

The World Bank Land and Poverty Conference 2019: Catalyzing Innovation

Supporting Local Government Administrations through Public Private Partnerships (PPP).

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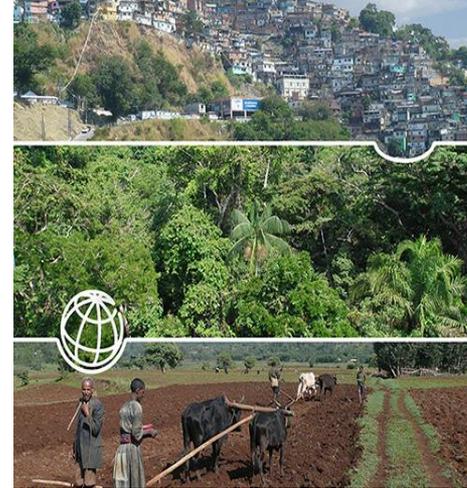
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Agenda

- > Introduction
- > Property Taxation Its Contribution to Poverty Alleviation
- > The Local Government Context
 - Fiscal Decentralisation
 - Municipalities are not designed to be tax administrations
 - The reasons why local governments fail to efficiently implement a property tax system
- > Public Private Partnerships (PPP's)
 - The role of PPP's currently
 - Why PPP for property tax
 - The roles and Responsibilities of the Private Sector
- > The Benefits and Risks of PPP's and Property Taxation



Introduction

- > A key objective of Land Administration Policy is to address security of tenure issues.
- > Poor land administration retards economic growth and is amongst the primary causes for economic stagnation
- > Local Governments are primarily interested in efficient land administration as this enables them to collect property tax
- > The World Bank (and other development agencies) have worked hard for the last few decades to improve land administrations systems in developing economies
- > Yet, most local governments remain unable to successfully tap into this crucial revenue source.
- > This paper suggest that successful Property Tax collection can (and should) be used for Poverty Alleviation
- > The use of PPP's to support local government
 - **The role of the Private Sector**
 - **The Challenges of PPP's**
 - **The Benefits of PPP**

What is Property Tax

- > A recurrent property tax is levied in almost all countries in the world.
- > It is generally considered a sub-national tax, collected at local government level
- > It's the mainstay of local taxes in many developed and industrialized countries, but it is only beginning to gain a foothold in the developing world.
- > Land Administration reform is occurring in Africa during the past 25 years and this presentation will not seek to provide an overview or assess the readiness and current state of land and property tax.
- > Who is responsible for the key aspects of property tax administration: property data collection and tax base coverage, valuation and assessment, and billing, collection, and enforcement?
- > Is the property tax properly managed?
- > Should local government consider working with the Private Sector to improve the collection of Property Tax

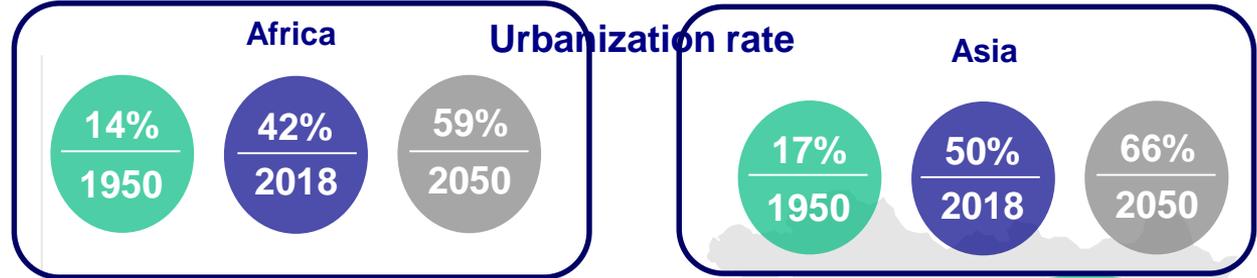
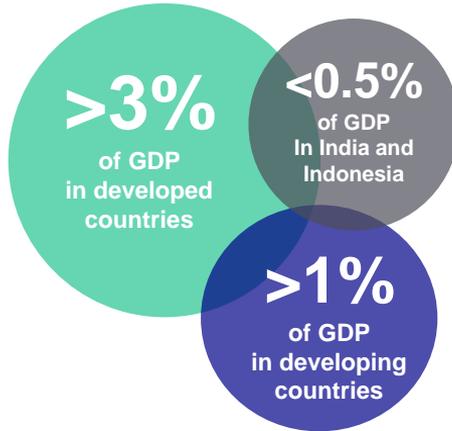
What is Property Tax

