Whether MCDA or another prioritization process is used, it is critical that stakeholder input be included, including:

- Key gatekeepers with the power to facilitate or derail the project (e.g., higher-level government officials)
- The people who will be involved in implementing the project (government staff, project staff)
- The intended beneficiaries (the community at large).

Stakeholder involvement is useful for creating a sense of ownership for the project and the resulting likelihood of project outcomes to be sustainable beyond external intervention. Input from implementers and intended beneficiaries is also critical to provide context-grounded insights. If government staff do not think an intervention will work, or if the community feels that an intervention will not benefit them, this is important information for the project design process. Stakeholder input can come at various stages in the prioritization process: defining criteria, scoring projects on criteria, or having their approval be a criterion itself.

Another critical aspect of the prioritization process is attention to the **power dynamics**

Box 5.5 Principles for prioritizing interventions

Prioritizing options for intervention should follow some basic practices:

Systematically weigh the expected **benefits, costs and risks**. Prioritization criteria may include the following:

- Expected benefits
- Expected challenges
- Level of risk involved
- Resources and/or time required
- Degree of equity or inclusivity
- Political will among high level gatekeepers and local government implementers
- Public support among the affected community
- Role within the activities of other development actors: opportunities for coordination while avoiding overlap
- Potential for post-project sustainability
- Additional criteria of importance for the context or implementing agencies.

Consider the **input of stakeholders**, including:

- Gatekeepers with the power to facilitate or derail the project
- Those who will be involved in implementation
- The intended beneficiaries: they are often best placed to assess real project risks.

Consider the way proposed interventions shift **power dynamics** amongst stakeholders. This is a critical consideration in fragile settings and one that is sometimes overlooked by development agencies that prefer a more technical approach. The results of ignoring power dynamics can be disastrous.

Start small and scale up, recognizing that small incremental changes are sometimes all that is possible.

Mitigate risks along the way. This includes risks at the intermediate stages of the project.

Bring in **external expertise** of development partners and local partners as needed.

Build in **monitoring** to allow for learning-by-doing and adjustment to project realities.

Box 5.6 Resources on multi-criteria decision analysis

For further reading on the topic of multi-criteria decision analysis:

- *Multi-criteria decision analysis (MCDA) method factsheet* – A brief but informative overview by the European Commission's Openness Project (Saarikoski & Keune, n.d.)
- *Multi-criteria analysis: A manual* – A practical and user-friendly manual aimed at public-sector decision making, produced by the UK Government's Department for Communities and Local Government (DCLG 2009).
- *Nationally appropriate mitigating action: Developing a multi criteria decision analysis (MCDA) process for prioritization of NAMAs* – A handbook produced by UNEP that provides a descriptive example of how MCDA is applied (Sharma et al. 2015).

among stakeholders. In fragile states, external interventions can shift power dynamics in ways that shape the end results. Therefore, options should be evaluated in terms of their political impact on the relationships between stakeholders, not just on their ability to enhance revenues, improve expenditure efficiency or be easily implemented (Cantens and Raballand 2021, Fjeldstad et al. 2018). The prioritization process itself can lead to power imbalances, for example, if government officials are involved in scoring projects but the community is not, or if only some segments of the community are involved and others are excluded. Such power imbalances should be avoided during the prioritization process.

Box 5.5 summarizes some principles for prioritizing project options.

MCDA prioritization process

The diagnostic assessment described in the prior section should result in a brainstormed list of options for project intervention. The next step is to systematically prioritize these options according to criteria. **Multi-criteria decision analysis** (MCDA) provides one framework for systematic prioritization of options using a variety of criteria, and is described here in ten steps (Figure 5.6).

One strength of MCDA is its ability to handle various types of data, including criteria that are quantitatively measured, ranked, objectively assessed, and subjectively rated. MCDA is also amenable to stakeholder input at various points in the process, can be readily understandable, and can contribute to transparent decision making. Further resources on MCDA are listed in Box 5.6.

Step 1 Define the project goal and parameters

The project goal should specify the end result the project is trying to achieve, or contribute to. This can be revised as the project takes shape. Key parameters to know during the prioritization of options include the project's location, its timeframe, and any constraints on the nature of the intervention established by the donor, implementing agency or host government.

Example

Project goal "Strengthen the fiscal contract between residents and local government, contributing to responsive service delivery, government legitimacy and sustained peace."

Location and timeframe Specific local governments in a given country over a set period of years.

Nature of the intervention The project will take engagement with local and national government entities as a starting point.

Figure 5.6 Steps in mutli-criteria decision analysis

1	Define the goal	Define the project goal and parameters
2	Define criteria	Define the criteria for rating project options
3	Weight criteria	Define weights for the criteria
4	Clarify options	Review and clarify the list of options
5	Rate options	Measure or rate the options
6	Calculate score	Combine measures, ratings and weights into total scores
7	Analyse results	Discuss results, do a sensitivity analysis, make final adjustments
8	Adjust interventions	Adjust balance of interventions to account for complementarities, equity of impacts and power dynamics
9	Anticipate risks	Anticipate and plan for complexities
10	Finalize plan	Translate prioritized interventions into an action plan

Step 2 Define the criteria for rating project options

Criteria are principles or standards by which options for intervention are measured, rated and ranked. They help the project planners weigh the merits of various options to decide on the best course of action. Selection criteria should include a rubric or method for rating various project options. For example, the degree of benefits to project communities might be scored on the following scale:

0 = no improvement

1 = slight improvement to convenience or aesthetics

2 = major improvement to convenience or aesthetics, OR slight improvement to health, safety or livelihoods

3 = major improvement to health, safety or livelihoods.

If the proposed criteria begin to look like a long, complicated list, they can be collapsed under broader headings (Figure 5.7). This will also make weighting easier.

The specific criteria used to rate revenue, expenditure and community empowerment and engagement interventions can differ. Options may be compared holistically, or only within their respective categories. For example, in Figure 5.7, all options are scored on the overarching criterion of "expected benefit". Only the revenue interventions are judged using the blue sub-criteria; expenditure-side interventions are judged using the orange sub-criteria; community interventions are judged using the green sub-criteria. Balancing the project mix across categories will be considered in Step 8.

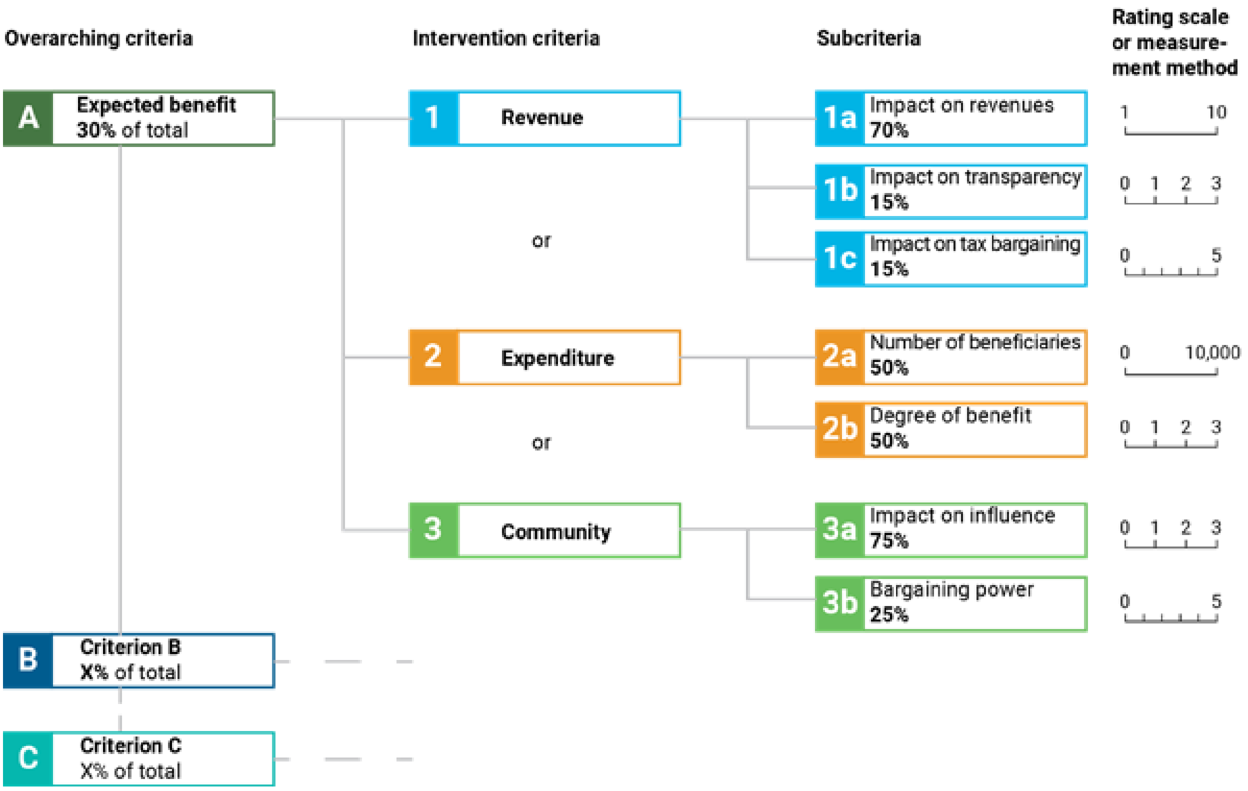
Stakeholder input can assist in defining criteria that represent stakeholder interests. This can be done in a workshop or through individual meetings.

Because the options under discussion involve future activities in complex settings, there is no way to avoid a degree of uncertainty in the assessment of options, including the expected challenges and benefits of various approaches. To manage this uncertainty, the rating or scoring method should incorporate the input of the experts on the specific topic, including topical knowledge on public finance and community engagement, the institutional knowledge of government and non-government entities to be involved, and contextual knowledge about the local community, culture and politics.

At a minimum, overarching criteria should include metrics or ratings of the following:

- Expected benefits
- Expected challenges
- Level of risk involved
- Resources and/or time required
- Degree of equity or inclusivity
- Political will among high-level gatekeepers and local government implementers
- Public support among the affected community

Figure 5.7 Example of overarching and sub-criteria



- Role within the activities of other development actors: opportunities for coordination while avoiding overlap
- Potential for post-project sustainability.

Step 3 Define weights for the criteria

Weight the criteria based on their level of importance. Weights should total 100%.

If there are many criteria, they may be collapsed into overarching categories, making weighting simpler. Weight the overarching categories first. Then define the weights of the contributing criteria within each category, adding up to 100% of the category weight (Figure 5.7).

If some criteria are absolute requirements, do not assign them weights, but instead use them as pre-screening criteria. These may include limits defined by the donor or implementing agency for example, if the time or resources required are outside the scope of the project.

Stakeholders can be involved in agreeing upon weights. Weighting can be done in advance of scoring by a group or simultaneously with scoring by taking an average of the importance assigned by individual participants.

Example See the weights in Table 5.8 for each of the overarching criteria. These total to 100%.

Step 4 Review and clarify the list of options

There may be many options for interventions, so doing some preliminary work to select a subset of the best options from those brainstormed during the diagnostic assessment (or developing some new high-quality options) can save time in rating and scoring.

Project staff should consult good practices in revenue mobilization, expenditure enhancement and community engagement and empowerment (see Box 5.7).

Now that criteria have been discussed (Steps 3 and 4), it may be possible to quickly identify and eliminate some options. Eliminated options may fail to meet one or more of the pre-screening requirements, be clearly low-scoring, or score lower than other similar options. However, some options are complementary to others and should be kept for that reason. Additionally, if the budget allows for multiple interventions, it is prudent to keep at least a few options for each intervention category (revenues, expenditures, community engagement and empowerment) in the running.

Options should include interventions from all categories: revenues, expenditures and community engagement and empowerment. The rationale for combining these elements is explained in section 2 of this guide.

After revising the list of intervention options, each one should be fleshed out with enough details so that scoring can take place. This will require specifying the targeted number of beneficiaries, targeted level of increased payment compliance, or other specific intended impact. If scoring is to be done by stakeholder ratings, each participant must understand the intervention options adequately enough to score them.

In some cases, options will have low impact unless they are combined. In this case, interventions may need to be packaged together to be accurately scored. If different criteria are specified for different components of the proposed intervention, a combination of criteria should be used, making sure the total weight adds to 100%.

Table 5.8 Example of criteria weighting

Overarching criteria	Example weighting
Expected benefits	30%
Expected challenges	5%
Level of risk involved	5%
Resources and/or time required	5%
Degree of equity or inclusivity	10%
Political will among high level gatekeepers and local government implementers	15%
Public support among the affected community	15%
Role within the activities of other development actors: opportunities for coordination while avoiding overlap	5%
Potential for post-project sustainability.	10%
Total	**100%**

Box 5.7 References for good practices in revenue mobilization, expenditure enhancement and community engagement and empowerment

Project design should draw upon the existing canon of good practices in revenue mobilization, expenditure enhancement and community engagement and empowerment. Many resources on these topics exist, a few of which are listed here. Each approach must be contextualized for fragile settings and the specific project location.

Local fiscal management The following all provide information on various topics related to both revenues and expenditures:

- UNCDF's *Financing sustainable urban development in the least developed countries* (Platz et al. 2017)
- The World Bank's *Municipal finances: A handbook for local governments* (Farvacque-Vitkovic and Kopanyi 2014)
- UN-Habitat's *Finance for city leaders handbook* (UN-Habitat 2017).

Revenue enhancement

- UN-Habitat's *Rapid own source revenue analysis* (ROSRA) tool provides a process for evaluation and optimization of local own source revenues.

Land-based revenues Several publications focus specifically on land-based revenues, which are a common local revenue source.

- UN-Habitat's *Leveraging land: Land-based finance for local governments* (Walters 2016) provides chapters on each of seven land-based finance revenue instruments including case studies for each instrument.
- UN-Habitat's *Where to start? A guide to land-based finance in local governance* (Walters 2020) provides practical guidance for taking inventory of the strengths, opportunities and challenges regarding land-based finance, common challenges and strategies for addressing them, and a process for creating an action plan for implementation.
- The World Bank's *Property tax diagnostic manual* (Kelly et al. 2020, p. 11) "provides guidance on how to analyse and assess immovable property tax systems, diagnose the strengths and weaknesses of such systems, and develop a property tax intervention strategy where needed."

Budgeting and expenditures

- The IMF's *Public expenditure and financial accountability* (PEFA) framework provides a rating system for basic financial management that can be applied at the subnational level and includes most public financial processes, with useful metrics on budgeting and expenditures.

Participatory budgeting Documented good practices and case studies include Allegretti and Hartz-Karp (2017), Herrera and Tesoriere (2020), Sintomer et al. (2013), and Souza (2001).

Service delivery Good practices depend on the sector of public services in question. UN-Habitat and other agencies have references on good practices in local service delivery sectors such as waste management, public space, public transportation and street infrastructure, water and sanitation, and education, among others, which are too many to list here.

Community engagement There are a number of documented good practices, including principles for public involvement in decision making (Bellantoni et al. 2020), practical tips for engaging historically underrepresented populations (Groundwork USA, n.d.), and a list of case studies from the World Bank (at *https://www.worldbank.org/en/topic/citizen-engagement*).

Strengthening civil society in fragile states A number of lessons have been documented, including a reflection on longstanding community engagement and organizing in Afghanistan that sheds light on some of the challenges (Brown 2021).

- ECDPM's discussion paper *Strengthening civil society? Reflections on international engagement in fragile states* (Weijer and Kilnes 2012) reflects on the roles of civil society, opportunities and risks for international engagement, and key principles for engaging with civil society in fragile states.
- The World Bank (2005) also has a report examining the role of civil society in fragile states, and the ways donor interventions impact its relationship with government.

While there are numerous documented good practices, there are still many gaps in the research and understanding about what practices work best, particularly in fragile contexts. More research is needed, especially on ways to link revenue interventions to improved expenditure, ways to shift local government incentives on service delivery and sustainably build the social contract, and the effectiveness of intervening in various components of local administration on both the revenue and expenditure sides.

Example

Revenue option 1 Expand the fiscal cadastre by hiring temporary municipal workers to do a GIS-based survey on foot, using GIS equipment provided by the project lead agency. Support the municipality to merge new records into the existing digital cadastre database with the target of expanding the fiscal cadastre by 50%.

Revenue option 2 Embed a technician in the municipality to update fiscal cadastre software and implement automated invoicing of the property tax. Support municipal tax collectors to hand-deliver invoices at the start of the fiscal year, providing bonuses to staff for improved tax compliance among their assigned households. The target is to increase compliance by 60%.

Revenue options 1 and 2 can be scored both individually and as a package.

Revenue option 3 Initiate a business improvement district levy, charging businesses in the commercial district a fee for improved street cleaning, lighting and security. Embed project staff to partner with municipal staff in communicating with affected business; assessing, invoicing and colleting the fee; and tracking payment in the municipality's fiscal management system. The target revenue to be raised is $X annually (based on an $X monthly fee across X[number] of businesses with expected 90% compliance).

Expenditure option 1 Hire two new municipal maintenance workers to oversee commercial district improvement. Support the municipality to purchase and install new lighting, waste receptacles, street furniture, plantings and a waste collection vehicle.

Revenue option 3 and expenditure option 1 should be scored as a package. This will require using both revenue and expenditure criteria and dividing their contributions by 2. …etc.

Step 5 Measure or rate the options

Scoring can be done by subject experts, stakeholders or a combination.

If stakeholder scoring is to take place, the information for any quantitative or objectively measured criteria will need to be made available.

Stakeholder involvement is recommended here, but must include various stakeholder groups, and not give preference to the interests of one group over another.

If done with stakeholders present in a workshop, a discussion of scoring can help reduce bias and increase ownership. Skilled facilitation is necessary, especially if groups have opposing interests.

Example UNEP (2015, p. 30) describes a stakeholder rating process to prioritize national climate-mitigation actions:

"During the scoring, all stakeholders involved in the process will assign a score to each indicator for each … option. The score will be determined from the information included in the [option] ideas documents. Therefore it is important that a common template, capturing all the information required to assess the [options] on the criteria identified, should be used for …. [the ideas document listing information on each option]. All stakeholders should thus receive the … ideas documents previous to the exercise to get familiar with all the [options] that will be involved in the prioritization. It is very important that all stakeholders involved in the process assign a score to all indicators for all [options]. Indeed, there is a risk that representatives for a specific sector may score higher for [options] related to [their] own sector. The participation of all stakeholders is thus the only way to ensure that the different perspectives from

the different stakeholders are taken into account and guarantee that the prioritization results reflect these differences. A good practice is that each stakeholder explains and justifies the value of the score given to each indicator for each … option, especially if the value varies significantly from average score. This will allow opening the discussions for each indicator and option, and will eventually lead to … a consensus on the values determined for each indicator. In this case the facilitator will have to ensure that the debates are not dominated by one or a small group of stakeholders. Once all stakeholders have scored all indicators for all …options, an average score can be determined for each indicator for each option."

Step 6 Combine measures, ratings and weights into total scores

Within MCDA, there are various ways criteria metrics can be weighted and combined to equate to a final score, some more complicated than others.

The simplest scoring method is the linear additive model, which multiplies the raw score on each criterion by the assigned weight and adds it together for a total score (DCLG 2009):

> *Total score = C1W1 + C2W2 + C3W3 + C4W4 + C5W5 + …*
>
> *where*
>
> *C = the score on a given criterion, and*
>
> *W = the weight for a given criterion.*

If various criteria are measured in different units (e.g., currency amounts, number of people served, Likert scale ratings, etc.), it will be necessary to translate each criterion's set of scores into a common scale before multiplying by the weights and combining them for a total score. One way to do this is to translate them into a linear scale from 0 to 100 using the following formula:

> *Converted criterion score = (value − min)/(max − min) × 100*
>
> *where*
>
> *value = the value on the criterion in question*
>
> *min = the minimum value of all options for that criterion*
>
> *max = the maximum value of all options for that criterion.*

See Table 5.9 for an example of such a calculation.

If the criterion relates to downsides rather than benefits, the scoring can be reversed by subtracting the result of the above formula from 100.

This formula is simple to understand and straightforward to use. But the scores are highly influenced by the mix of options and the minimum and maximum values arising from them. For example, imagine an expenditure intervention to provide health services to 1,000 people was being scored on the number of direct beneficiaries. If the proposed interventions served between 100 and 1000 people, the health intervention serving 1,000 people would earn a score of 100 on this criterion. But if an additional expenditure option was introduced that served 2,000 people, the health intervention would only earn a score of 47. This could be a problem if the project is being compared with revenue and community engagement projects scored using different criteria, as the original health project becomes less competitive because of the introduction of another unrelated option.

Two ways to avoid this problem are as follows.