- > All Governments In the developing world are keen to find alternative/new sources of revenue. Property tax presents a viable source of revenue for local government
- > All of the major cities in Africa are experiencing rapid growth because of urbanization and are looking to property tax to help fund their administration.
- > Some of the lowest ratio of property tax in the world
- > Over the last two decades, the World Bank and other development agencies have poured many hundreds of millions into modernizing LAS, including GELIS in Ghana, which is intended to serve as the foundation for the collection of property tax
- > Some countries have had shown impressive success in the collection of property tax

Property Tax around the World.

The responsibility towards poverty alleviation.

Property tax as a % contribution of GDP



By 2050, more than 1.3 billion Africans will live in cities

By 2025, more than 100 African cities with more than 1 000 000 inhabitants

250 million more people are expected to live in cities in South Asia over the next 10 years

Source: CHR. Michelsen Institute

Fiscal Decentralisation in Local Government

- > Fiscal Decentralisation has been encouraged by the World Bank and economists globally for decades because;
 - It moves government closer to the people.
 - Service delivery is predominantly the purview of local government
 - The vast majority of public spending happens at local government
- > Fiscal Decentralisation can only be successful if adequate revenue assignment is awarded to local government
- > Property tax is commonly viewed as a most appropriate revenue source of local governments
- > The problem with fiscal decentralisation is that municipalities are not good tax administrations

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> The Role of Property Tax in Poverty Alleviation

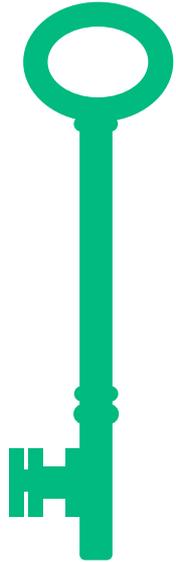
- Property Tax is generally a progressive tax. It generally excludes the lowest costs properties
- Generally property owners pay property tax
- It might not be the popular thing to say, but property tax is primarily a tax on the wealthy

> Property tax is primarily intended to fund service delivery at a local level

> A more efficient tax collection makes for a more equitable tax administration

> Innovation in Technology has made huge strides in the last few years – its time that we innovate on how we collect property tax

The Good Tax



> A «good recurrent tax» for local governments

- ✓ Efficient
- ✓ Equitable and fair
- ✓ Administrative innovation
- ✓ Ideal and predictable source of revenue
- ✓ Transparency and accountability



“The terms recurrent property tax or simply property tax are used to describe a **recurrent tax on real estate** (immovable property), whether land or buildings or both.”
- IMF

Source: CHR. Michelsen Institute

Challenges for Local Governments

- > The core functions of local governments are service delivery, not tax administration
- > Huge dependencies on IGR
- > Fast pace urbanization
- > Shortage of valuers and other critical skills required for property tax collection
- > Huge dependencies on current and accurate data that can only be obtained with technical competence and ongoing investment
- > Low collection rate due to weak enforcement capabilities
- > Property ownership identification
- > Lack of technical and financial resources to collect property taxes



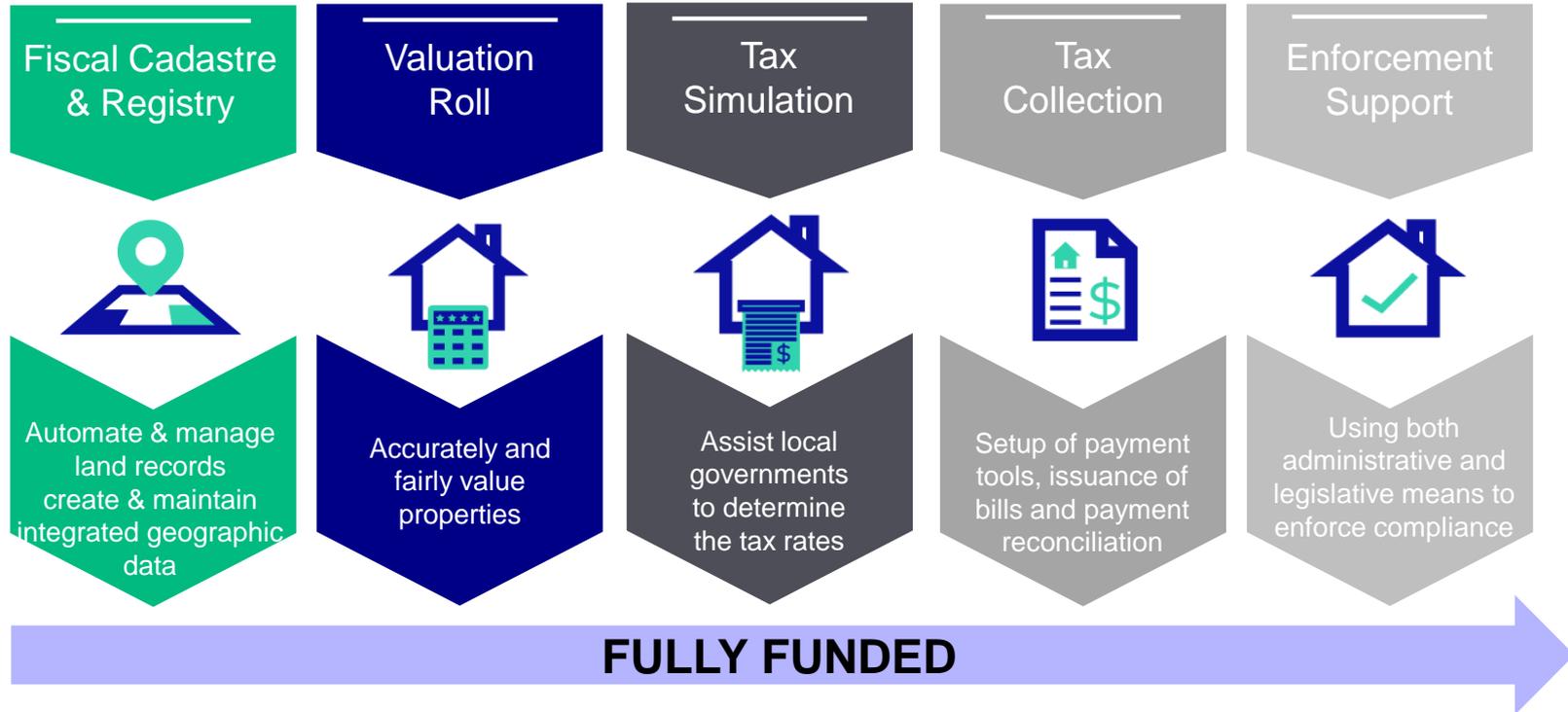
Public Private Partnerships - Explained

- > The World Bank helps governments design public-private partnerships (PPPs) and create a balanced regulatory environment to ensure a more efficient and sustainable provision of public services.
 - Public-private partnerships (PPPs) can be a tool to help governments achieve their stated objectives
 - When designed well and implemented in a balanced regulatory environment, PPPs can bring greater efficiency and sustainability to the provision of public services
 - PPPs can also allow for better allocation of risk between public and private entities.

- > Yet, according to the WB, much work is needed to make projects "investor ready" and to develop innovative frameworks to leverage private investment. According to the Bank Group's Private Participation in Infrastructure Database, total investment in infrastructure in 2016 fell to US\$71 billion, compared to US\$121 billion on average during 2011-2015.