- Set predetermined maximum and minimum ranges for scoring (projects above or below these thresholds receive the maximum and minimum scores, or 100 and 0, respectively).

Table 5.9 **Example scoring of intervention options on three example criteria**

	Criterion 1: People served			Criterion 2: Cost (million USD)			Criterion 3: Sustainability rating (0–3)			
Intervention options	Raw score	Converted score*	Weight	Raw score	Converted score*	Weight	Raw score	Converted score*	Weight	Total score†
	A	B	C	D	E	F	G	H	J	K
Health intervention	500	**44.4**	50%	20	0	15%	1	0	35%	22.22
Streets intervention	1000	100.0	50%	10	54.1	15%	3	100.0	35%	93.11
Sanitation intervention	200	11.1	50%	5	81.1	15%	2	50.0	35%	35.22
Market intervention	100	0	50%	1.5	100.0	15%	2	50.0	35%	32.50

* Converted score = (raw score – min)/(max – min) × 100. The max and min scores are taken from the raw score column for the criterion in question. Example: Health intervention score = (500 – 100)/(1000 – 100) × 100 = **44.4** (column B in Health row)

† Total = (B × C) + (E × F) + (H × J)

Note: This table is for example purposes only. The scores here are based on fictitious examples, not representative of real interventions. In addition, in real scoring of options, both the list of options and the list of criteria will be longer.

- Perform a *post-hoc* analysis of the mix of projects in different categories. This is recommended in any case, to ensure an appropriate balance of interventions.

Step 7 Discuss results, do a sensitivity analysis, make final adjustments

A discussion of ratings and results can help both project staff and stakeholders reach consensus. Most MCDA processes include sensitivity analysis, which involves adjusting the criteria scores and weights to see how the end results are affected. If changes to the criteria scores or weights result in a change in the ranking of options, this issue should be discussed before moving forward.

Example In Table 5.9, the "streets intervention" currently scores the highest. Adjusting the weights to place more emphasis on cost (Criterion 2) changes the total scores, but does not change that "streets" still gets the highest score. Cutting the estimate of the number of beneficiaries of the streets intervention in half reduces its total score, but it is still the highest scoring project. Thus the sensitivity analysis reveals that the ranking of projects is robust.

Step 8 Adjust the balance of interventions to take into account complementarities, equity of impacts, and power dynamics

With a draft list of top-scoring options in hand, a project action plan is in the making. This is the time to take a step back and look at the combination of interventions holistically, with thoughtful consideration of the following questions:

- How can the top options for intervention be made more impactful through complementary interventions? Keeping in mind the scores from Step 7, does it make sense to add or combine interventions?

- Who will benefit from the combination of top interventions if they are implemented? What groups are being left out? If the combined impacts of the top interventions are not inclusive or equitable, how can this be adjusted?

- How do the proposed interventions shift the power dynamics between taxpayers and government? How will this support or undermine the process of tax bargaining? (see Figure 5.3). What other power dynamics will be impacted? What adjustments should be made to the mix of interventions to ensure that the community is empowered to demand good governance, and government is empowered to deliver it?

The last question may mean altering the mix of interventions to include a more balanced combination of interventions targeting revenue, expenditure and community engagement and empowerment.

Example Weigel (2020) documents a tax campaign by the Provincial Government of Kasai Central in a randomized selection of neighbourhoods in the city of Kananga, Democratic Republic of the Congo. The campaign involved sending tax collectors to each house to register the property in the fiscal cadastre, invoice and collect property taxes. Weigel documents a "participation dividend" where those who were included in the tax campaign were more likely to participate in a town hall meeting and to submit comments on the performance of the provincial government to an anonymous drop box. While this feedback was received by government officials, there was no difference in the perceived provision of services among those being taxed. Residents demanded more services, but officials did not have an incentive to provide more services, and taxpayers could not credibly threaten withhold their tax payments as a bargaining chip, due to fear of strict enforcement. The intervention was solely on the revenue side, which is less likely to impact service provision without parallel interventions to improve taxpayer bargaining power and improve the government's capacity for effective expenditures.

Step 9 Anticipate and plan for complexities

The priority interventions can be strengthened by considering the complexities and challenges that may arise during their implementation. Project staff and stakeholders can help identify possible complexities in order to better plan for them.

Information from the diagnostic assessment should help shed light on this, particularly the answers to questions 9, 20 and 28 in Tables 5.4 to 5.6.

Some common complexities (from Walters 2020) include the following:

- Issues in public support

- Issues of political will

- Longstanding problems with subnational government institutions, including issues of capacity, internal politics and intergovernmental relationships.

Once potential complexities and challenges are identified, components can be added or adjusted within various interventions to address them.

Example UN-Habitat implemented a project in Afghanistan that reformed the *safayi* fee, an urban services charge on properties, in part by conducting a GIS survey and linking it to a digital cadastre. Prior to the project, municipal revenue staff would sometimes make personal arrangements with property owners to charge lower rates, for example by charging for a single storey on a two-storey building. However, the new database clearly showed the attributes of each property and the fee that should be assessed, reducing the possibilities for extra-legal payments to revenue officers. For this reason, digitization faced resistance from some staff, who devoted their energy to finding errors in the property survey data and showing them to the mayor in an attempt to undermine the new system.

The mayors brought up concerns about the accuracy of the property survey in a mayoral forum held by the project. The mayors were eventually convinced by the explanation that the survey documented hundreds more properties than was previously possible, and that some errors were to be expected. Staff were doing a good job identifying the errors, and few errors did not invalidate the usefulness of the survey. The mayors eventually agreed, but staff resistance delayed the project for a year or more in some cities.

A similar programme in Somalia circumvented staff resistance to digitalization by introducing a commission for invoicing and collecting property taxes, and this has helped incentivize use of the digital system, which allows for easier billing and collection while reducing corruption (Gauntner 2023, Chapter 6 in this volume).

Step 10 Translate prioritized interventions into an action plan

This is the subject of the following section.

5 Action planning for strategy implementation

Once the prioritization of options is complete, a project workplan or "action plan" is the next step, which will set out the roadmap for implementation. The following tasks can assist with action planning.

Confirm or revise the project goal

Step 1 in the process of prioritization of options (Section 5 above) was to define the project goal (the goal may have been defined even earlier in the initial project vision or concept note, before detailed considerations came into play). Revisiting the overarching goal is advised after diagnostics and the options for intervention have been weighed in detail. The overall concept may have shifted, and this should be reflected in the goal.

Elaborate the intended interventions

Details of various interventions have already begun to take shape during the prioritization process, but some very specific questions must be answered about each intervention during action planning:

- What specific **activities** are necessary to implement the intervention?
- Who will be **in charge** of each activity, and who else will be involved? Specify agencies, departments, and specific people wherever possible. Each agency or person involved must be on board. One of the biggest tasks during action planning is to confirm the commitments of each implementation partner. In particular, government and community partners need to affirm their roles and take ownership of the project.
- What **resources** are required for each intervention, including funding, equipment and staff time?

- What will the **timing** of each intervention and activity be? Timing should take into account both the balance of power and the interests of involved parties, in order to ensure all parties feel the project is benefiting them from the beginning. This keeps key stakeholders engaged and prevents a situation where a stakeholder undermines the project's activities.

Figure 5.8 gives a simple template for action planning.


Water supply project in Mazar-i-Sharif. Photo: Anthony Lamba

Define the coordination mechanism for various activities, interventions and actors

All projects have various moving parts and different parties working together toward the goal. Coordination can be a major challenge, and a mechanism to keep all the activities aligned for success should be spelled out in advance. This includes the various components of coordination:

Within the project, between the donor, implementing agency and its various staff, and in-country partners (government and community).

Within the government, including between levels of government. Intergovernmental coordination can be a major challenge for fiscal policy and implementation, and any external intervention that can help build a collaborative and well-functioning relationship between government agencies and levels is valuable, not just for project implementation, but for the sustainability of its impacts and for strengthening governance in the context of fragility more generally.

With other development actors, including building on the lessons of prior projects or ongoing projects in similar locations.

Plan for impact sustainability

No external intervention lasts forever, and there is a risk that the gains or good practices put in place under a project will disappear when it ends. To create sustained change, project interventions must be institutionalized, including establishing new processes and building the capacity of national actors (see Box 5.8). Institutional change can be a major undertaking, requiring both time and resources. There is therefore value in planning in advance for institutionalization, acknowledging at the start what is possible and what will need continued support to produce lasting change.

Figure 5.8 Simple action planning template

Overarching project goal			
Specific intervention			
Activities	Lead implementer	Additional involved parties	Timing
1.			
2.			
3.			
....			

Identify possible gaps and weak links

Adjusting for gaps and weak links has already been a part of the process during intervention prioritization (Steps 8 and 9 of the prioritization process), including balancing the mix of project interventions and flagging potential challenges related to public support, political will and subnational government institutions. This is another opportunity to assess which of the activities and interventions seem unlikely to succeed or face major risks, in order to plan ways to overcome the challenges involved. Stakeholder input can be invaluable for both identifying potential challenges and finding ways to overcome them.

Agree on a monitoring mechanism

This is described in the following section.

6 Monitoring and adaptation

Monitoring is critical, particularly for projects in fragile states. Complexities and situational changes can shape the project outcomes in ways that were not present during initial planning. A monitoring plan should build in opportunities for both detecting and addressing unexpected issues, and can be integrated into the defined project coordination mechanism.

A monitoring plan should identify the following:

- Who is **responsible** for monitoring
- The **timing** of key monitoring activities
- The process of **disseminating, discussing and acting** on the information provided by monitoring, including who will be involved
- Which **indicators** will be monitored.

In selecting indicators for monitoring, some questions can help guide useful approaches:

- Which **project activities** are going according to plan, and which are stalled or facing challenges? Progress on each activity specified in the action plan can serve as a practical set of indicators of progress.
- What is the status of various identified **risks** and the level of **threat** to the project? Some external threats were likely identified at the feasibility stage, such as the risks associated with conflict and insecurity, lawlessness, natural disasters or disease. Other potential challenges have been discussed during diagnostics

Box 5.8 How is institutionalization done?

The following tasks are useful in considering institutionalization:

- Strengthen existing institutional structures to improve their effectiveness in planning, management, and coordination among different sectors; only where necessary, create new institutions to accommodate special requirements both technical and managerial – not covered by existing institutions.
- Change or adjust mandates of existing institutions to integrate new functions and roles.
- Identify and task "anchor" institutions to take the lead and provide a home base for [targeted] activities or phases.
- Link to established policy instruments such as annual budgeting, human resource allocation, sectoral work programmes, etc.
- Develop skills necessary to support and routinely apply [the new processes being institutionalized, ensuring that implementers have adequate capacity to continue doing all necessary steps involved].
- Modify legal and administrative frameworks to enable a procedural framework for smooth and effective functioning of institutions.
- Provide funds to support expenditure and equipment for capacity-building and sustaining the framework, primarily through public budgetary provisions or allocations.
- Maintain knowledge support and a learning process, for example, through documenting and evaluating lessons of experience and building collaboration with local research or consulting establishments.

Source: UN-Habitat and EcoPlan International (2005, pp. 20–21)

Road construction project in Kabul. Photo: Anthony Lamba

and action planning, including issues with public support, political will and government institutions. Monitoring each of the major threats and risks associated with the project can help project staff see red flags early on and take actions in response.

- How is the project progressing toward its intended **outcomes and goals**? This question can be answered using indicators identified during the diagnostic phase and the associated baseline data on revenues, expenditures and community engagement and empowerment (see Table 5.7). Indicators may need to be revised based on the project workplan and what is feasible for tracking.

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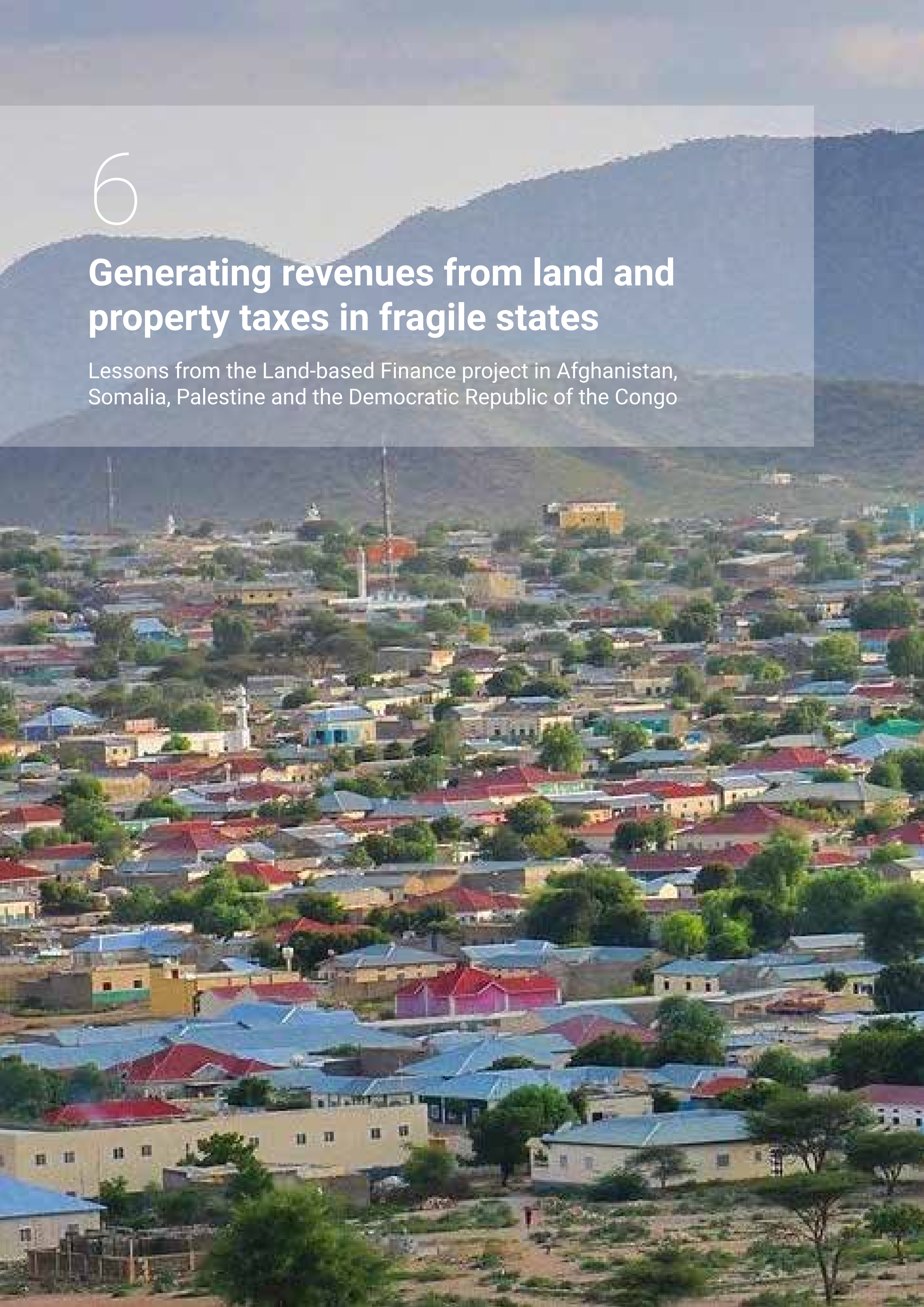
6

Generating revenues from land and property taxes in fragile states

Lessons from the Land-based Finance project in Afghanistan, Somalia, Palestine and the Democratic Republic of the Congo



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Generating revenues from land and property taxes in fragile states

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Paterson Gauntner,[1] Jean du Plessis[2] and Lennart Fleck[2]

Nearly one billion people live in fragile states, and such states are home to nearly half of all those living in absolute poverty (Cooke and Downie 2015). There is no universally agreed definition of fragile states, but most definitions relate to governments that are unable (or are at risk of failing) to carry out the basic functions of governance, and states with weak institutions, a broken contract between citizens and government, and sometimes active conflict (Cantens and Raballand 2021, Castillejo 2015, Cooke and Downie 2015, Fjeldstad et al. 2018, Mansour and Schneider 2019, McCluskey 2022).

Fragility is on the rise. By one estimate, two-thirds of the world's extreme poor will live in fragile states by 2030 (McCluskey 2022), and global conflict, particularly in the Middle East and Africa, has intensified in recent years (IMF 2017). At the same time, climate change is putting pressure on already weak governments, and the covid-19 pandemic further intensified vulnerabilities. There is a recognized need for the international community to intervene in fragile contexts, but "finding a way out of the 'fragility' has proven difficult" (Fleck et al. 2022, p. 3). Therefore, learning how to effectively engage in fragile states demands attention.

On a basic level, there is a need for a "focus on state-building as the central objective" (OECD 2007, p. 2), and it is recognized that taxation and service provision play a central role in state building (Brautigam et al. 2008). More specifically, there is a need for revenue mobilization to help governments get back on their feet and provide basic services, and taxes are closely tied to rebuilding the basics of governance (Fjeldstad et al. 2018). With this in mind, UN-Habitat, funded by Norad, designed and implemented a project to build local fiscal capacity in **Afghanistan** and **Somalia** starting in 2020 and extended to the **Democratic Republic of the Congo** (DRC) and **Palestine** in 2022. This project also provided an opportunity to expand the knowledge base and build partnerships around effective engagement in fragile states. This chapter examines the lessons from the project's challenges and successes, as well as the ways the project tested a theory of change.

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Theory of change and project design

Donor and organizational grounding

In January 2020, UN-Habitat, with the financial support of Norad, launched the project titled **Land and Property Tax Revenues for Service Delivery, Reconstruction, Citizenship Building and Sustaining Peace in Fragile States**. The project, known as the **Land-based Finance,** or **LBF** project for short, was designed to support local governments in Afghanistan and Somalia in improving their fiscal operations, with a parallel set of activities to document lessons and build knowledge within a global community of practice. The intention was to have an impact on the ground while also learning throughout the implementation.

The government of Norway has made It a policy priority to support tax systems in developing countries, and Norad identified local governments in fragile states as a promising entry point for impactful work (Holtedahl 2022). At the same time, UN-Habitat has a long history of working on land and property taxes in local governments, and already had strong programmes in Afghanistan and Somalia working on the issue of property tax revenue and service delivery:

- In **Afghanistan**, the **City for All** (CFA) programme ran from 2016 to 2021 in 12 cities.
- In **Somalia**, the **Joint Programme on Local Governance** (JPLG) operated from 2008 to 2018 in 16 districts with the collaborative support of ILO, UNCDF, UNDP, UN-Habitat, and Unicef.

Both programmes included land surveying, implementation of digital property management systems, the digitalization of municipal finance functions, and extensive capacity building with local governments. Both programmes resulted in significant increases in land-based revenues (Fleck et al. 2022, Yar 2022).

The Norad-funded Land-based Finance project was intended to expand the positive outcomes of these programmes and build upon and deepen their lessons.

The Land-based Finance project chose to focus on the local level, as the link between revenues and service is often more direct there than at higher levels of government. For this reason, good practices for international engagement in fragile states include working with subnational governments to rebuild government legitimacy at the local level (Cooke and Downie 2015, Dickenson-Jones 2020). Norad had in 2018 identified local taxes as a priority for raising revenue, strengthening the social contract and state-building in fragile states (Holtedahl 2022), and UN-Habitat has expertise in working with local governments on revenue mobilization and particularly land and property taxes.

Beneficial characteristics of land-based revenues

Land-based revenue streams have been a focus of UN-Habitat's work for many years due to the positive characteristics of land value capture, and the Global Land Tool Network (GLTN),[3] a key supporting partner on the Norad project, has developed publications and methodologies on this issue. Taxes on land and property are typically within the jurisdiction of local governments, making them an apt target of efforts to improve the social contract between taxpayers and local governments. Land is immobile, which means that the supply will not decrease in the presence of taxation. This makes taxes on land less distortionary than taxes on goods and services. In fact, taxes on vacant land can encourage owners to put it into productive use actually increasing the supply of built housing or employment space.

3 GLTN is a multisectoral alliance of more than 80 international partners committed to increasing access to land and tenure security for all, with a focus on the poor and women. UN-Habitat hosts the GLTN Secretariat, working closely with GLTN partners on a variety of land issues, including land registration, land tenure security and land-based finance. *https://gltn.net/*

In addition, increases in land value do not reflect the private actions of the land holder,[4] but rather are representative of public actions of the local government including access to public services like clean streets, public transit, parks, and crime prevention. For this reason, land taxes can be seen as a "benefit tax" covering a wide range of local services that all impact the value of land. Increases in land value represent an unearned windfall gain to the owner and can thus be taxed more fairly than other assets. In addition, higher value land is typically owned by the wealthy, so land value taxes also have the benefit of being progressive.

Another potential benefit of strengthening land-based revenue is the link to improved land administration and strengthened security of tenure. Up-to-date land records are necessary for land-based revenue administration, and strengthening such records can have knock-on benefits for land rights (Mansour and Schneider 2019). In addition, payment of property taxes on plots without a secure title can serve as proof of land holding or occupancy, and also help strengthen tenure security. All of these beneficial properties of land value capture exist in theory, but they have rarely been tested and documented in the fragile state context.

Project outcomes

The project was designed with service delivery, reconstruction, citizenship building, security of tenure and sustained peace as the ultimate goals. Figure 6.1 shows the theory of change as presented in the project documentation (UN-Habitat 2020). The project was designed with two outcomes in mind.

- **Outcome 1** (left side of Figure 6.1), "enhanced land-based revenue in fragile states," represented the intended achievements in specific project countries, starting with Afghanistan and Somalia.
- **Outcome 2** (to the right), "going to scale", represented the intended learnings to be documented and shared in order to increase the international body of knowledge and lead to broader impacts.

The **Annex** presents the indicators associated with each outcome and output.

Outcome 2 focused on scaling up effective support to land and property taxation in fragile states globally. The project was designed to create a bidirectional flow of knowledge and lessons learned between the learnings generated in the context of experiences in Afghanistan and Somalia and global expertise being shared through knowledge products and forums. A **Land-based Finance Learning Series** bringing together international experts on the topic was planned (with 6 of 7 sessions completed as of November 2022), and several papers were drafted to document good practices and lessons, a canon to which this article also contributes. This has helped fill a gap in context-grounded knowledge: "there are very few papers on taxation in fragile states combining technical, historical and political economy aspects" (Cantens and Raballand 2021).

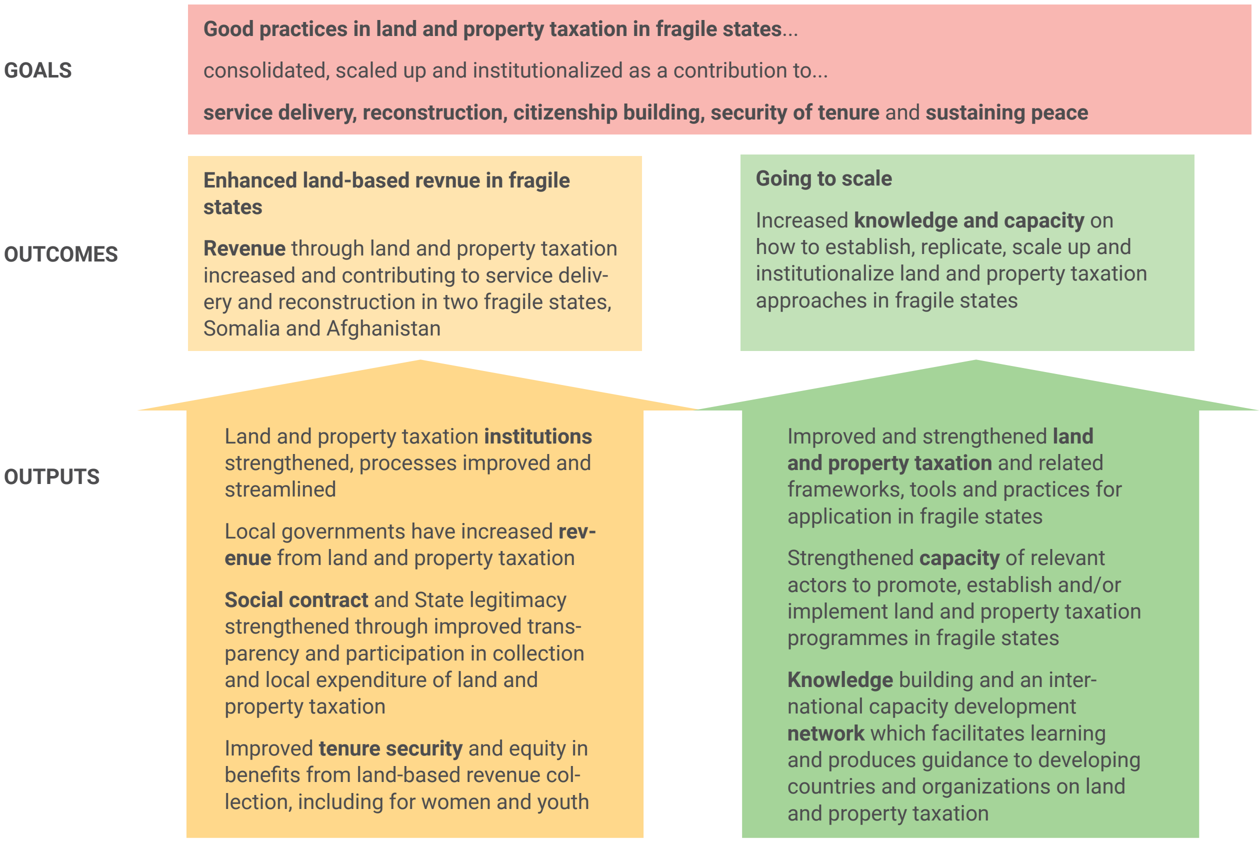
Taxes and the social contract in fragile settings

The immediate activities for UN-Habitat in Afghanistan and Somalia focused on improving the revenue-administration systems of local governments related to land-based revenue streams, with learning generated along the way. Working in the background to link the concepts of land-based revenues and sustained peace was the idea of the **fiscal contract**, and more broadly the **social contract** between governments and citizens.

The **social contract** refers to the agreement between a government and its citizens that the citizens will give up some measure of freedom in exchange for the benefits of

4 The value of land must be distinguished from the value of buildings, which do represent private investments. Taxes on the value of buildings do not have the same beneficial properties as taxes on land value, but in practice, the two are often taxed together.

Figure 6.1 Key elements of the theory of change of the Land-based Finance project



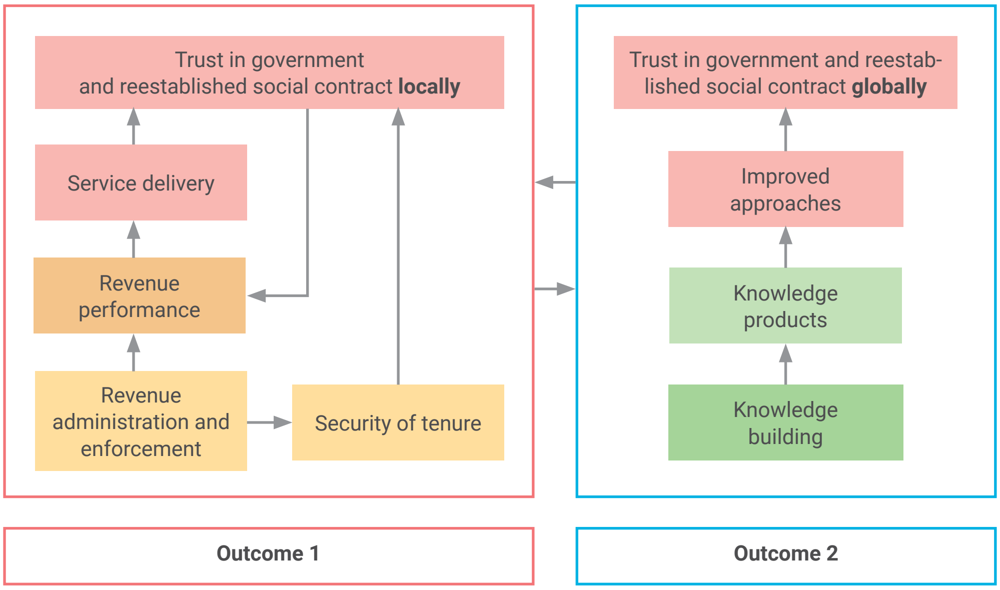
Source: UN-Habitat 2020

governance, including rule of law and government service provision. It includes the idea of the **fiscal contract,** where citizens voluntarily make payments to the government in exchange for the public services they receive (Cantens and Raballand 2021, Cloutier et al. 2021, Besley 2020, Dickenson-Jones 2020, Verkoren and van Leeuwen 2014).

There is evidence from a variety of studies suggesting that attitudes toward paying taxes (or "tax morale") are correlated with trust in government and satisfaction with public services. For example, a survey done across five cities in Myanmar showed that those who felt well-represented by their local officials were willing to pay more taxes for better public services (Dickenson-Jones 2020). In addition, survey data from 104 countries shows that there is a significant correlation between confidence in government and positive attitudes toward tax compliance (Besley 2020). There is also evidence to suggest that property taxes help motivate civic engagement with local government, with citizens placing demands related to local services in response to being taxed (Weigel 2020). The concept of "tax bargaining," where citizens demand services in exchange for tax compliance is key to the social contract (Fjeldstad et al. 2018).

A central component of fragility is the breakdown of the social contract. Trust in government to provide services is lacking, which erodes the legitimacy of the state and its ability to earn the compliance (including compliance in paying taxes) of its citizens. Thus, taxes play a critical role in functioning and stable governance, beyond their obvious role in helping to pay for public investments in re-

Figure 6.2 Simplified theory of change



construction.[5] There has been a "recognition that the establishment of tax regimes and state-building efforts are closely connected" leading to the idea of "using taxation as a way to promote a fiscal contract between the state and citizens" (Fjeldstad et al. 2018, pp. 6, 7). This idea was central to the project.

Figure 6.2 breaks down the theory of change into smaller, simplified building blocks. **Outcome 1** (on the left) shows the expected relationships to be influenced in Afghanistan and Somalia, including a virtuous cycle linking revenue performance, service delivery and trust in government. This cycle exemplifies the social contract, where citizens make payments in exchange for services, trust is built, and revenue compliance improves. UN-Habitat's injection of assistance to improve revenue administration was intended to kickstart this virtuous cycle.

The literature on fragile states emphasizes that taxes have benefits beyond the revenues they produce. This so-called **governance dividend** of taxation arises from the incentive of the taxing government to foster taxpayer trust and invest in economic growth as ways of improving revenue mobilization (Dickenson-Jones 2020, Fjeldstad et al. 2018, McCluskey 2020, McCluskey 2022). Even as revenues from natural resources or donors may be more easily collected by fragile states than taxes on the population, they change "the political incentives that [state elites] face, and the ways in which they seek to obtain, use and retain power. The long-term consequences for governance are malign: state elites are less responsive and accountable to citizens" (Moore 2007, p. 3). The idea of the governance dividend presumes a link between tax revenues and improved service delivery (as shown in Figure 6.2). The concepts relating taxation with state-building are summarized in the project's 2021–22 workplan (Box 6.1).

Links to service provision, citizenship building and peace

Although the headline of Outcome 1, "Enhanced land-based revenue in fragile states" focuses on the revenues side of the fiscal contract, expenditures on service delivery

5 Fragile states vary greatly. In post-conflict locations, reconstruction will involve the physical reconstruction of infrastructure. In other places, institutional reconstruction is even more pressing. Both require public investment.

Box 6.1 Taxation is a critical aspect of state-building

Excerpt from the Land-based Finance project workplan

The ability to **raise revenue** and **manage public expenditure** are core state functions which underpin the formation of the social contract.

Revenue raised through **taxation**, rather than through aid, arguably better supports state accountability to its citizens and, in turn, state legitimacy.

Taxation and public expenditure are also important **redistributive mechanisms**, which can allow the state to correct horizontal and vertical inequalities over time.

Demand for taxes **triggers new demands** for public goods and representation: taxation enables the state to provide public goods and is thought to create a **participation dividend** by stimulating political engagement among citizens in states with a broken social contract.

Broadening the tax base has a participation dividend: there is emerging evidence that in fragile states citizens demand more of a voice in the government when it tries to tax them.

Source Land and Property Tax project, 2021–22 workplan, Annex 3: LBF4Peace concept, workplan and budget: Project outcome 2.1: "Increased knowledge and capacity on how to establish, replicate, scale up and institutionalize land and property taxation approaches in fragile states"

were also built into the project concept, as were the broader benefits of tenure security, citizenship building and peace. These were seen as benefits linked to revenue enhancement. As noted in the project document, not only can revenue enhancement provide the resources for delivery of services, but:

"land-based revenue collection projects… can effectively produce positive outcomes in fragile contexts, contributing to:

- *increased tenure security and, with it, empowerment, participation and social stability*
- *reconstruction of institutions and the restoration of basic services*
- *citizenship building and the re-establishment of legitimate state authority, and*
- *the prevention of conflict and sustainable peacebuilding." (UN-Habitat 2020, p. 9).*

Beyond revenues, the project included activities that could lead to tenure security, including the survey of properties and registration within a fiscal cadastre, as well as a later component on street addressing in Somalia. In addition, activities on participatory budgeting were included in planning, but were delivered late in the project in the case of Somalia, and were not delivered before the Taliban takeover in Afghanistan.

While part of the project, service delivery, citizenship-building and peace were not the main entry points for intervention. The project did **not** include activities such as the following:

- Assessment of or intervention in any specific municipal services, capacity building for effective service delivery, or investments in infrastructure or equipment to enable municipal service delivery.
- Investment in the capacities of civil society or community groups to organize independently or as an institutionalized part of local governance, beyond the community budgeting meetings that took place in the last few months of the project.
- An analysis or intervention aimed at the root causes of local conflict or potential local conflict.

There are varied reasons that project activities, particularly for the first two years, focused on revenue enhancement as the main entry point, in spite of a broader theory of change that included service provision, citizenship building and peace.

- It was expected that there would be a natural link between revenue enhancement and the other components, as described above. That this link did not clearly or consistently materialize was a source of lessons explored in detail below.
- Norad and UN-Habitat have a focus on and competencies in land and property tax administration. Investments in improving municipal service delivery, strength-

ening civil society, and preventing conflict are less central to their organizational activities, and are perhaps more difficult in general.

However, the project was a learning process, designed to test the theory of change and generate knowledge about its components and linkages, which is the main subject of this chapter.

Project experience

Project activities

This section consists of three parts:

- **Outcome 1**, which covers the work to enhance land-based revenue in Afghanistan and Somalia
- **Outcome 2,** which covers knowledge products and dissemination to permit going to scale
- The **extension** of the project into DRC and Palestine.

The entire project was initially intended to end in December 2021, but was extended by a year to December 2022 via a no-cost extension. This was due to delays related to covid as well as an initial delay at the start of the project. The project activities were finalized and closed in April 2023.

Enhancing land-based revenue (Outcome 1)
Below is a brief overview of project activities as a background for the examination of the project lessons. See other UN-Habitat documents for details of the activities (e.g., Fleck et al. 2022, Yar 2022).

Phase 1: Diagnostics and workplan development in Afghanistan and Somalia, January 2020 to March 2021 The Land-based Finance project was to start January 2020, but was delayed until March of that year due to administrative challenges. The project launch coincided with the advent of the covid-19 pandemic, which slowed project progress further. The first months were devoted to project approvals, understanding operations in the context of covid-19, and negotiating in-house agreements with UN-Habitat's Somalia and Afghanistan offices, which were signed in May 2022. Immediately after this, staff developed a framework for the diagnostic assessments to be done in both Afghanistan and Somalia.

Through the remainder of the year, Phase 1 focused on **diagnostic assessments,** which wrapped up in October 2020 and were followed by country workplan development until March 2021.[6] The assessments looked at the national context, including regulatory issues, and collected baseline data for four municipalities in Afghanistan (Kabul, Bamyan, Kandahar, Mazar-e-Sharif), and four districts in Somalia (Burao and Borama in Somaliland, Bosaso and Gardo in Puntland). (Later in Afghanistan, the project was implemented in five cities: Bamyan, Herat, Jalalabad, Kandahar, Mazar-e-Sharif.)

The assessments looked at common themes:

Conditions before UN-Habitat's prior programmes (CFA in Afghanistan and JPLG in Somalia), including the following:

- Political and macroeconomic context
- Local governance, including local government structure, powers and citizen perceptions
- Fiscal decentralization framework, including revenue authority and expenditure functions
- Local economy
- Public expenditure
- Local revenues and financing options

6 According to Jun 2021 progress report.

Table 6.1 Afghanistan workplan items, 2021

Activity	
1	**Provide software support and deploy the Integrated Financial Management System[1] in target municipalities**
2	**Revise and approve *safayi*[2] procedures**
3	**Embed revenue mobilizers in target municipalities (to support *safayi* invoicing and collection)**
4	**Establish a one-stop-shop for *safayi* fee payment**
5	Implement land-value zoning for assessment of property values
6	Conduct public outreach activities and awareness-raising campaigns for *safayi*
7	Publish safayi revenue and expenditures
8	Analyse the trends of *safayi* non-compliance

Source: Internal presentation, December 2021; quick wins in **bold**

1 The integrated financial management system stores digital property records and enables tracking of *safayi* fee revenues.

2 The *safayi* is "an annual fee collected by municipalities from the owners of immovable property located within municipal boundaries for the provision of municipal services" (Yar 2022, p. 2).

- Land and property taxes, including baseline statistics.

Summaries of the activities and their impacts under the interventions of CFA and JPLG.

Challenges and lessons from the prior programmes.[7]

The diagnostic assessment methodology was adjusted during the course of the project to ensure that adequate analysis accompanied the basic factfinding and could inform the design of project activities. These iterations represent the learning process that took place during the project.

Drawing upon the findings of the first assessments, workplans for each country were developed in close consultation with government stakeholders. Each included a set of quick wins to be completed by the end of 2021 (Tables 6.1 and 6.2).

7 Based on "Terms of reference for diagnostic assessment" internal document, draft 15 May 2020.

Phase 2: Afghanistan, April 2021 to August 2021 Before the Taliban takeover in August 2021, a number of activities were in process in Afghanistan. A software developer was embedded in the Deputy Ministry of Municipalities to support the continued use of the integrated financial management system and the integration of *safayi* fees in the system. However, the department staff were not fully trained to operate and maintain the financial management system without external support by August (Yar 2022). It was planned that the *safayi* module be set up in the financial management system of all five participating municipalities (workplan activity 1). This had been done in four by August.[8]

The regulatory revision of *safayi* procedures (workplan activity 2) was needed in municipalities outside of Kabul in order to enable improved *safayi* collection.[9] The regulatory

8 Personal communication, Antony Lamba, 15 Nov 2022.

9 Personal communication, Antony Lamba, 5 Oct 2022. Kabul municipality operates more autonomously than the other municipalities, with the mayor reporting to the president. Other municipalities are under the authority of the

Table 6.2 Somalia workplan items, 2021

Expected results	Activities
Enhance property taxation, management, billing and collection	1.1 Align database migration to the financial management information system with cadastre update and housing numbering **1.2 Issue official number plates for properties** 1.3 Develop a taxation policy document, including clear policy on exemptions, vacant land, and tax relief 1.4 Develop, publicize and implement building permit system
Registration of taxpayers and construction of an accurate cadastre	2.1 Review of district by-laws for taxation of vacant and undeveloped land 2.2 Develop and implement district by-laws and system for construction permit **2.3 Cadastral survey** **2.4 Embed technical staff for property database enhancement and provide on-the-job training**
Streamline valuation methods for better managing property and land taxation	**2.5 Design and implement banded system**
Community building and tax morale	3.1 National/local communication strategy
Improved transparency and participation	3.2 Introduce charts of accounts and harmonize municipal reporting formats for revenue and expenditure data for increased visibility 3.3 Conduct and institutionalize participatory budgeting and auditing sessions 3.4 Publish revenues, expenditures and services delivered through social media and online resources

Source: UN-Habitat (2022). Quick wins in **bold**

changes had been drafted and were still pending approval by the Independent Directorate for Local Governance at the end of the project.

The embedding of revenue mobilizers (workplan Activity 3) in Mazar-e-Sharif, Bamyan, Kandahar and Jalalabad was done, with 20 staff hired to fill the gap left when CFA project staff contracts ended. They distributed 78,656 *safayi* invoices, resulting in revenues of AFN 47.5 million (USD 460,000) between June and October 2021 (Yar 2022).

None of the other planned workplan activities (4 to 8 in Table 6.1) were able to proceed. The last of the quick wins was to create one-stop-shops for *safayi* payment by placing bank branches at municipal offices to allow residents to access of invoices and make and track *safayi* payments in a single location.[10] Procurement had begun for the necessary equipment, but this activity was halted with the Taliban takeover (Yar 2022). Land-value zoning was introduced in Kabul under the CFA programme but needed the Independent Directorate for Local Governance to pass the proposed regulatory amendments to be extended to other municipalities (workplan activity 5).

Community outreach activities (workplan activity 6) were being planned. These would engage *gozar* assemblies[11] in discussing the rationale for *safayi* payments and what services they could expect to receive from the government. Efforts to link *safayi* payments

Independent Directorate for Local Governance (Yar 2022).

10 Personal communication, Antony Lamba, 5 Oct 2022.

11 *Gozars* are neighbourhood areas comprised of 800–1,250 households. *Gozar* assemblies represent various *gozars* at the district level and have 13 elected members, at least 3 of whom must be women (personal communication, Aziz Ahmad Yar, 30 Sep 2022).

to improved sanitation services in high-paying *gozars* had been successfully piloted under CFA, and strengthening the link between *safayi* compliance and service delivery (as part of the fiscal contract) was one intended result of the Norad-funded project.

In July 2021, the Taliban attacked all project cities, creating an atmosphere of conflict, fear and chaos. Project activities were suspended (Yar 2022). In August 2021, following the withdrawal of foreign troops from Afghanistan, the Taliban overthrew the Afghan government, and a severe political, security and humanitarian crisis ensued. As of 15 August, the *de facto* authority replaced most senior government staff with all-male Taliban affiliates, including all mayors and deputy mayors (Yar 2022).

The UN-Habitat project was officially discontinued as of 31 December 2021 due to two overriding issues (internal email dated 30 December 2021):

- [The] "UN system-wide policy prohibiting direct engagement with and/or actions that directly or indirectly benefit the *de facto* authority in Afghanistan."
- The inability of the project to meet its stated goals given the "political and socio-economic crisis precipitated by the takeover of the government on 15 August 2021".

Phase 2: Somalia, April 2021 to March 2022
After the drafting of the workplans, work on quick wins began in Bosaso and Gardo districts in Puntland State. However, a dispute between the government of Somaliland and the UN delayed work in Somaliland.[12]

Puntland By March 2022, 30,321 properties were registered, cleaned and updated in Bosaso and Gardho, and 11,900 were uploaded into the financial management information system by March 2022 (workplan activity 1.1). In addition, 40,000 property plate numbers were procured and installed in Puntland[13] (activity 1.2). Efforts to update taxation by-laws for Puntland were underway (activity 1.3). Property registration was facilitated with a cadastral survey (activity 2.3) and all activities were supported by 12 technical staff embedded in Bosaso and Gardo (activity 2.4). Activities to streamline valuation had also started, with a land management consultant recruited in August 2021. The consultant completed a baseline assessment of property valuation in October 2021 and recommended a banded system design by December 2021. By March 2022, activities 1.3, 2.1, 2.2, and 3.1-3.4 had not yet started, but were planned for later in the year (UN-Habitat 2022).

Somaliland In January 2022, the political stalemate between the UN and Somaliland eased, and this enabled reengagement with Borama and Burao districts. Project staff undertook a mission to the districts, as well as those in Puntland to share information and project updates and identify areas of needed intervention. Staff also collected data for a "diagnostic assessment 2.0" and began discussions with Borama and Burao district mayors on collaboration on the project in their districts.[14]

Although the project was initially planned to end 31 March 2022, it was extended through December due to covid-19 related delays (UN-Habitat 2022).

Phase 3: Somalia, April to December 2022
After March 2022, work continued in Puntland and restarted in Somaliland, including the embedding of technical staff in Burao and Borama with over 80,000 properties registered. A banded system was used in conjunction with property registration in both Puntland and Somaliland.[15] The financial management information system is in the hands of the Ministry of Finance, and the data from Somaliland is awaiting upload.

12 Personal communication, Abdishakour Said, 20 Sep 2022.

13 This was not planned for Somaliland; personal communication, Balqesa Sheikh, 25 Jan 2023.

14 Internal mission report: Puntland and Somaliland, 23 January–3 February 2022.

15 Personal communication, Balqesa Sheikh, 25 Jan 2023.

Until then, districts in Somaliland are using the prior computerized systems set up under JPLG.[16]

In Bosaso and Gardo districts in Puntland, address plates were fabricated and installed. In Somaliland, a sensitization workshop was held with local communities in September 2022 to inform them about the project, why properties were being registered, and the results.[17]

A series of youth- and women-led participatory budgeting and audit sessions (activity 3.3) were held by UN-Habitat in Burao and Borama, Somaliland, with 8 out of 12 planned sessions held during the first two weeks of October 2022.[18] In addition, 80 municipal staff were trained on the concept of municipal finance auditing and the importance of community participation in enhancing property taxation. In Puntland, participatory budgeting sessions were delayed, in part because the budget calendar is later there, but also because there was the desire to coordinate the sessions with District Development Framework exercises being done under JPLG, but these were repeatedly postponed. Part of the postponement related to security, with the United Nations Department for Safety and Security hesitant to approve the gathering of so many people for a day-long session. At the close of 2022, 4 of 12 planned participatory budgeting sessions had been completed in Puntland.[19]

Work on a national/local communication strategy (activity 3.1) was started in the last quarter of 2022 but never finished due to coordination problems with the national government.[20] Harmonization of financial reporting formats was done in both Puntland and Somaliland, and most of the districts published their financial and budgetary activities information through social media such as Facebook and Twitter (activity 3.4).[21] Activities related to taxation policy and bylaws on exemptions and vacant land (1.3 and 2.1) had not been undertaken as of December 2022 but an information technology system for managing building permits was developed and handed over to districts in Puntland.[22]

Going to scale (Outcome 2) In order to increase “knowledge and capacity on how to establish, replicate, scale up and institutionalize land and property taxation approaches in fragile states” (Outcome 2, UN-Habitat 2020), the project lessons from Afghanistan and Somalia were recorded in several documents. In addition and in parallel, research and analysis on topics related to land and property tax in fragile states were conducted and the findings drafted. Work on a set of tools was also done. This has included:

- A concept note for a **digitized property tax tool**
- A **methodology for diagnostic assessment and strategy design** for local fiscal interventions in fragile contexts
- An online tool for **rapid own source revenue analysis** (ROSRA), aimed at supporting decision making on local revenue interventions.[23]

Furthermore, a **land-based finance learning series** was organized to bring together a community of practice and share knowledge and information related to the project and the topic in general. The series comprised of 11 sessions between September 2021 and December 2022. Its learning objectives were (Internal concept note, Session 5, p. 1):

- Increased knowledge of available land-based finance and land-value capture tools, methods and approaches

16 Personal communication, Balqesa Sheikh, 14 Nov 2022.
17 Personal communication, Balqesa Sheikh, 22 Sep 2022.
18 No further sessions had been completed in Somaliland by the end of 2022.
19 Personal communication, Balqesa Sheikh, 25 Jan 2023.
20 Ibid.
21 Personal communication, Balqesa Sheikh, 14 Nov 2022.
22 Personal communication, Balqesa Sheikh, 25 Jan 2023.
23 ROSRA can be found here: *https://rosra-dev.azurewebsites.net/*

- Enhanced understanding of the social, economic and political challenges facing implementers
- Case-specific information shared on ways of overcoming challenges and building good practice
- Proposals for priority actions for improved impact formulated
- Areas of potential collaboration identified.

The sessions covered a range of topics, with two sessions focused directly on the activities in Afghanistan and Somalia. The series was initially hosted by UN-Habitat and GLTN, with the Local Government Revenue Initiative of the International Centre for Tax and Development at the University of Sussex joining as hosts in early 2022, marking the emergence of a vibrant land-based finance community of practice.

Extension to DRC and Palestine In line with the "scaling up" intentions of the project (under Outcome 2), discussions were held between Norad and UN-Habitat in mid-2021 about extending the programme to two other countries. Based on the locations of UN-Habitat local offices with a strong presence in fragile states, the Democratic Republic of Congo (DRC), Palestine and Syria were all considered. Scoring on feasibility criteria initially suggested that DRC was "not recommended" primarily since local governments do not administer the property tax, and Syria was feasible.[24] However, Norad's rules of engagement prohibit activities that would

24 Internal report and presentation, June 2021; Palestine was not assessed according to the feasibility criteria.

Water and sanitation project for the Kuchi community in Kandahar province. Photo: Anthony Lamba support the government of Bashar al-Assad, ruling out engagement in Syria.

Democratic Republic of the Congo Additional information gathering about the situation in DRC revealed several factors that made it a potentially good fit for the project. The first was that although most land-based revenue sources operate at the provincial level, there was buy-in from both North Kivu Province and the cities of Goma and Beni, where UN-Habitat already has a high level of engagement, and a decision was made that other types of local revenues could be included in the project. In addition, at the national level, a new policy on land and property administration was approved in April 2022. This created an opportunity for action at the subnational level on land-based revenues, and represented a continuation of Norad-funded work in the country.[25]

A mission and workshop in August 2022 engaged stakeholders about the project, gathered baseline revenue and expenditure data from the provincial government of North Kivu and municipal governments of Goma and Beni, and identified specific revenue sources at both levels that could be the target of UN-Habitat's recommended reforms. At the provincial level, those were the tax on built and non-built properties, and the proportional rights registration tax. At the local level, the identified revenue sources were taxes on shops in public markets and the tax for the use of public parking spaces.[26]

Another mission took place in October 2022 to gather additional budget documents, engage fiscal experts, and further engage stakeholders including market shop-owners and civil-society groups. While a local mayor described a participatory budgeting approach in addition to budget evaluation with "all stakeholders", civil-society representatives had a different perspective. They expressed that public participation in budgeting had weakened and has been nearly non-existent since the start of the state of emergency. Multiple sources noted that although there is public input into development plans, budget allocations are not in alignment with them. Another finding is that taxes on businesses and properties are unevenly enforced, and the affluent have political power to pay bribes or evade taxes.[27]

The DRC component of the project is currently (in 2023) funded for only one year, so the intended result was a diagnostic assessment with a set of clear and practical recommendations that the governments of North Kivu, Beni and Goma can put into action. A draft of the diagnostic assessment was presented to government officials in October 2023, and they suggested amendments, contributions and improvements to the challenges and recommendations.[28] A revised draft was completed in January 2023, containing recommendations for improving both revenues and expenditures for North Kivu Province and the cities of Beni and Goma. Norad funding for continued UN-Habitat support to implement recommendations is a possibility.

Palestine Palestine was chosen for extension of the Land -based Finance programme on the basis of UN-Habitat's strong presence and existing engagement. However, unlike in the other project countries, the property tax is administered centrally by the Ministry of Finance rather than by subnational governments. The Palestinian Cabinet had decided to launch a pilot programme in four West Bank municipalities starting in January 2023 to decentralize property tax administration, but the Ministry of Finance has not lent its full support to these pilots, casting doubt on the potential success of the property tax decentralization pilot. Land itself and associated rights are a contested due to the Israeli occupation, which complicates options for registration and tenure security.[29]

During the course of 2022, UN-Habitat staff worked through the local office in Ramallah

25 Personal communication, Jonathan Yakutiel, 29 Sep 2022 and Charles Mukandirwa Wetemwami, 3 Oct 2022.
26 According to the internal workshop report.
27 According to the internal mission report.
28 Internal mission report submitted Dec 2023.
29 Personal communication, Ahmad Elatrash and Haneen Zaqout, 4 Oct 2022.

and with the Government of Palestine to assess the situation and potential entry points for UN-Habitat support. A scoping mission in May 2022 included stakeholder mapping and initial situational assessments. A second scoping mission in August 2022 examined more closely the potential of land-based finance tools for Palestinian local governments.

One pressing issue that has been emphasized by Palestinian partners is the issue of "net lending", where the Israeli government collects and withholds taxes from Palestinian residents to pay for services rendered but without transparency or accountability.[30] While the net lending issue does not clearly fit with the original focus of the Land-based Finance project, it makes the need for local own-source revenues all the more pressing. Better own-source revenues would allow local governments to pay for essential services like electricity rather than relying upon Israeli provision and the associated high costs that come in the form of net lending. Net lending has also received attention because of the desire on the Palestinian side for intergovernmental agencies to intervene to help solve it.

The staff of the UN-Habitat office in Palestine argue that even if activities and results are complicated, project engagement in Palestine is an opportunity for advocacy and awareness as part of building a foundation for ending Israeli occupation and moving toward a two-state solution.[31] A draft diagnostic report was completed in January 2023 with recommendations on UN-Habitat entry points for supporting local government revenues, expenditure controls and net lending, citizen engagement and advocating for improved local government finance with both the Government of Palestine and the Israeli authorities through international donor pressure.

30 Based on internal mission reports.
31 Personal communication, Ahmad Elatrash and Haneen Zaqout, 4 Oct 2022.

Challenges

Administrative challenges UN-Habitat had trouble initially getting the Land-based Finance project off the ground due to some administrative issues related to internal project approvals, which delayed the project for 2 months (January–February 2020). Some administrative issues persisted, with the need for virtual meetings due to the covid-19 pandemic and agency limitations on consultant contracts. When the project was extended, there were again "internal delays in the initiation of [the] agreement with implementing partners" in Somalia.[32]

Somalia There were also issues with the modality of engagement in Somalia. The initial phase of the project was done under an agreement of cooperation with the Ministry of Public Works, and the project on Land-based Finance was embedded in the agreement on a much larger project. This meant that the local governments implementing the project did not always get the funding or impetus to do their part, and project reports were required from the Ministry, which was one step removed from implementation. At the same time, the local governments that UN-Habitat expected to lead implementation were not accountable for reporting on the agreement of cooperation, as they had not signed it.[33]

The lesson from this experience led to new arrangements in Somaliland in May 2022, where the agreement of cooperation has been established with the district governments. This has allowed for easier coordination with local partners. In Puntland, an agreement of cooperation was signed again with the Ministry of Public Works in June 2021 for the project activities extending into 2022, but UN-Habitat retained some activities related to community engagement for direct implementation by its staff. This has in many ways made implementation easier. However, there are still administrative hurdles related

32 Internal progress report presentation, April 2022, p. 4.
33 Personal communication, Balqesa Sheikh 22 Sep 2022.

to UN-Habitat's regulations to guard against financial risk in fragile contexts, which can make it difficult to operate quickly and effectively with the necessary cash on hand.[34]

Afghanistan While agreements of cooperation are the typical modality of engagement with development partners in Somalia, in Afghanistan the project was implemented directly with staff hired by UN-Habitat and embedded in the government agencies. One of the reasons was a government policy requiring cabinet approval of written agreements with development partners. This process takes 6–12 months or longer. The risk with direct implementation is that the staff implementing the project typically see their positions end with the project, resulting in lost capacity for the government and poor sustainability The CFA programme in Afghanistan had the positive experience of Kabul municipality deciding to retain the revenue mobilizers brought on by the project. For the subsequent Land-based Finance project, an agreement was made with the mayors to similarly retain revenue mobilizers, and this would have likely happened without the Taliban takeover.[35]

Political challenges Political challenges at multiple levels, from international to local, also caused delays in project implementation. At the international level, a dispute between Somaliland and the UN as a whole delayed project implementation in Somaliland for most of 2021.[36] At the national level in Afghanistan, the regulations on *safayi* procedures that were needed to improve administration in cities outside of Kabul were never adopted, causing a hurdle to effective project implementation.

Central–local coordination was also an issue. In Somalia, this was the case with challenges implementing the agreement of cooperation established at the central level but implemented at the local level. In Palestine as well, central-local coordination was problematic with the lack of support for local property tax administration from the Ministry of Finance posing a major barrier.

At the local level, there was some resistance to change in both Afghanistan and Somalia. At first, staff were not familiar with the new systems and reluctant to use them. Digitalizing and regularizing tax billing and revenue collections also made fraud and embezzlement more difficult, and revenue staff were unhappy to lose opportunities to expand their small salaries. For example, in Afghanistan, municipal revenue staff would sometimes make personal arrangements with property owners to charge *safayi* fees for a single storey on a two-storey building, but the new database clearly showed the number of storeys of each building, reducing this possibility.[37] During the CFA project, digitalization faced resistance and was delayed a year to 18 months in some cities. Municipal staff who were being deprived of embezzlement opportunities at first devoted their energy to finding errors in the property survey data and showing them the to the mayor in an attempt to undermine the new system.[38]

In Somalia, many staff have been reluctant to use new procedures. In Boroma, the mayor introduced a commission for staff who bill properties and collect taxes, and this has helped incentivize use of the digital system, which allows for easier billing and collection and also reduces corruption. Commissions have been introduced in the other three districts as well. However, government staff motivation still remains an issue amongst those working on the programme in Somalia.[39]

34 Ibid.
35 Personal communication, Aziz Ahmad Yar, 30 Sep 2022 and Antony Lamba, 5 Oct 2022.
36 Personal communication, Abdishakour Said, 20 Sep 2022.
37 Personal communication, Antony Lamba, 5 Oct 2022.
38 The mayors brought up concerns about the accuracy of the survey in a mayoral forum held under CFA. The issue was resolved with the explanation that the survey documented hundreds more properties than was previously possible, and that some errors were to be expected, which the staff were doing a good job identifying, but few errors did not invalidate the usefulness of the survey. The mayors eventually agreed (personal communication, Aziz Ahmad Yar, 30 Sep 2022).
39 Personal communication, Balqesa Sheikh, 22 Sep 2022.

Government turnover In Somalia, district administrations, including the mayor and district council as well as the district executive secretary, are frequently dissolved or replaced without warning, causing a disruption to ongoing projects. This is particularly true in Puntland. In Bosaso there have been two district administrations appointed since the project was launched. When the administration changes, new administrative, accounting and finance department employees are sometimes hired. Handover is not always smooth, and there are sometimes transitional gaps in information and data.[40] In Gardo, an interim administration had been in place and a new mayor was elected in mid-2022. Elections delayed the project, including the municipal elections in Somaliland (UN-Habitat 2022), with new mayors in Burao and Borama starting their terms at the end of 2021 and early 2022 respectively. Fortunately the new administrations have been supportive of the project. In Afghanistan, all government officials were replaced with the Taliban takeover, and the female municipal staff were not allowed into municipal offices (Yar 2022).

At the staff level, turnover is also an issue. In Somalia, staff turnover due to poor remuneration has threatened project sustainability, as capacity is lost when people leave their jobs.[41] In Afghanistan, over the last two decades many projects and programmes have failed to have lasting impacts because the government did not pay attractive enough salaries to retain the well-trained staff who took part. The experience of CFA in Kabul was different because of the arrangement with the municipality to retain programme staff at higher-than-normal wages, and that was the intention for the Land-based Finance project before the Taliban takeover.[42]

External shocks As the Land-based Finance project got started in March 2020, the covid-19 pandemic almost immediately affected it. Managing project implementation with pandemic-related restrictions was a process of learning and adaptation. Both Afghanistan and Somalia were affected, and infection rates went in waves, including in late 2021 with the omicron variant. In Afghanistan, the pandemic slowed communication and the ability of staff from headquarters to support the project. Both UN-Habitat and the municipalities reduced the number of staff significantly. Activities that required staff in the field, including consultations, data gathering in 2020, and then *safayi* invoicing and distribution in 2021, were delayed (Yar 2022). The situation in Somalia was similar, and even in 2021, "the pandemic became a top priority, necessitating the allocation of a significant priorities, finances and efforts to the pandemic response" (UN-Habitat 2022, p. 8) rather than the Land-based Finance project.

Security and conflict also caused major disruptions. In Somalia, the threat posed by Al-Shabaab was ever present, but in the project cities, the only major outbreak of conflict was in Bosaso, where militants stormed the central prison for Puntland, killing eight soldiers and releasing 400 prisoners. This disruption suspended project activities for 3 weeks in March 2022 (UN-Habitat 2022).[43]

The activities under Outcome 2 (scaling up) were also impacted by covid-19 and security issues. These reduced the ability to conduct in-person consultations and training. The initial plan was to bring groups together from a mix of global and local contexts, and through interaction to transfer knowledge and skills as well as obtain community contacts to support the citizenship-building aspects of the change model. The restrictions arising from the pandemic and security concerns meant this could not be done.

In Afghanistan, Taliban attacks on the project cities began in July 2021 and the resulting chaos, fear and insecurity required the project to be suspended between July and October. The project was finally officially closed in December 2021 due to the Taliban takeover (Yar 2022).

40 Personal communication, Balqesa Sheikh, 14 Nov 2022.
41 Personal communication, Abdishakour Said 20 Sep 2022. This was the case with JPLG as well (de Tommaso 2019).
42 Personal communication, Aziz Ahmad Yar, 30 Sep 2022.
43 Internal progress report presentation, April 2022.

Project results

Afghanistan

Revenues As a result of deployment of the integrated financial management system in four project municipalities and embedding of 20 revenue mobilizers, the *safayi* collection process was improved and supported. Between 2019 and 2020, compliance improved, and the share of *safayi* invoices that were paid increased by 25% on average, increasing significantly in three of five cities.[44]

However, *safayi* revenues actually fell in 2020 and 2021 in the target districts. In 2020, revenues went down by 26% on average compared with 2019, and in 2021, they shrank a further 13% compared with 2020 (Chapter 2, Figure 2.2). This was due to a number of factors. One is that in 2020, targeted municipalities focused efforts on responding to the covid-19 pandemic rather than collecting *safayi* back-payments, which fell by 45% on average. In addition, collection efforts were rendered more difficult by new hygiene requirements and the fact that people were poorer overall during the disruptions of the pandemic. Then in 2021, conflict reduced the government's ability to operate. In Kandahar municipality, which was most affected by the fighting, revenues fell 35% from the previous year (Yar 2022).

Expenditures In 2020, the changes to budgets of the five targeted municipalities did not follow any pattern when compared with the previous year. Bamyan and Jalalabad both shifted their planned and executed budgets away from development expenditures and toward staff expenditures. Jalalabad was the only government of the five to see a decrease in total revenues (36%). Bamyan's total revenues increased by 23% between 2019 and 2020, but expenditures still shifted away from development. In Herat, the planned budget for 2020 also shifted expenditures toward the staff category, but a slightly higher percentage of the budget was spent on development than in 2019. Kandahar was the only government with a planned and executed shift of the budget toward development. Mazar-e-Sharif's budget did not see major changes beyond an unplanned percentage increase in administrative expenditures.

In 2021, municipal expenditures were lower due to the conflict, with those cities with the most fighting seeing the biggest decreases. On average, expenditures fell by 35% compared with 2020, and development expenditures went down by 49%. "Municipal staff did not execute the development plan. Furthermore, the expenditures on staff salaries and administrative categories also went down as the staff benefits were reduced, and also some staff left their jobs after the Taliban's takeover" (Yar 2022, p. 36). Due to the pandemic and conflict, and associated decreases in revenues, decreased expenditures were to be expected and do not necessarily reflect the impacts of the project.

Taliban takeover After the government was overthrown by the Taliban on 15 August 2021, many government officials and staff left their posts or were removed. In September of that year, the Taliban announced a new cabinet, however, it included neither the Ministry of Urban Development and Land (MUDL) nor the Deputy Ministry for Municipalities (DMM), partners in the implementation of the Land-based Finance project. Through the remainder of 2021, the integrated financial management system was not operational, because it relies on the server in the DMM, which was closed. In early 2022, the DMM was reconstituted as an independent directorate called the General Directorate of Municipal Affairs (GDMA), but the new agency does not have the technical or financial resources to maintain and use the servers that house the integrated financial management system. Therefore, local servers used by municipalities are also inoperable (Yar 2022).

In some municipalities, an Access database and Excel spreadsheets that were developed

44 Compliance in Mazar-e-Sharif increased by 118%, in Kandahar by 43% and in Jalalabad by 22%. Compliance in Bamyan and Herat decreased by 31% and 29% respectively (Yar 2022).

under the CFA programme are available for *safayi* fee invoicing ad reporting. Since the Land-based Finance project ended, Bamyan and Jalalabad municipalities still use the spreadsheets for recording and reporting *safayi* fee revenue. They are smaller cities and have fewer properties to manage. Few districts in Kandahar and Mazar-e-Sharif use spreadsheets, partly due to the replacement of government staff with those who are unfamiliar with *safayi* procedures and also possibly because of damage to government offices and equipment that occurred during the fighting (Yar 2022).

As reported by *The Economist* (2022):

"the Taliban have kept official revenues flowing. A handful of holdovers from the former government are maintaining sophisticated financial-management software set up by the American-backed regime to run their revenue-collection systems."

However, the Taliban-backed government has not provided basic services with that revenue. It is unclear exactly how much revenue is being collected from *safayi* fees, because the public reporting of local revenues and expenditures that was institutionalized under the CFA programme has been discontinued. However, the *de facto* authority does seem to be effective at revenue collection, due to threatening enforcement measures. For example, in Mazar-e-Sharif, community meetings to raise awareness about *safayi* fees are attended by armed Taliban operatives who encourage payment by threat of force. Another example is from Bamyan, which already had the best *safayi* compliance rates of the 12 CFA project cities. In 2021, compliance went up by 18% while falling elsewhere.

"One possible reason for this increase could be the fear of strict action against the residents of Bamyan city who are from a different ethnicity than the Taliban," (Yar 2022, p. 30).

Ultimately, in terms of both revenues and expenditures, it is unclear to what degree mayors and local staff will be agents of the Taliban's agenda, operate independently, or largely cease to function (Yar 2022).

Somalia

Revenues During the Land-based Finance project, GIS-based property surveys were done in Bosaso and Gardo districts in Puntland, and the financial management information system was set up. Staff were trained in all four participating districts, address plates were generated and installed, and community budgeting meetings were underway as of the fourth quarter of 2022.

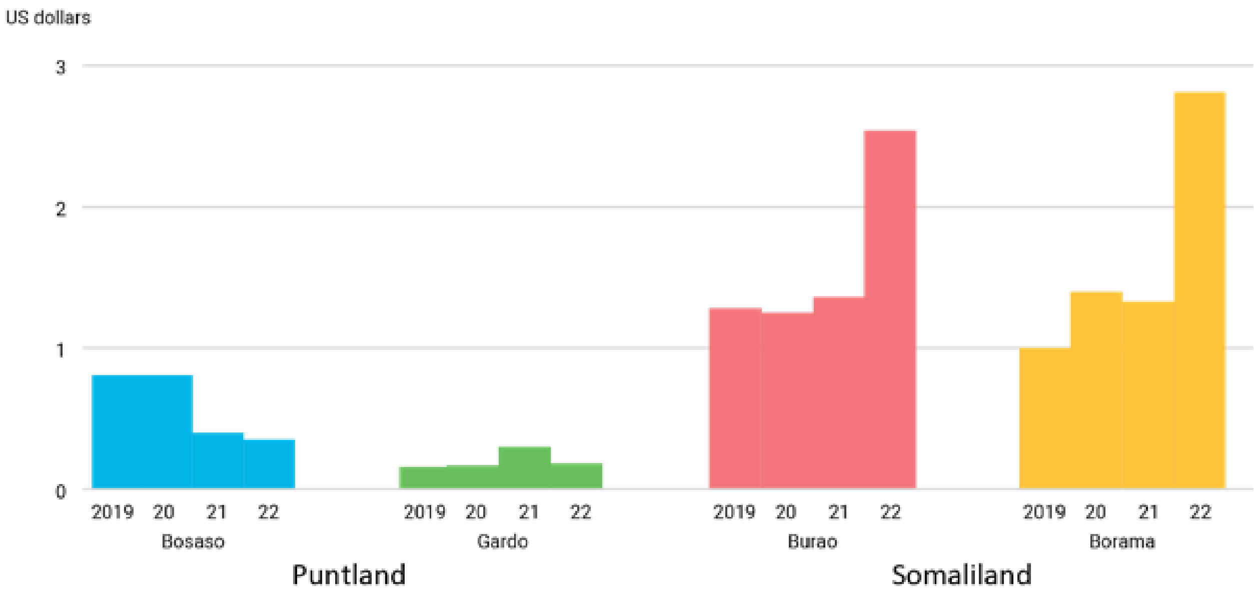
In spite of work to install the financial system, the number of registered properties went down in Burao by 9%, in Bosaso by 48% and in Gardo by 38% between 2018 and 2021.[45] This was because the computerized systems originally installed under the JPLG programme were different from the new system, and the data migration was problematic. The government administrations in all four cities have noted that data transferred into the new system is not accurate and often lacks GPS coordinates, and re-registering properties is sometimes the best solution. While government officials have worked to register properties, many have not been uploaded into the new system, which is controlled by the Ministry of Public Works rather than local governments (Fleck et al. 2022). Even with this challenge, the number of invoices delivered rose slowly but steadily every year from 2019 to 2022 in all four districts.

As for *per capita* property tax revenues received, Burao and Borama in Somaliland both showed large increases in 2022 after fluctuating slightly in prior years. Bosaso and Gardo in Puntland, on the other hand, saw their per capita property tax revenues decrease in 2022. This was due to a severe drought which threatened basic livelihoods and resulted in many residents leaving the area. However in Bosaso, revenues decreased in both 2021 and 2022 (Figure 6.3).

"While exact numbers are not available, it appears that a large percent of property tax payments are still made in cash to tax collectors as opposed to being made to directly to

45 No data was available for Borama.

Figure 6.3 Property tax revenue per capita, local governments in Somalia 2019–22



government accounts via bank transfers or mobile payments" (Fleck et al. 2022, p. 21).

Expenditures Budgeted figures show that capital expenditures increased in the years of the JPLG programme (2008–2018), prior to the Land-based Finance project. This comes with two caveats: the available figures do not represent actual budget execution, and capital budgets include government offices and vehicles which do not necessarily improve service delivery to communities (Fleck et al. 2022). Under JPLG, there is mixed evidence on whether expenditures improved service delivery. On one hand, as a national average, 70% of health and education expenditures were taken on by districts in 2021 instead of being 100% donor-funded as was previously the case (Mohamoud 2022). On the other hand, wages seem to represent a stable percentage of district expenditures even as total budgets have increased. There is no direct data on the quality of local government services or the perceptions of constituents. Those involved in the project have concluded that the virtuous cycle between increased tax revenue and improved service delivery "often does not materialize" (Fleck 2022, p. 4).

Between 2019 and 2021, total budgeted capital expenditures generally increased, with some fluctuations in 2020. The percentage of the budget devoted toward capital expenditures also rose in Bosaso and Borama, but fell in Gardo and Burao. This variability and the fact that activities focused on budgeted expenditures did not get underway until 2022 make the exact nature of the project's influence on expenditures unclear.

Outcome 2: Scaling up

The project experience in Afghanistan and Somalia was a learning process, and lessons were discussed and documented throughout. A number of knowledge products and documents have been produced. Some have been internal to inform the further work of UN-Habitat, and some are intended for publication. An event at the World Urban Forum in June 2022 share and discussed some of the project lessons.

As of December 2022, 11 sessions of the **Land-based Finance Learning Series** had been completed. A total of 118 participants had been connected with the series as of September 2022, with average participation in each session of approximately 50.[46] The majority of participants (62%) were based in UN and other intergovernmental or development agencies. Approximately 14% were from academia. The remainder were from the private sector, NGOs, independent experts, and some government officials.[47] Project staff based in Afghanistan and Somalia also participated, with staff from both countries presenting country-specific experiences.

A survey of participants in the learning sessions revealed that as of October 2022, 60% of respondents rated the overall quality of the learning sessions as "excellent" and nearly all other respondents (37.5%) as "good." Most survey participants were from UN-Habitat and partner organizations, with their work within or relevant to the project. The vast majority (95%) rated the relevance of the session to their lines of work as "excellent" or "good." Participants said they gained insights from the sessions and appreciated the opportunity to connect with others involved in the field.

Lessons

Many lessons have been documented already through the diagnostic assessments and evaluations of prior programmes in Afghanistan (CFA) and Somalia (JPLG), as well as written reflections on the Land-based Finance project (Fleck et al. 2022 and Yar 2022). Here we draw out additional lessons at two levels:

- **Lessons for project operations:** the approach to diagnostics, the modality of engagement (agreements of cooperation, or direct hiring of in-country project staff), and the ways operations are shaped by the threat of authoritarianism.

- **A re-examination of the theory of change,** reflecting on the project's contributions to it.

46 Internal progress update, December 2022.
47 Based on the internal concept note for session 5.

Lessons on project operations

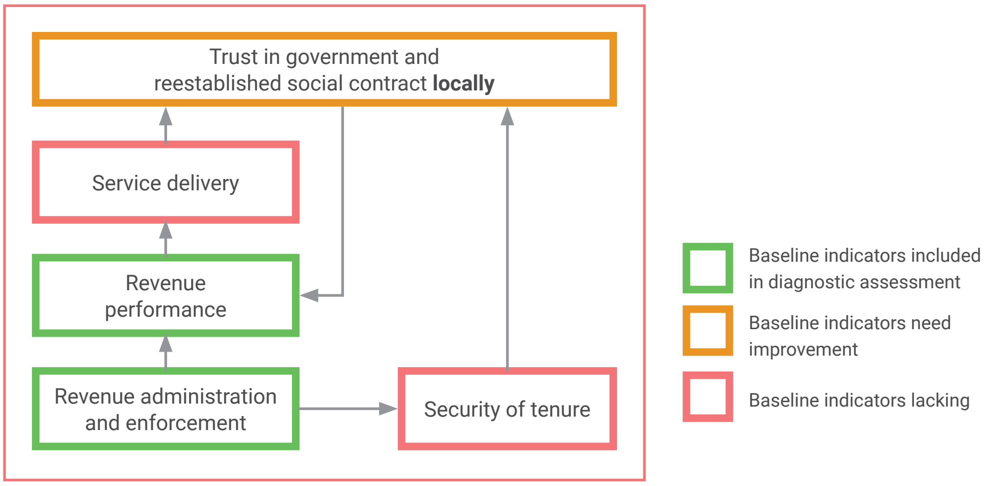
Diagnostics vs. learning through action and experimentation

In both Afghanistan and Somalia, the first year of the project (to December 2020) was taken up by diagnostic assessments. Developing workplans took additional months (to March 2021), using up 52% of the budget in Afghanistan and 42% in Somalia.[48] Delays due to administrative issues and the start of the covid-19 pandemic account for some of the time spent. However, given that both projects were in large part a continuation of prior programming (CFA in Afghanistan and JPLG in Somalia), which had already done evaluations,[49] the extensive diagnostic phase is worth interrogating. Still, the diagnostic assessments were a learning process, with adaptation along the way, and one achievement is the lessons about the diagnostic process itself. In addition, the diagnostic process was adjusted as the project was extended to DRC, where the focus was on developing baselines, understanding the context, and developing actionable recommendations with stakeholders.[50] Another approach to the diagnostic assessment was that used in Palestine, where the analysis was a bit lighter and nimbler with a focus on the political issues at hand.

There were useful components of the original diagnostic assessments. Project staff note that diagnostics are important for establishing baselines from which to track progress, and this learning has been carried over to the work in DRC.[51] Another important aspect is examining the regulatory and institutional

48 Internal progress report presentation, March 2021.
49 Although the programme evaluations of CFA and JPLG included recommendations, there had not been an effort to translate these into detailed workplans for the work in their respective countries.
50 Personal communication, Jonathan Yakutiel, 3 Feb 2023.
51 Personal communications, Balqesa Sheikh, 22 Sep 2022 and Jonathan Yakutiel, 3 Feb 2023.

Figure 6.4 Quality of baseline indicators for Outcome 1 in the theory of change



frameworks to assess what is possible for a short-term project to achieve:

"Regulatory frameworks and institutional roles should be clarified before program implementation. Changing existing regulations or establishing new legal frameworks can take a long period of time to be approved. The land value zoning regulation [in Afghanistan] was delayed for a long time. Recommendations for revision of the safayi regulation were not passed throughout the period of the CFA program." (Yar 2022, p. 39).

In addition, when implementing similar programmes in new countries, as in DRC and Palestine, it is critical to understand the context before attempting to employ a standardized approach or one that has worked elsewhere (OECD 2007).[52]

In spite of the real need for baselines and contextualization, there were challenges and shortcomings of the diagnostic assessment processes followed in Afghanistan and Somalia. For example, in some cases in Somalia, data initially obtained from the districts was not accurate, partly because there were no staff embedded with local governments to obtain it, and in-person visits were required to eventually retrieve accurate data.[53] In addition, some of the indicators needed improvement for setting useful baselines (Figure 6.4).

The metrics and information gathered by the diagnostic assessments were useful for understanding the regulatory and institutional context, and they gathered quality baseline data on revenue administration and revenue performance. Indicators included the number of invoices delivered, the compliance rate, the share of the budget going to the local revenue department, and revenues from land and property taxes.[54]

However, clear baseline indicators were arguably not established for the other building blocks under the theory of change for Outcome 1 (Figure 6.4): quality of service delivery, security of tenure and trust in government. This was the beginning of a dichotomy in project performance between strong performance on the revenue side and weak performance on the expenditure and community impact side. More specifically, the following building blocks lacked adequate indicators within the diagnostic assessment.

52 Personal communication, Charles Mukandirwa Wetemwami, 3 Oct 2022.

53 Personal communication, Abdishakour Said, 20 Sep 2022.

54 Internal project report, revised indicators, November 2020, Annex A.

Indicators did reflect on **trust in government and the social contract**, including the number of community-identified projects implemented by the local government and the number of governments with publicly available budget information. However, the most direct metric of trust in government was "perception of transparency and participation by target communities… a qualitative indicator that will measure general feedback on transparency and participation from target communities. Stories will be collected towards the end of the project."[55] No baseline data was collected on this indicator, and no final data was collected in either country.

The indicators related to the **quality of service-delivery** were problematic proxies. These included indicators related to the local development budget and the share of wages in the local budget, which were established at the outset of the project and included in the original concept note (Annex A). The assumption was that a higher wage bill means a lower percentage of expenditures go toward service delivery. However, in both Afghanistan and Somalia, high rates of turnover among local government staff have been a major threat to the sustainability of project achievements and capacity building, and low wages played a central role in high turnover.[56] Therefore, increasing the wage bill may be necessary for good governance including service delivery. In addition, development expenditures do not always serve the population directly, for example, expenditures on government offices and vehicles in Somalia (Fleck et al. 2022). In Afghanistan, a large proportion of local development budgets were spent on purchasing equipment (Yar 2022).

Small governments typically rely heavily on higher levels of government for major projects, so identifying which local level expenditures are actually associated with service delivery is important.[57] In the case of Afghanistan, street cleaning and sanitation services are most directly tied to the *safayi* fee. In Somalia, local governments are responsible for a range of services (water, electricity, transport, schools, streetlighting, etc.), which could be tracked with more specific budget categories related to the services provided directly to the population. Even qualitative indicators showing the list of projects or more description on the nature of expenditures would have been useful.

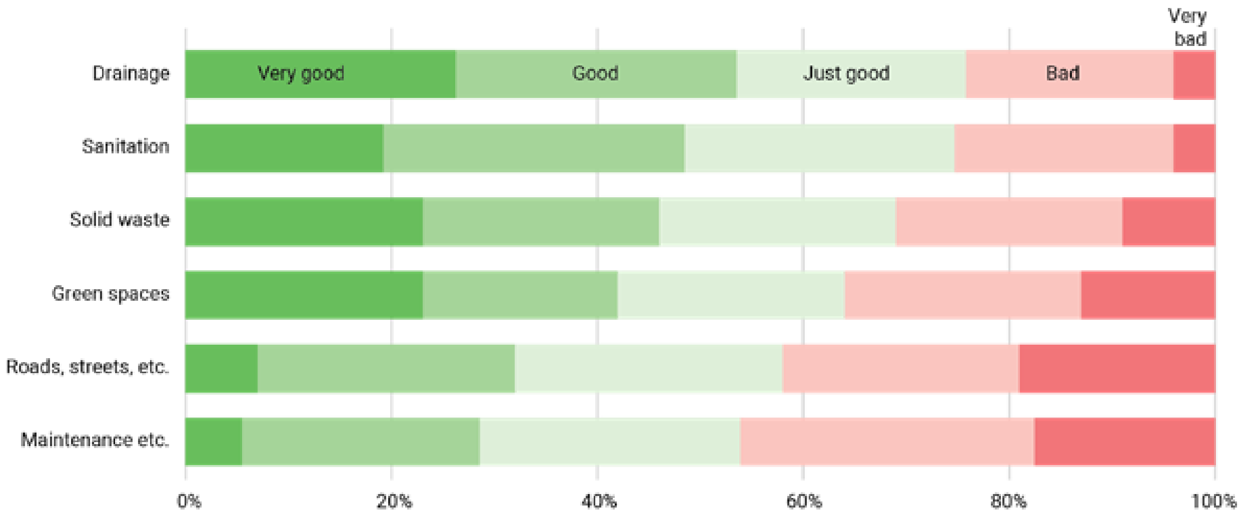
Even better would be data on the perception of local service delivery by the populations served. For example, in Afghanistan, a survey was done in 2017 separate from the UN-Habitat project showing the perception of local service delivery by category of services (Figure 6.5). Surveys can take significant time and funding. However, if citizen engagement is already being done to assess perceptions of transparency and participation (as noted in the indicator above), ratings of service delivery is an easy addition. It should also be noted that resident surveys are not the only way to gather this information, and if community engagement was incorporated earlier in the project through meetings or dialogue with community leaders, qualitative data on perceptions could be gathered.

A deliberate decision was made not to use the resources that would have been required for the originally planned survey of stakeholder perceptions (associated with Outputs 1.3 and 1.4 in Annex A) which could have shed light on perceptions of service delivery. This left a gap in the knowledge and understanding of critical components of the project. While one of the strengths of the project as a whole was the knowledge it generated, this remained a major gap, illustrating the difficult trade-offs between high quality metrics and the resources they require.

Related to **security of tenure**, two indicators were selected:

55 Internal project report, revised indicators, November 2020.
56 Personal communication, Abdishakour Said, 20 Sep 2022, Balqesa Sheikh, 22 Sep 2022 and Aziz Ahmad Yar, 30 Sep 2022.
57 Personal communication, Abdishakour Said, 20 Sep 2022.

Figure 6.5 Example of survey results on perceptions of local services from Afghanistan, 2017



Source: Afghanistan diagnostic assessment (UN-Habitat 2021)

This data was referenced in the Afghanistan diagnostic assessment but was not associated with the project and was collected for a different set of cities from those included in the project.

- The number of properties paying property tax that are not documented
- Perception of tenure security by target communities, "a qualitative indicator that will measure general feedback on tenure security from target communities. Stories will be collected towards the end of the project".[58]

The first indicator is potentially useful, but does not actually capture whether registration impacts security of tenure, perceived or actual. Again, no baseline data was collected on the qualitative perception indicator.

Another shortcoming of the diagnostic assessment methodology used in Afghanistan and Somalia was that the initial assessments did not lead to a prioritization of activities that could be used for the workplan. Instead, the diagnostics resulted in a list of problems, many of which were already known or suspected. This illustrates the fundamental difficulty in making the leap from a diagnosis to a prioritized list of solutions and entry points for action in complex contexts.

Rather than simply gathering background data, project staff recommend that the diagnostic assessments should be action-oriented and lead to a prioritization of strategies that takes into account the amount of time and effort required and the expected benefits, while acknowledging that some trial and error is likely inevitable. Practical considerations should also be included, such as the timeline of major political milestones (e.g., city council elections) and the ability of the local government to implement capital projects.[59] In addition, the diagnostic and strategy formulation should take political will into account, as a central factor in the implementability and sustainability of various strategies, and political will should include not just what is said but the incentives of various power players.[60] Government officials may not initially be willing to discuss sensitive issues such as corruption. In Somalia, one-on-one relation-

58 Internal project report, revised indicators, November 2020.

59 Personal communication, Abdishakour Said, 20 Sep 2022.

60 Personal communication, Ahmad Elatrash and Haneen Zaqout, 4 Oct 2022.

ships between project staff and government officials built over lunches and follow up meetings was necessary to lay a foundation of trust for candid discussions on sensitive topics.[61] Relatedly, the diagnostic process should involve local stakeholders and give them ownership of the findings, recommendations and resulting workplan.[62]

While it is appealing to imagine ways that data collection within the diagnostic assessments could be expanded and improved, in reality, a fundamental shift away from extensive diagnostics and toward learning through action or experimentation may be a more useful way forward. Beyond establishing baselines, much of the project implementation can proceed in parallel with additional analysis and assessment.[63] One of the characteristics of fragile states is the potential for unexpected factors and situations to affect implementation. Rather than doing a comprehensive assessment and thorough planning, a nimbler approach that begins on the ground early on and adapts along the way may be a better fit. Lessons can perhaps be better learned along the way. In fact, the diagnostic assessment report from Afghanistan, drawing upon the lessons of CFA, notes the usefulness of an "adaptive problem-solving approach," that resolves challenges as they arrive and adapts to emerging realities (UN-Habitat 2021).

One example of unexpected factors impacting implementation is from Afghanistan during CFA, when the hesitancies of municipal staff to use digital systems stalled the project for over a year in some cities, and things could not move forward until the issue was addressed.[64] Another example is from Somaliland, where the project got delayed due to high-level political issues between the government of Somaliland and the UN, requiring the project to start almost from scratch in early 2022 with a mission to introduce the project to mayors. While understanding the situation is important, unexpected hurdles, delays, and turnover of government staff are reasons that taking time upfront for stakeholder engagement in detailed planning in advance of action has limitations.

Learning along the way can be taken one step farther with a deliberately experimental approach, where the data to answer key questions is generated during the project. A quasi-experimental methodology can be part of initial design, with pilot projects that vary key elements and the tracking of non-project localities as a control group (i.e., to serve as a counterfactual with records of outcomes but no intervention). One example of such approach comes from DRC, where the government randomized the rollout of a tax collection campaign across the 356 neighbourhoods in the city of Kananga. This enabled testing of the effects against a control group and led to conclusions about tax payments and civic engagement (Weigel 2020). In a similar vein, one review of donor engagement in fragile states recommends a "venture capitalist approach" that takes risks and builds on successes. Donors should consider "testing what works in different settings, with different communities. A more entrepreneurial, venture capitalist approach is needed, with further investment in those areas that show progress" (Cooke and Downie 2015, p. 13).

In spite of its shortcomings, it should be noted that the diagnostic approach did facilitate learnings and knowledge products (Outcome 2). Because generation of knowledge was a central goal of the project, taking the needed time for thorough diagnostics had its benefits. In addition, the diagnostic approach had already changed by the last year of the project, particularly when it came to assessing the situation in Palestine. There, a lighter and more nimble diagnostic approach was used, drawing upon the expertise of the local office, taking into consideration the changing political environment around the devolution of local revenues, and focusing discussions with stakeholders on what was possible rather than simply the situation at hand.

61 Personal communication, Balqesa Sheikh, 22 Sep 2022.
62 Personal communication, Jonathan Yakutiel, 29 Sep 2022.
63 Personal communication, Balqesa Sheikh, 22 Sep 2022.
64 Personal communication, Aziz Ahmad Yar, 30 Sep 2022.

Lessons on diagnostics

Diagnostics are needed for establishing baselines, understanding regulatory and institutional frameworks that often dictate what is and is not possible in a limited-duration project, and understanding the local context.

Close engagement is needed with local governments to collect accurate data and establish trust, and the more embedded and collaborative the approach with local government the better.

Diagnostics should **engage the intended beneficiaries** of a project in order to assess their needs. This can also allow for monitoring and assessment of critical project components such as trust of government, quality of service provision and security of tenure. Surveys, community meetings or engagements with community leaders early in the process can provide a much-needed perspective and help set baselines. Various types of engagement (surveys, interviews, stakeholder meetings) have varying levels of cost and time requirements which should also be factored in.

The diagnostic process should be designed at the outset to feed into the **prioritization of strategies**, and should gather information for the purpose of decision-making and action. Spelling out the process for prioritization of strategies in advance of data gathering, and mapping the desired data to the decision-making framework can improve diagnostic efficiency.

Workplan formulation should take into account practical considerations including political milestones like term limits and elections, the capacity of local governments to implement various types of interventions, political will and the motives of various actors.

It is necessary to strike a balance between pre-project factfinding and **learning during implementation**. Beyond baseline data collection, much analysis can be conducted during implementation. An adaptive approach may be more useful than detailed planning for the unpredictable situations that are inevitable in fragile states. However, more detailed diagnostics are useful for generating knowledge. This is particularly the case for diagnostics that are tracked alongside project interventions to shed light on what works and why.

A **quasi-experimental** or “venture capitalist” approach can be deliberately built into project design to further enable learning and testing of various interventions.

Different approaches to diagnostics are further discussed and accompanied by a set of diagnostic questions in Chapter 5 of this volume.

Modality of engagement

In Afghanistan, UN-Habitat staff were embedded directly within government agencies to implement the project, whereas in Somalia, an agreement of cooperation modality was used to provide funding for government-led implementation. There are pros and cons of both approaches, and some lessons can be taken from the experiences in Afghanistan and Somalia, while recognizing that the right modality of engagement depends upon the context.[65]

In Somalia, the agreement of cooperation was first signed at the national level by the Ministry of Public Works and then in May 2022 directly with local districts in Somaliland. In Puntland, the agreement of cooperation continued to operate at the national level, but UN-Habitat implemented community engagement activities directly with organization staff. As noted above in the section above on administrative challenges, there were some problematic aspects of the agreement of cooperation modality at first. The UN-Habitat

65 Personal communication, Antony Lamba, 5 Oct 2022.

Awareness-raising to foster Safayi fee payment. Photo: Anthony Lamba

project was initially embedded in an agreement pertaining to a larger project, and was not a focus of the government. In addition, the third-party involvement of the Ministry of Public Works created a challenge, and at the start, municipalities did not have the money or capacity to implement activities of the project.[66]

By comparison, the Afghanistan project demonstrates that embedding UN-Habitat staff gave the organization more control over project activities than with an agreement of cooperation, and project decisions were less susceptible to local political pressures. In Afghanistan, embedded staff assisted in capacity building by training municipal staff, while at the same time producing outputs, enabling municipal staff to learn new processes in real time. Direct engagement also provides for better monitoring of progress and can therefore lead to better results.[67]

Direct engagement is not without its challenges. One pertaining to fragile states is the administrative restrictions placed on funds by UN-Habitat, which can slow operations and make procurement and hiring difficult. Beyond financial restrictions, UN-Habitat is large, not particularly nimble, and is subject to its own administrative challenges.

One of the major benefits of agreements of cooperation is their potential for creating a better sense of government ownership, which is critical to project sustainability.[68] The diagnostic report for Afghanistan (UN-Habitat 2021, p. 66) included lessons on ownership, and notes the importance of the deep involvement of municipal authorities: "Municipal authorities need to be included from the beginning of the programme to ensure their active and willing participation, to resolve local challenges, and prevent delays."

In Somalia, the agreement of cooperation did build ownership, particularly when it was done at the local level. Operating the agreement of cooperation and being accountable for the finances, accounting, activities and workplan was a capacity-building process in itself and created avenues for improving local government operations more widely. UN-Habitat supported this through trainings, support staff in the field, and troubleshooting. District governments say they have learned a lot from

66 Personal communication, Balqesa Sheikh, 22 Sep 2022.
67 Personal communication, Antony Lamba, 5 Oct 2022.
68 Personal communication, Balqesa Sheikh, 22 Sep 2022 and Antony Lamba, 5 Oct 2022.

the agreement of cooperation and have seen lessons transfer to other projects and day-to-day activities.[69]

In Somalia, the trust engendered by the agreement of cooperation has created ownership among local governments who have then taken on project activities and even added their own funds to further them. For example, in Borao, the local government has noted that there are more properties needing registration than what is planned for by the project, and have asked if they can register more using their own funds. The mayor has made a provision for registering additional properties in an ongoing way and has thus taken ownership of the registration process.[70]

In Afghanistan, by contrast, the mid-term review of the CFA programme in 2020 found that...

"the government's involvement in the programme and its ownership of the programme objectives have been less than expected and there are concerns about how this might affect the programme's sustainability." (Van Houten and Ibrahim 2020, p. xvii).

During the Land-based Finance project, it was always clear that staff were hired by UN-Habitat, and were not municipal staff. While the transfer of knowledge and capacity was appreciated, there was a divide between the project and the government. Government staff referred to it as a "UN-Habitat project," whereas in cases where an agreement of cooperation has been used in Afghanistan, ownership is better and government staff consider the project to be theirs. They have owned both the mistakes and the successes.[71]

There can be ways of achieving ownership and building lasting capacity even under a direct implementation arrangement. In Afghanistan, CFA staff were brought on by Kabul municipality when the programme ended. That was the plan for other cities under the Land-based Finance project, recognizing the benefits for local government capacity and sustainability of project outcomes.[72] However, the absorption of project staff might not be possible everywhere. Municipalities often do not have the capacity to offer terms or pay that compare with donor-funded projects.[73]

Ultimately, the decision to use a direct implementation modality, and an agreement of cooperation or other arrangement depends on both the local context and the nature of the project. No one "best practice" can be defined. In the Land-based Finance project, the modalities used were largely due to the practicalities of individual situations. In Somalia, agreements of cooperation are the standard way donor projects are implemented.[74] In Afghanistan, an agreement of cooperation was not an option for the project, because the process of establishing them can take a year or more.[75]

In addition, the right modality depends on the capacity and experience of municipal staff and whether the project is introducing new procedures and technology. If the project is beyond the current technical capacity of government staff, it is useful to embed external staff and ensure that either all skills are transferred, or staff remain in with the government to carry on the introduced tasks. For example, in Afghanistan, a software developer was embedded with the Deputy Ministry for Municipalities to train integrated financial management system teams and resolve operational and technical issues in a timely manner. This was an effective approach to bring the new technology on board (Yar 2022). However, in cases where government staff are not introducing new procedures or technologies, as was the case in Somalia, where the majority of the technology being

69 Personal communication, Balqesa Sheikh, 22 Sep 2022.
70 Ibid.
71 Personal communication, Antony Lamba, 5 Oct 2022.
72 Personal communication, Aziz Ahmad Yar, 30 Sep 2022.
73 Personal communication, Antony Lamba, 5 Oct 2022.
74 Personal communication, Antony Lamba, 5 Oct 2022.
75 Ibid.

used was introduced in 2009 under JPLG, an agreement of cooperation modality is more appropriate. In those cases, municipal staff can conduct activities with less outside guidance.[76]

Lessons on modality of engagement

The decision to use a **direct implementation** modality, an agreement of cooperation or other arrangement depends on both the local context and the nature of the project, and there is no single best practice.

If an **agreement of cooperation** is used, it should be with the government entity in charge of implementing the project, rather than a higher level of government that is one step removed.

Direct implementation provides better opportunities for **capacity building** and project oversight. However, an agreement of cooperation is more likely to create strong government ownership of the project, which is beneficial for **sustainability**.

Direct implementation is more likely to be needed in cases where **new technologies** and procedures unfamiliar to government staff are being introduced. If project implementation does not require the use of new systems, an agreement of cooperation may be more appropriate.

If direct implementation is used, either capacity to implement project activities must be completely transferred to government staff by the end of the project, or project staff should be absorbed into the relevant government agencies to provide for the **sustainability** of project outcomes.

76 Ibid.

Project implementation and impacts in authoritarian contexts

The risks of revenue enhancement in fragile settings came startlingly into focus with the Taliban takeover of Afghanistan in August 2021. In addition to the humanitarian crisis, for the project, the loss of so much of what had been achieved was a major blow. Even worse is the idea that effective tax systems put in place by the Land-based Finance project are now being used to extort the intended beneficiaries without providing basic services (The Economist 2022). In such contexts, considerations related to project sustainability take on a new meaning. Is it to be hoped for that revenue collection and compliance would remain strong when it is an authoritarian government collecting the revenues by force?[77]

A pertinent question, and one that this project shows is important but cannot necessarily answer, is how to mitigate the risks if regime change can lead to a misuse of political power and misuse of public resources. Strengthening the fiscal contract assumes that tax bargaining is in place, but there is no bargaining with a gun to one's head.

As explored in more detail in the following sections, tax compliance can be achieved either through trust in government or through effective enforcement – a carrot or a stick approach. The tools provided by UN-Habitat and donor-funded projects can both strengthen taxpayer morale and incentives payment through better citizen engagement and better services (the carrot), and they can improve the government's enforcement capacity (the stick). For example, revenues from the market stalls fee being addressed by project support in DRC relies on vendors using public markets rather than informal ones. UN-Habitat assistance can help local governments

77 OECD's principles for good international engagement in fragile states include "do no harm," recognizing that "international interventions can inadvertently create societal divisions and worsen corruption and abuse, if they are not based on strong conflict and governance analysis, and designed with appropriate safeguards" (OECD 2007, p. 1).

improve the facilities and vendor services provided at public markets to attract vendors (the carrot), or can map out informal markets to aid the city in their demolition (the stick). Already, a recommendation coming from a workshop with the local governments is that "all illegal markets must be eradicated",[78] suggesting the government's interest in an enforcement-based approach that does not rely on achieving government trust.

It may be true that some enforcement is necessary to achieve tax compliance, and "there is no clear dividing line between mildly coercive taxation and the firm enforcement of the law. Perceptions of the same event may differ radically" (Moore 2007, p. 30). However, projects should try to refrain from supporting modes of enforcement that can be used to threaten life, safety or livelihoods (e.g., enforcing market-fee compliance by razing informal stalls, instead of providing or withholding quality public services, as described above). Allowing the beneficiaries to weigh in on proposed enforcement mechanisms could be a failsafe. Taxpayers have an interest in eliminating free riders, but are also more keenly attuned to which enforcement measures may become a threat to their lives than outside agencies are.

Afghanistan is not the only country facing the risks associated with authoritarianism. In fact, the literature on development suggests that democracies have not necessarily outperformed authoritarian regimes and that it is not about the regime type but the underlying mechanics. Even apart from any threat of a militant insurgency, internationally recognized governments are not always far from authoritarian tactics. In fact, whether governments have the interests of their populations at heart is up for debate in many contexts, not just fragile ones. The reality of donor-funded technical assistance is that both donors and the agencies they fund draw a line about which governments are acceptable to assist and which are not. This line was the reason the project in Afghanistan was stopped, and the reason that the project could not be extended to Syria. But this line is to some degree arbitrary.

Is it conceivable that projects that address the fiscal and social contract could have benefits for the affected populations in authoritarian settings? Staff in Palestine who have worked on land registration and spatial planning which are governed by the occupying Israeli authorities note that after 10 years of preparing 123 plans, only six have been fully approved within the Israeli system. However, they consider the process to be as important as the output. They note that EU member states have invested in the master plans, which helps strengthen advocacy for ending the Israeli occupation, and the process has fostered the resilience of the participating communities.[79]

After the Taliban takeover in Afghanistan, some project staff proposed that the project continue, focusing on delivering services through community groups rather than the government. But there was not much buy-in, since community groups cannot collect revenue, and creating parallel service delivery structures that operate alongside local governments is potentially problematic.[80] Another idea was to support government agencies in delivery services but without transferring any funds to them, but this was deemed not feasible. The conclusion was that the project simply is not feasible in the type of environment the Taliban have created and with the restrictions that donors have put in place for a mixture of technical and political reasons.[81]

Lessons in authoritarian contexts

Fragile states sometimes present the risk of **authoritarian government actions** that would misuse taxation mechanisms to extort the population without using revenues to provide public services.

78 Internal project workshop report, August 2022, p. 24.

79 Personal communication, Ahmad Elatrash and Haneen Zaqout, 4 Oct 2022.

80 Personal communication, Aziz Ahmad Yar, 30 Sep 2022.

81 Personal communication, Antony Lamba, 5 Oct 2022.

Citizens paying *safayi* at the bank located inside the municipal premises. Photo: Anthony Lamba

When strengthening tax **enforcement**, UN-Habitat should attempt to identify modes of enforcement that do not threaten life, safety or livelihoods. Allowing taxpayers to weigh in on proposed enforcement mechanisms can help identify tools that reduce the free-rider problem without threatening their lives.

The degree to which governments work in the **best interests** of their constituents falls along a spectrum, including in democratically governed states. The international community draws a somewhat arbitrary line about where engagement is possible and where it is not. There may be benefits to working even in authoritarian contexts if the project is properly tailored, but in some cases, engagement on fiscal issues is impossible.

Lessons on the conceptual framework

The projects in Afghanistan and Somalia tested UN-Habitat's conceptual framework and shed some light on the linkages at play between revenue administration and revenue performance, expenditures on service delivery, and the role of citizen power and influence. Some lessons can be taken to inform future engagements.

Revenue enhancement and revenue performance

It should be acknowledged that based on the significant increase in revenues under the CFA and JPLG programmes that UN-Habitat's land and property tax administration interventions are effective for revenue enhancement. These interventions included GIS-based surveying and digital property registration, automated invoicing and digitalized tracking of property tax registries and payments.

However, during the Norad-funded project, land-based revenues fell in Afghanistan's participating municipalities and were mixed across project districts in Somalia. Covid-19 was partly to blame for drops in revenues, particularly in 2020, and the conflict in Afghanistan also reduced the local governments' ability to operate in 2021. In Somalia, a major challenge was the transfer of property records between computerized systems, when many property records did not correctly transfer, as well as severe drought, particularly in Puntland. Still, land- and property-tax revenue systems were undoubtedly stronger than they would have been without the project.

Beyond improvements in property registration digital record keeping, achieving increased revenues through other interventions remained elusive. Specifically, changes that required policy updates in addition to changes in administration stalled. Changes to valuation have been proposed in Somalia, but it is unclear if and when they will be approved. A valuation methodology developed in Afghanistan during CFA was successfully piloted in Kabul; however,

"securing formal approval for the new land value zoning (LVZ) methodology has been a lengthy process involving extensive consultations that lasted three years. The LVZ valuation method for safayi was developed in 2017

but was only approved by the cabinet in late 2019 to be used in Kabul as a pilot. Moreover, [Kabul Municipality] is currently awaiting formal endorsement from the President before implementing the new property values." (Schulze and Shakir 2021, pp. 49–50).

Other regulatory reforms related to the *safayi* in Afghanistan had also been awaiting approval when the Taliban overthrew the government.

Administrative improvements have been largely erased by the Taliban takeover in Afghanistan. Prior to Taliban takeover, and after the completion of the CFA programme, some municipalities in Afghanistan continued registering properties on individual requests from property owners, but not at the same scale as under CFA. Kabul municipality, which retained 75 CFA programme staff after the programme was closed, maintained the improved billing process. Other CFA municipalities retained the property survey data from CFA as well as the capacity to produce *safayi* bills, but there is no information on whether they maintained the improved billing process.[82]

Even the enhancements to property registration and property tax billing in Somalia may not prove sustainable without donor support. Already issues of municipal staff turnover and various disruptions have presented challenges. And, as noted by project staff, there is "vested interest in the status quo" (Fleck et al. 2022, p. 28). Concerningly,

"the challenges that the local governments in Puntland and Somaliland are having in regard to the accuracy of taxpayer data and fully registered taxpayers is likely to also be a product of lack of interest from within the administration… local governments often engage in hollow or half-hearted reform, squeezing higher tax contributions out of low-income taxpayers that pose no significant strategic risk, while refraining from broader reform that may stir-up significant political push-back. The fact that no local government in Puntland and Somaliland has attempted to copy the revenue reforms carried out in the 16 districts of the JPLG programme, does indeed corroborate the existence of deeper issues of political incentives (UNCDF 2019)," (Fleck et al. 2022, p. 29).

In addition to issues of sustainability, property tax reforms in Afghanistan and Somalia also fell short of achieving the benefits that make land-based revenues in particular so appealing:

- **Not a benefit tax** For the most part, with the exception of efforts to link *safayi* payments with services in Afghanistan under CFA, land and property tax payments were not linked to services provided by the local governments or other tangible benefits to taxpayers.
- **Do not capture value** In spite of efforts to improve valuation in both Afghanistan and Somalia, local governments that participated in the project do not have a way to track or capture increases in the value of properties through existing tax mechanisms. It was noted that in Somalia, "property assessment without linking to market value result[ed] in unfairness and lowered tax morale" (UN-Habitat 2022, p. 10).
- **Not incentivizing utilization of vacant land or deterring speculation** In Somalia, taxes on vacant land presented a challenge, as it was difficult to locate and invoice the owners.[83] In Afghanistan, the *safayi* is not applied on vacant land (Yar 2022).
- **Not a progressive or equitable tax** In Somalia, it was determined that the elite were less likely to comply with taxes (Fleck et al. 2022). In Afghanistan, a similar pattern emerged with *safayi* default rate being higher among the high-value property owners as compared to smaller/

82 Personal communication, Antony Lamba, 15 Nov 2022.

83 Personal communication, Balqesa Sheikh, 22 Sep 2022.

low-value properties for both commercial and residential properties.[84]

Perhaps land-based revenues are not the best choice for local governments in fragile states. "In many countries, the single most unpopular tax is the annually recurring tax on land and property" (Walters 2020). Therefore, local governments in fragile settings may want to work on a politically easier revenue source that still builds the social contract. Or, if the intended focus, land-based revenue instruments should be paired with efforts to link the resulting revenues to service provision.

The best approximation of a benefits tax was when *safayi* was tied to street sanitation services under the CFA programme, with the highest paying *gozars* getting improved services. Fees for visible services may be an easier target for strengthening the relationship between taxpayers and service provision. Fees for services reinforce the idea that taxes should pay for a public benefit, and strengthens both sides of the tax-bargaining equation: governments are able to earn tax compliance through service delivery, and citizens are able to earn services by paying taxes.

Fees for specific services also help solve the problem of coercive enforcement. The simplest way to enforce fees for services is to withhold services. In contrast, land and property taxes lend themselves to more heavy-handed enforcement mechanisms, such as the removal of doors in Somalia.[85] Similarly, taxes on movable goods can also strengthen citizen bargaining power, as the taxed business or individual can take the tax base elsewhere, serving as an incentive for local governments to tax fairly and spend effectively.

On the other hand, the benefits of land-based tax administration related to security of tenure are perhaps still in effect. The project staff in Somalia were excited about the street-addressing component of the project and the benefits it could bring. In Afghanistan, proof of *safayi* payments was used by courts as evidence of claims to property.[86] As Mansour and Schneider (2019, p. 16) write in their guideline on tax policy in fragile states,

"establishing a cadastre is an important step in assessing property rights, securing them for real estate transactions, and facilitating their use as collateral for credit and investment. A cadastre is therefore an objective to be pursued for its own sake in a fragile state, where these rights may be contested more than they would be elsewhere".

Therefore, a careful weighing of the benefits and risks associated with property taxes compared with other local taxes and fees is warranted.

Lessons on revenue enhancement and performance

Many aspects of UN-Habitat's approach property tax administration were effective in **raising revenues**, including surveying and registration of properties and digitalizing invoicing and payment tracking systems.

Interventions that require **policy changes** in addition to administrative changes, such as revisions of the valuation procedure, take a long time and did not have time to bear fruit under the current project. While important, regulatory interventions may not be feasible for projects that only last a few years.

Although revenue administration was improved, the specific benefits associated with land-based taxes (the association with various local public benefits, capture of windfall value, encouragement of pro-

84 Personal communication, Antony Lamba, 15 Nov 2022.

85 This is a common practice among local governments enforcing tax payments. The removal of a door leaves a house open to stray animals such as goats, which can cause significant damage (personal communication, Balqesa Sheikh, 22 Sep 2022.

86 This is in spite of official regulations that *safayi* payments cannot be used as proof of ownership (personal communication, Aziz Ahmad Yar, 30 Sep 2022).

ductive use, equitable tax burden) were not achieved. The closest the tax got to being linked with taxpayer benefits was under CFA when the *safayi* was linked to street-sanitation services. Taxes and **fees for specific services** may therefore be an easier bridge to the fiscal contract in fragile settings and are less likely to result in coercive enforcement mechanisms. Taxes on movable goods may also incentivize better governance. More work is needed to ensure that property tax reform would be able to support service provision and strengthening the fiscal contract; otherwise, user fees are likely a better choice.

However, land registration, street-addressing and a fiscal cadastre serve important **tenure**-related purposes beyond tax revenue which can be a knock-on benefit of enhanced property tax administration.

Careful consideration of the **pros and cons** of various local tax and fee instruments is warranted.

The link between revenue enhancement and service delivery

The original conceptual framework for the project assumed a link between improved revenues and improved expenditures, i.e., better local service provision (Figure 6.2). Under a tax-bargaining framework, the government has an incentive to use tax revenues to delivery services, which can be tested in a theoretical economic model:

"the core model gives a role to intrinsic reciprocity in fostering tax compliance.… tax compliance is higher when then public good is provided and lower when the elite chooses to spend on a transfer to itself. … The model captures the kind of tax morale argument which is invoked to understand why Scandinavian countries are able to obtain high levels of tax compliance even at high marginal rates of taxation. This is because their governments also provide public goods and citizens respond to that by reciprocally paying more tax" (Besley 2020, pp. 10, 12, 16).

The project was designed drawing upon some of the relevant literature. An influential paper by the IMF (2017), *Building fiscal capacity in fragile states*, recommends starting with revenue interventions that gather information on the tax base, as was done in Afghanistan and Somalia with the initial work on property registration. However, the IMF approach is at the national level, and the authors are concerned with improving basic public financial management rather than trust in local government. Research done for the government of Norway to help guide engagement in fragile states (Fjeldstad et al. 2018) draws upon the IMF approach. However, Fjeldstad et al. (p. 7) also acknowledge that taxation does not always lead to community influence in decision making, and that "increased domestic revenue generation will only lead to improved development outcomes if the revenue is translated into productive public expenditure". They note that the idea of the "governance dividend" produced by taxation was developed in Western countries.

One of the biggest lessons for project staff was that the link between revenues and expenditures is not automatic (Fleck et al. 2022). Even in an external project cited by the team for showing that property taxes lead to increased civic engagement in DRC (Weigel 2020), the results also show no systematic differences between taxed and control locations in terms of how much citizens perceive the provincial government to be providing services that their taxes should pay for. Therefore, while the expectation of and demand for services increased, the evidence suggests that actual service provision may not have.[87] There is some ambiguity about the project outcomes related to expenditure performance in Afghanistan and Somalia,

87 This raises an ethical issue. The study done in DRC (Weigel 2020) found that taxpayers on average spent a day's pay in the effort to provide public input. Increased effort without result actually harms residents, and can end up undermining rather than strengthening trust in government.

and there is some evidence that service delivery did improve in some places, for example in health and education expenditures in Somalia (Mohamoud 2022). However, the indicators used by the Land-based Finance project (Annex A) fall short of assessing whether expenditures are meeting the needs of the intended project beneficiaries.

Perhaps because of the literature, or perhaps because of the existing competencies of UN-Habitat and Norad, revenue enhancement rather than expenditure and service delivery was placed at the centre of the project. Outcome 1 starts with "revenue through land and property taxation increased". Outcome 2 is on knowledge about "land and property taxation approaches" (UN-Habitat 2020, see Annex A). The title of the project, "Land and property tax revenues for service delivery, reconstruction, citizenship building and sustaining peace in fragile states", positions land and property tax revenues as the starting point.

Technical assistance to improve service delivery (for example, through capital budgeting support, project preparation and financing support, or investments in equipment or processes to deliver local services) was not part of the project. Community engagement to foster participatory budgeting, while showing promise based on prior project experience, was planned late in the project, without time to invest in establishing a new participatory process for more than one budget cycle. The **Afghanistan** side of the project ended before community engagement was started, and in **Somalia**, participatory budgeting sessions got underway only in the last quarter of the three-year project. Mayors have stated an interest in continuing budgeting sessions annually,[88] but there is no guarantee that participatory budgeting mechanisms will remain in place after the end of the project and when project staff are no longer available to operate them.

Under the CFA programme in **Afghanistan**, by contrast, there were longer-standing efforts to improve the participatory process, and some lessons can be derived from them, particularly about the challenges involved. Under CFA, the highest-paying *gozars* received better street-sanitation services, resulting in more willingness to pay the *safayi* fee. However, *safayi* revenues were too small to use for major capital improvements, and a programme to reward high *safayi* compliance with *gozar* grants for neighbourhood projects was unsustainable without donor funding.[89]

Donors invested in establishing mechanisms for citizen participation through *gozar* assemblies (representative councils made up of community members) (UN-Habitat 2021). They put in place an auditing mechanism for these assemblies to provide feedback on municipal service delivery, including whether community priorities are adequately represented in the budget.[90] But the audits were not fully implemented in municipalities (UN-Habitat 2021, p. 19). One issue is that municipalities are accountable to the central government, not taxpayers, as elections did not regularly take place. *Gozar* assemblies had no real leverage over municipal activities, and without legislation to give them real power, they played and advisory role only.[91] Therefore, a key question is to ask what the lasting impact of donor interventions to strengthen government responsiveness would be, given the incentives at play.

In assuming a link between revenues and expenditures on service delivery, there was inadequate examination of local politics and incentives, which is of course more easily said in retrospect than done in advance of project activities. As a guide on engagement in fragile states notes:

"among the biggest oversights has been to underplay the importance of the political economy. Fragility is not a purely technical problem that can be fixed by applying procedural

88 Personal communication, Balqesa Sheikh, 14 Nov 2022.

89 Personal communication, Aziz Ahmad Yar, 30 Sep 2022.

90 Personal communication, Antony Lamba, 5 Oct 2022.

91 Personal communication, Aziz Ahmad Yar, 30 Sep 2022.

solutions such as passing new constitutions, improving tax collection, and reforming public financial management. It usually involves political and societal deficiencies in the way people are governed, how they relate to each other, and how they understand their roles and responsibilities within the nation state" (Cooke and Downie 2015, p. 4).

When the interest of citizens and governments are not aligned, problems are bound to emerge, and as was noted by Nicolas Kaldor in 1963, the impact of tax reform will depend on whether decision makers are "men of good will," have the capacity and technical understanding to act accordingly, and where political power lies (Kaldor 1963 in Fjeldstad et al. 2018).

Standard approaches to tax reform emphasize intervening in ways that maximize revenue (for example the World Bank's *Property tax diagnostic manual,* Kelly et al. 2020). However, politics and power dynamics matter more where institutions are weaker, including in fragile settings. In their paper on taxation reforms in fragile states, Cantens and Raballand (2021) note that tax outcomes are "the result of bargaining processes between powerful actors" and therefore

"should be primarily evaluated in terms of their likely political impact, … [rather than] the quantitative approach to taxation, which would favour tax measures in developing countries that generate the most revenue," recognizing that "that the state is first and foremost coercive by nature" (p. 7).

Again, the writing of Fjeldstad et al. (2018, p. 7) seems even more poignant given the post-project analysis and what happened in Afghanistan:

"Using taxation as a way to promote a fiscal contract between the state and citizens is not a given. … Taxation may also leave large segments of the poor population worse off, in terms of less cash for food and other essential goods (Lustig 2016: 4). Predatory taxation has produced revolts and widespread resistance by citizens (Fjeldstad 2001, Fjeldstad and Therkildsen 2008; Meagher 2016). Thus, as argued by Long and Miller (2017: 11), encouraging extractive governments to collect more taxes, and 'keeping one's fingers crossed for a governance dividend from taxation, is likely to be naïve at best and harmful at worst.' The international community should, as argued by Joel Slemrod, 'consider whether our best advice will make the intended beneficiaries – often desperately poor people – better off, or will it make corrupt bureaucrats and politicians better off?' (Slemrod 2016: 7)."


Door-to-door distribution of *safayi* invoices by a female revenue mobilizer. Photo: Anthony Lamba

Lessons on revenue enhancement and service delivery

While there are theoretical reasons that taxes should produce a governance dividend and that tax revenues should motivate service delivery, in reality there is **no automatic link** between tax revenues and service delivery in some fragile contexts.

Efforts to **strengthen citizens' voices** and responsive budgeting can be successful, but whether they are sustainable beyond donor engagement depends upon local interests and political realities.

The interests of political elites and average citizens are not always aligned, and empowering governments to collect more taxes can be unethical or dangerous without a clear political analysis of the **risks to intended beneficiaries**.

Considerations related to citizen power

The community's role in tax bargaining Utilizing tax reform to build the fiscal contract, and by extension the social contract, rests on the assumption of a tax bargaining mechanism, where citizens pay taxes in exchange for services, and withhold taxes as a bargaining chip to compel better governance. There are therefore two sides of the fiscal contract that merit focus in tax reform interventions: the government and the community.

An example of tax bargaining comes from the *gozar* assemblies set up in Afghanistan by prior projects. While they did not have any statutory power over municipal expenditures, they did have the leverage of deciding whether or not to pay *safayi* fees. And, while civil society is largely non-existent in Afghanistan, *gozar* assemblies and their societal ties to influential mosque leaders associated with community development councils[92] provided an opportunity for organizing resistance to *safayi* fees. Municipal leaders are therefore wary to levy *safayi* fees in antagonistic ways for fear of resistance organized by *gozar* assemblies, community development councils and associated mosque leaders.[93]

Looking back at the simplified theory of change (Figure 6.2), one modification that can be made is to recognize that the role of citizen power and influence. This helps determine the extent to which service delivery happens, and whether revenue administration is fair and transparent (Figure 6.6).

92 Both *gozar* assemblies and community development councils are elected councils that represent communities and advocate for community interests. A cluster of community development councils make up a *gozar*. A *gozar* assembly typically represents 3 or 4 community development councils (personal communication, Antony Lamba, 15 Nov 2022).

93 Personal communication, Antony Lamba, 5 Oct 2022.

The Land-based Finance project did not place emphasis on civil society in either Afghanistan or Somalia (although adjustments were made in DRC, where there was direct engagement with civil society as part of the diagnostic assessment process). Yet, civil society is increasingly seen as an "intermediate sphere where this social contract can be renegotiated" (Verkoren and van Leeuwen 2014, pp. 6–7). Social contracts relate to the nexus of power relations and development outcomes, while "also bringing into focus the instruments that underpin citizen-state relations and foster citizen voice" (Cloutier et al. 2021, p. 2). There is debate as to

"whether the taxation relationship either (a) is intrinsically coercive and therefore inimical to consensual governance, or (b) … provides an opportunity for the creation of consensual and representative government through 'revenue bargaining' between states and organized citizens" (Brautigam et al. 2008, p. 3).

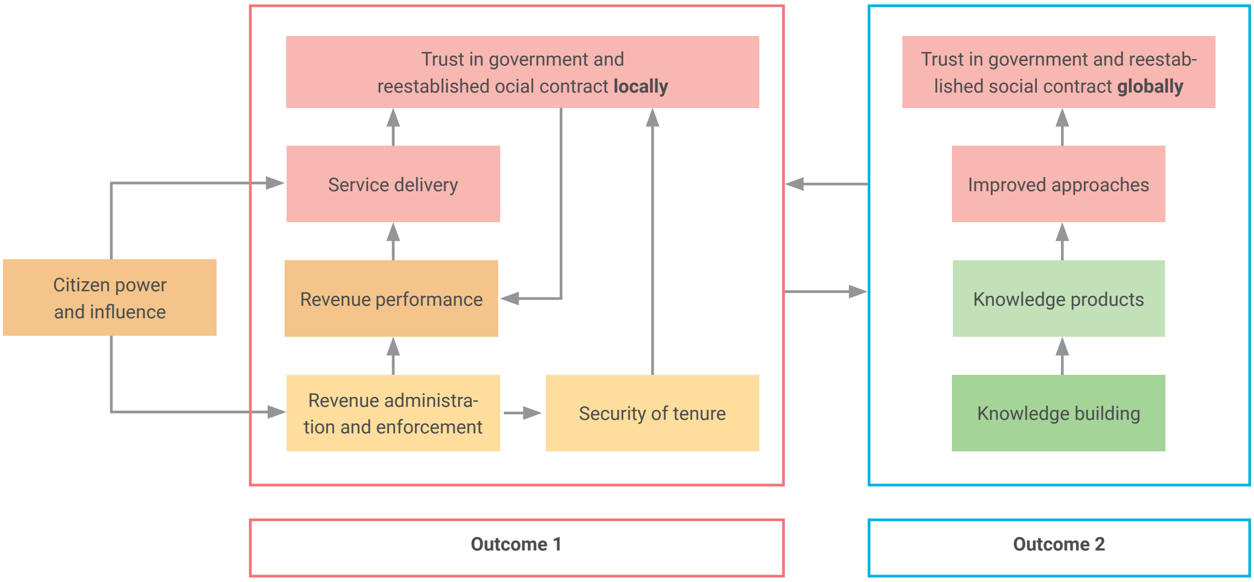
The theory of the social contract has always been in tension with the idea of coercive power.

"For example, Locke (1690) and Rousseau (1762) argue that civil and political rights constitute a form of exchange where a citizen accepts obligations in return for benevolent government. If a government fails to deliver such policies, then citizens can legitimately withdraw their cooperation and/or actively seek leadership change" (Besley 2020, p. 1310).

This differs from Hobbes (1651), who "regards the *sine qua non* of state electiveness to be the projection of coercive power." (Besley 2020, p. 1311). The leverage that civil society has, and the extent of tax bargaining, depend upon the extent of community power compared with the power of the government. Therefore it is worth further examining these power dynamics.

The trade-off with tax enforcement power It was originally thought by those associated with the Land-based Finance project that the best way to earn taxpayer compliance is

Figure 6.6 Modified theory of change with the addition of citizen power and influence



"by creating a climate of fairness and trust" (McCluskey 2020, p. 6). This reasoning works under a tax bargaining framework. However, as seen in the case of the Taliban takeover, strong enforcement power eliminates the need for bargaining through fairness, trust, or service provision. When citizens have no bargaining power, there is no bargaining.

The reality is that there are two best ways to earn taxpayer compliance: one is, as mentioned, though a climate of fairness and trust (the carrot), and the other is through coercive enforcement (the stick).[94] Al-Shabaab has effectively collected revenue in some places in Somalia, and in project cities, the practice of removing doors in Somalia is fairly effective in compelling revenue compliance, even when the proceeds are spent on government officials' personal security rather than services to the population.

However, stick-based (enforcement-heavy) approaches to tax compliance do not build trust. They also provide the government no incentive to deliver quality services, and therefore do not build the fiscal or social contract (Brautigam et al. 2008, Moore 2007).

Coercive tax collection often has long colonial roots in some places, and the extent of coercion is in opposition with bargaining power of the taxed (Cantens and Raballand 2021). One example is the poll tax in Uganda and Tanzania, which was introduced and enforced by colonial governments and widely hated until independence and democracy provided an opportunity for communities to demand its end (Fjeldstad and Therkildsen 2008). Donors should avoid neo-colonial parallels and avoid supporting taxation by coercion rather than consent.

There are incentives to tax coercively, especially if the interests of government and

94 Additional and secondary mechanisms are also relevant and worth mentioning here: one is the salience and ease of the tax process for taxpayers. In Somalia, payments likely increased because invoices were delivered (UN-Habitat 2020b). Another is the perceived capacity of the state to collect taxes and delivery services, which increases when taxpayers witness a systematic tax collection campaign (Weigel 2020). A third is the actual ability of the government to deliver services. Capacity may be low even if the incentives are present. These mechanisms operate within the framework of citizen-government power relations that are the focus of the present discussion.

citizens are at odds. Local governments are particularly susceptible to coercive taxation because they do not have access to the most lucrative taxes which are reserved for the central level, and "are often almost entirely unregulated, and thus free to act tyrannically" (Moore 2007, p. 28). Local governments can "resort to extra-legal enforcement and violence to extort money from the population" (Fjeldstad and Therkildsen 2008, p. 20).

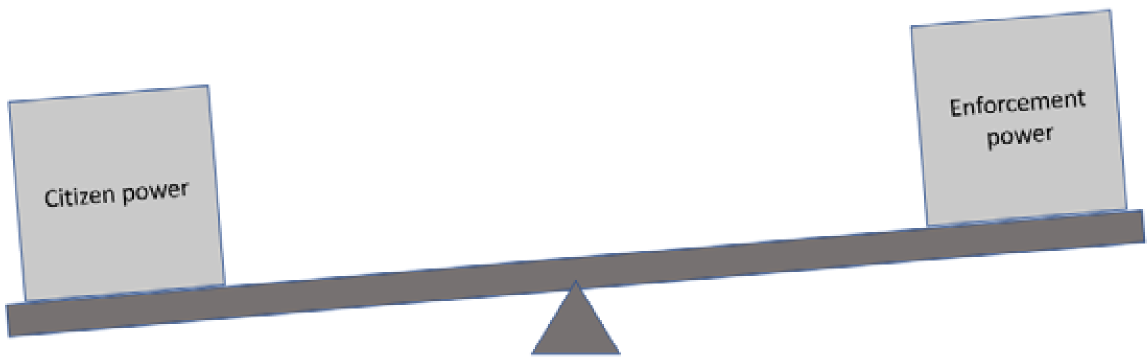
In addition, coercive taxation has disproportionate impact on the less powerful because their power to resist is the weakest (Cantens and Raballand 2021), whereas constructive tax bargaining has benefits for social equity (McCluskey 2020). One example of the uneven burden of coercive taxation is the case of Bamyan municipality in Afghanistan, where tax compliance went up after the Taliban took over, even while compliance was falling elsewhere, likely because residents of Bamyan are mostly of a different ethnicity from the Taliban and are therefore more vulnerable to harsh enforcement practices (Yar 2022). Another example is in Somalia, where compliance was higher among owners of lower-value properties (Fleck et al. 2022).

Given the trade-offs between coercive taxation (which rests on enforcement power) and tax bargaining (which supports a fiscal contract), it can be argued that donors and external agencies should work to improve citizen power rather than enforcement power. In other words, external interventions should help grow the carrot rather than helping sharpen the stick.

However, some enforcement capacity is needed in order to reduce the incentive for taxpayers to be a free rider when it comes to taxes and service provision. Therefore, finding the "right balance" (Fjeldstad et al. 2018, p. 34) between strong enforcement and citizen bargaining power is a central challenge (Figure 6.7).

For external interventions seeking to influence the balance of power between citizens and tax enforcement, striking the right balance is not an easy proposition, particularly in complex and unstable political contexts. One key component of such decisions should be stakeholder engagement, with both sides of the power equation. In Afghanistan and Somalia, the heads of local governments were for the most part on board with revenue-enhancement interventions supported by UN-Habitat. But what did the citizens and taxpayers think about it? This is a worthwhile question to ask at the beginning of a project, especially where there are risks of coercive and extortionary taxation. Citizens are likely better attuned to such risks than outside agencies, because they are the ones

Figure 6.7 The balance between citizen power and enforcement power



Noncompliance scenario:
The state has low legitimacy; citizens do not pay, prefer to be free riders.

Tax bargaining scenario:
Citizens pay taxes to receive services. They withhold payment if taxes feel unfair.

Extortion scenario:
Governments can elicit payment without providing anything in return.

at risk. If external agencies cannot convince the intended beneficiaries that the proposed interventions will benefit them, that should be a red flag. Academic papers and theories of change will not help the community if governments begin depriving them of their meagre livelihoods at gunpoint. A question posed by Lawrence Walters at a project Learning Session resonates. He noted that when asking "where to start", revenues should not be the only possible entry point. Instead, a broader question should be asked: what needs to change, and according to who?[95]

How to build citizen power? If external agencies are convinced that building citizen power has to be a part of the revenue enhancement and fiscal contract equation, the next question is which avenues are available to do so sustainably.

Donor power Donors can exert power and influence through funding, and this power can strengthen civil society, at least for as long as donors are present. However, this source of power ends when projects end and donors leave. For example, *gozar* assemblies conducted citizen audits of municipal governments in Afghanistan effectively only when outside agency support was in place.

Relatedly, in Puntland under phase two of the Land-based Finance project, it was determined that workstreams related to revenue enhancement could still be implemented under an agreement of cooperation with the government, but that citizen engagement and participatory budgeting activities should be implemented directly by UN-Habitat.[96] The implication is that the local government would not be effective on its own in conducting participatory budgeting sessions (lacking capacity or incentives or both), which does not bode well for the sustainability of this avenue of citizen power. Cantens and Raballand (2021) note that the legitimacy of taxation is sometimes propped up by donor agencies, and that donor power should not supplant local legitimacy established on the basis of the relationship between citizens and government.

Elections and voter power Elections provide an avenue for voters to hold local governments accountable. There is strong empirical evidence for the link between tax performance and democratic accountability (Dickenson-Jones 2020), and in cities where elected leaders are replaced periodically, "local leaders have a greater incentive to deliver effective service improvements" (Walters 2020, p. 46). The case of Benin shows that democracy sets that stage for fiscal reforms and an open debate about their merits (Fjeldstad et al. 2018). The case of the poll tax in Tanzania and Uganda shows that democracy was a precondition for voters to mobilize effectively against a coercive tax (Fjeldstad and Therkildsen 2008).

In Afghanistan and Somalia, voting was not a strong pathway to local government accountability to citizens. In Afghanistan, mayors should be elected, but elections have been delayed, and they are therefore appointed by the central government (Yar 2022). In Somalia, the central government has the authority to remove democratically elected mayors (Fleck et al. 2022).

In spite of its benefits, democracy is not a panacea for delivering fiscal accountability, and democratically elected governments do not always act in the interest of the citizens they govern. The power of elites is at play in democratic systems as well, and often shapes elections. In addition, democratic governments may not act in accordance with donor preferences or Western norms.

Similarly, democracy is not a precondition for the fiscal contract, which can operate either when the interests of (even nondemocratic) governments are in line with those of their populations, or when citizens have other avenues of power to demand what they want. However, a democratic process that lends more power to people at large instead of narrow interests is useful, and if democracy

95 Internal report on Land-Based Finance Learning Series 2, Session 2, 14 Mar 2022.

96 Personal communication, Balqesa Sheikh, 22 Sep 2022.


Meeting the revenue department of Bamyan municipality to discuss *safayi* revenue enhancement. Photo: Anthony Lamba

provides some measure of power to otherwise marginalized voices, this is even better.

While democracy may be useful, it is probably not a practical goal for a project run by development organizations and targeted at local governments. Some activities to strengthen voter power may be done at the local level (for example, voter registration or helping the local government prepare to run elections), but key decisions about elections are likely to happen at a higher political level and are likely outside of the scope of a development project. This is particularly the case if there is potential for elections to create a real shift in power dynamics, in which case government officials are unlikely to be amenable to outside development agencies asking for their participation.

Laws or central power It is conceivable that local governments would have to give credence to the voice or interests of their constituents if required to by a law enforced by a higher level of government. For example, regulations to earmark local budgetary expenditures for specific purposes that benefit local populations are one fairly simple option for ensuring budgets are used for service delivery. Legal and regulatory frameworks were the target of some project activities within the Land-based Finance project, and although these focused on improving revenue streams through improved valuation, future projects could target laws aimed at strengthening citizen participation and influence or earmarking revenues for service delivery.

In practice, though, laws only hold so much power at the local level in many fragile settings. For example, the municipal law in Afghanistan dictates the holding of a social audit of municipal functions, but this has not been fully implemented, especially without donor support (UN-Habitat 2021). Local elections legally required in both Afghanistan and Somalia have been repeatedly delayed. In Afghanistan, the law is silent on enforcement of the *safayi*, but some municipalities charge a 12% penalty on late payment (Yar 2022). And, as noted above, without strong rule of law at the local level, local governments can “resort to extra-legal enforcement” (Fjeldstad and Therkildsen 2008, p. 20), and are “free to act tyrannically” (Moore 2007, p. 28). Another practical consideration is the time it takes to make regulatory changes, which may await approval indefinitely, as illustrated by the engagement in Afghanistan.

One possible way that the central government can be relied upon to strengthen citizen power is if key players at the national level have an interest in pleasing or placating the local population, and place related demands on their local counterparts. This may be part of the situation in eastern DRC, where due to ongoing conflict, local government positions are appointed police and military personnel serving at the behest of the central government. There is a strong interest at the central level in quelling outbreaks of violence, which could be made worse by a dissatisfied population. The centrally appointed local authorities who receive government salaries on top of their military or police salaries want to stay in power, and need to show the central authorities that they are keeping the peace, managing the city, and that everything is going well. Civil society in DRC is strong, and protests are common. The local governments therefore have an incentive to keep the population happy and to prevent protests.[97] As one project staff member remarked,

"here in context of DRC, nothing is done without consulting civil society. The will to engage with them is there. … They want to know what population wants. They don't want strikes and things like that. More generally they consider that civil society is an important entity if they want to bring development."[98]

It should be noted that the interest of local governments to consult civil society arises due to demands from central government, but these demands are due to the power of an organized civil society.

The power of organizing Organizing and collective action is a source of citizen power, and one that can be strengthened with external support, perhaps with a lasting impact. As noted, in DRC, the possibility of strikes and protests is a major motivator of meaningful municipal engagement with civil society. Similarly, one case in Togo illustrates that traders who threatened an import strike were able to influence tax rates (Cantens and Raballand 2021). Another example comes from Puntland, when an unpopular local parking tax was proposed in 2014 (not connected with UN engagement). Individual resistance to the tax was ineffective, but when a group of traders mobilized their networks to resist the tax collectively, it was discontinued (Varming 2017).

Quotes from a fuel seller impacted by the Puntland parking tax are illustrative:

"'When they first imposed the new tax, we didn't have an organization. And it worked out for them to collect it. Because we cannot say "no" on an individual level. They have their army and everything, there will be consequences…. [However,] the gas sellers are so many. It will cause a social uprising, if they do this to us. The government has been talking to some people about this situation, and they recognize this problem may be bigger than they initially thought,' The collective strategy turned out to be more effective than individual attempts at rejecting the parking tax" (Varming 2017, pp. 23, 24).

In the case of the *gozar* assemblies and community development councils set up by outside agencies in Afghanistan, there have been mixed results. Thought they have no formal power over municipal activities, serving in an advisory role only, they have influence through social connections which run through influential mosque leaders. Investments in forming community development councils have proceeded over three decades through a variety of externally funded projects. Capacity has been built up among the councils, and many have continued to remain functional with or without external funding. They receive no budget from the government and do not have government representation, but still serve the role of civil society.[99]

One critique of the long history of local-level interventions in Afghanistan leading up to 2021 notes that the longstanding, concerted effort to build community development councils had major shortcomings, including the assumption that building communication skills of stakeholders was the needed intervention rather than shifting the power dynamics or institutionalizing community engagement mechanisms. The analysis concludes by saying,

"donors would do well to recognize the limited hand they have and focus on shaping incen-

97 Personal communication, Jonathan Yakutiel, 29 Sep 2022.
98 Personal communication, Charles Mukandirwa Wetemwami, 3 Oct 2022.
99 Personal communication, Ahmad Elatrash and Haneen Zaqout, 4 Oct 2022.

A citizen receiving *safayi* notebooks from Bamyan municipality. Photo Anthony Lamba

tives for all involved – rather than hope that one more training module might finally do the trick" (Brown 2021, p. 8).

Even so, in one UN-Habitat project, staff went into the city and found that the community development councils remained, even paying to rent offices themselves without external support. Mobilizing them to work on the UN-Habitat project took very little time. There are over 36,000 community development councils across 34 provinces. While some are stronger and have more capacity than others, they have remained a permanent phenomenon even without external support.[100] There is a similar finding in Palestine, where strengthening civil society's engagement through external interventions has a lasting impact because it has become the culture.[101]

From these examples, it seems that organizing civil society is one of the most promising avenues of building citizen power in a sustainable way, particularly if its role in governance is formally institutionalized. However, these examples also imply that building up civil society may require long-term engagement, beyond that of a two- or three-year project, and may require competencies outside of UN-Habitat's traditional areas of expertise which involve working closely with governments on technical issues rather than with community groups in ways that are even more context specific.

It should also be noted that working with civil society is not a panacea. In Somalia, there was already a process for civic engagement around budgeting, but it was not well attended or fully representative of the community, particularly women and youth.[102] A quote from Verkoren and van Leeuwen (2014) brings to light the complex issues:

"In order for peace to be sustainable, it is vital that it reaches down to the "grassroots". Thus, [civil society] actors are seen to add a bottom–up dimension to processes of peacebuilding, statebuilding, and democratization. However, how do such ideal images compare with practice in fragile societies? Ideal images of [civil society] can seldom be encountered in real life. … In practice, those different manifestations of [civil society] differ highly in the extent to which they are inclusive and have local legitimacy. Local institutions may be exclusivist or sectarian. Organizations that do have strong local ties are often highly political or clan-based and may contribute to exclusion, sectarianism, and even conflict. On the other hand, more formal organizations like NGOs may lack local constituencies. … Groups that are most deeply rooted, completely trusted, and experienced as legitimate on the ground are often not the same as those most in step with Western norms. This yields complex dilemmas for those aiming to strengthen [civil society] in support of peace. … Finally, in practice, those who were seen as 'agents of change' turned out to depend a lot on what peace is being aimed at and on one's analysis of the conflict" (pp. 2, 3, 20).

Lessons on citizen power

Interventions must move **beyond technical solutions** and be grounded in an assessment of the various incentives impacting local government, including those related to civil society, media, elec-

100 Personal communication, Antony Lamba, 5 Oct 2022.

101 Personal communication, Ahmad Elatrash and Haneen Zaqout, 4 Oct 2022.

102 Personal communication, Balqesa Sheikh, 22 Sep 2022.

tions, transparent audits, as well as and national government and the relationships between the two levels.

In order for **tax bargaining** that builds a reciprocal social contract to take place, both the government and citizens need some measure of power. When citizens have no bargaining power, there is no bargaining. Donor-funded interventions should consider the ways they influence the power dynamic between the two.

Strengthening citizen power and influence can improve the extent to which service delivery happens, and pressure government to be fair and transparent in its revenue administration.

Taxpayer compliance can be earned through fairness, trust and service delivery (the **carrot**), or can be compelled through coercive enforcement (the **stick**).

Powerful **enforcement capabilities** provide the government no incentive to deliver quality services, and therefore do not build the fiscal or social contract. In addition, coercive taxation is bad for social equity, having disproportionate impact on less powerful because their power to resist is the weakest.

Externally funded interventions should place more emphasis on **growing the carrot** (incentivizing tax compliance through better governance) rather than sharpening the stick (enhancing enforcement capacity).

Empowering citizens can be challenging. Community engagement efforts are not enough on their own if they do not shift power dynamics and incentives (Brown 2021).

Donor influence, for example through conditional grants, can be effective but typically only lasts as long as a given project.

Strengthening the **democratic process** can help voters hold local governments accountable, but is likely to be outside of the scope of local development interventions.

Legal changes that require citizen participation or earmark local revenues for service delivery may work in some cases, but in weak states, they may not be effective, and legal changes are not always feasible, especially for short-term projects.

Strengthening organized **civil society** is one of the most promising mechanisms for building citizen power. This is because collective action can be powerful, and organized citizen groups can outlast donor-funded projects. However, efforts to organize civil society are not without their challenges, including the time needed to achieve sustainability, the context-specific expertise needed, and the potential trade-off between local legitimacy and Western norms.

More **research and testing** are needed to know what type of interventions can most effectively shift local government incentives on service delivery.

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Annex List of indicators associated with project outcomes and outputs

Outcomes and outputs	**Original key performance indicators** (January 2020)	**Revised indicators** (November 2020)
Outcome 1 Revenue through land and property taxation increased and contributing to investment in local service delivery and reconstruction in two fragile states, Somalia and Afghanistan.	Percentage increase in annual per capita investment in service delivery of partnering local authorities in Afghanistan and Somalia.	Percentage increase in annual per capita capital expenditure of partnering local authorities in Afghanistan and Somalia. Percentage of budget allocated towards development expenditure. Budget execution rate of development budget.
Output 1.1 Land and property taxation institutions strengthened, processes improved and streamlined.	Number of local governments with available statistics on profitability per revenue stream, compliance by income group, estimates of revenue potential per revenue stream	Number of invoices delivered. Compliance rate. Budget of revenue department as a percentage of total own source revenue.
Output 1.2 Local governments have increased revenue from land and property taxation.	Annual own source revenues per capita collected from land and property taxation initiatives in local governments of currently partnering governments in Afghanistan and Somalia	Annual per capita revenue from land and property taxation collected from initiatives in local governments of currently partnering governments in Afghanistan and Somalia.
Output 1.3 Social contract and State legitimacy strengthened through improved transparency and participation in collection and local expenditure of land and property taxation.	Average number of people taking part in participatory budgeting processes per financial cycle Number of local governments with accurate, publicly available information on expenditure of land-based revenue	Number of community-identified projects that are budgeted and/or implemented by municipality Number of local governments with accurate, publicly available information on expenditure of land-based revenue; next step is local governments posting the information online. Municipal wage bill as a percentage of total budget. Proportion of total local government taxation workforce that is female. Perception of transparency and participation by target communities. *[This is a qualitative indicator that will measure general feedback on transparency and participation from target communities. Stories will be collected towards the end of the project.]*
Output 1.4 Improved tenure security and equality in benefits from land-based revenue collection, including for women and youth.	Proportion of total adult population per target municipality with secure tenure rights to land, with legally recognized documentation and who perceive their rights to land as secure, by gender and by type of tenure. Proportion of total local government taxation workforce that is female.	Number of properties paying property tax that are not documented. Perception of tenure security by target communities. *[This is a qualitative indicator that will measure general feedback on tenure security from target communities. Stories will be collected towards the end of the project.]*

Outcomes and outputs	**Original key performance indicators** (January 2020)	**Revised indicators** (November 2020)
Outcome 2 Increased knowledge and capacity on how to establish, replicate, scale up and institutionalize land and property taxation approaches in fragile states.	Ministries and local government institutions that institutionalize land and property taxation / those with improved governance systems. Number of Afghani and Somali/ Puntland local governments adopting explicit lessons from the Somalia and Afghanistan programmes to improve their land and property taxation initiatives.	Number of relevant local institutions in Somalia and Afghanistan that demonstrate capacity to implement innovative approaches to land and property taxation.
Output 2.1 Improved and strengthened land and property taxation and related frameworks, tools and practices for application in fragile states.	Number of property taxation and related frameworks, tools and practices available for application in fragile states. Number of active users/readers/ downloads/views of developed capacity building materials.	Number of property taxation and related frameworks, tools and practices available for application in fragile states.
Output 2.2 Strengthened capacity of relevant actors to promote, establish and/or implement land and property taxation programmes in fragile states.	Number of institutions / organizations working to promote the usage of land-based finance and/or overall budget of organizations committed towards land-based finance.	Number of multi-stakeholder learning exchanges per country. Number of institutions that participate in the learning exchanges.
Output 2.3 Knowledge building and an international capacity development network which facilitates learning and produces guidance to developing countries and organizations on land and property taxation.	Number of participating partners Number of people using acquired knowledge and skills.	An international network which facilitates learning and produces guidance to developing countries and organizations on land and property taxation established.

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