- > The World Bank claims to be committed to helping governments make informed decisions about using PPPs as a delivery option. We think the WB could help local governments considerably by encouraging innovation on how property tax can be collected more efficiently

The PPP Solution at a glance

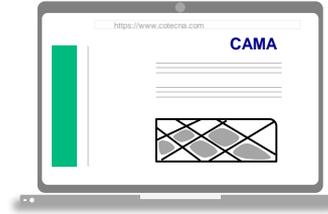


Added value services: communication, assessment, maintenance and performance measurements

Valuation Roll



Fiscal cadastre



Automated statistical modelling

- Determine the taxable base
- Review and adjust (field review)



What is CAMA ?

Computer-Assisted Mass Appraisal (CAMA) is the process of assessing a group of properties, as of a given date, using standards methods common data and allowing for statistical testing.

Transparent

Cost effective

Timely

Automated

Objective

Accurate



Appeal mechanism

- Communication campaign
- Objection period for homeowners
- Valuation roll released to public

Tax Simulation, Collection and Enforcement

Tax simulation



Run simulation to determine the tax rates and subsequent annual budget of local governments. It is the guarantee to maximise property tax revenue, to ensure fairness, and to take long-term decisions based on reliable data.

Tax Collection



Set-up the payment mechanisms, issue and send bills and perform the payment reconciliation.

Monitor the payment rate and provide adequate reporting to the local governments

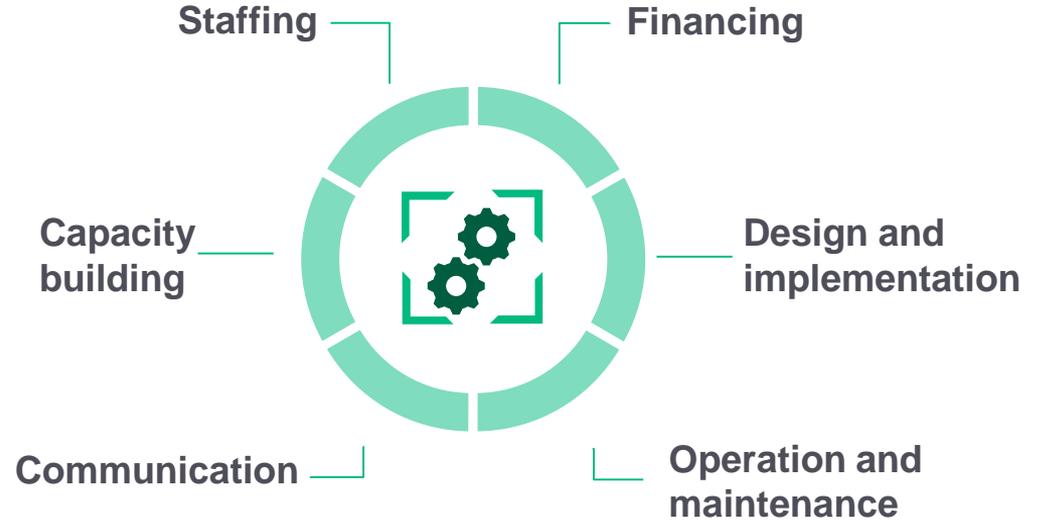
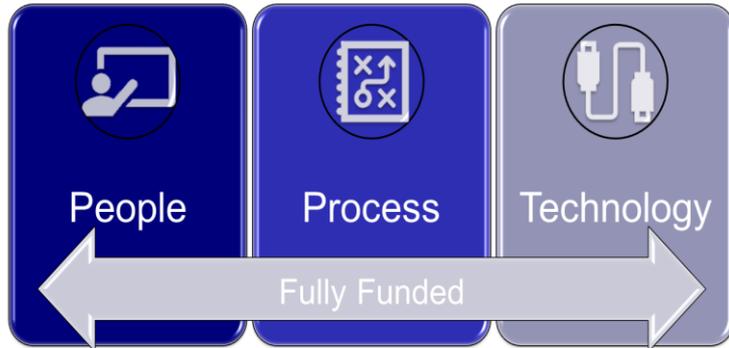
Enforcement Support



Enforcement instruments guarantee a better coverage rate always in line with local legislation.

- Reminders
- Legal summons
- Trigger administrative or legal enforcement measures

People, Process & Technology + Funding



Proposed Partnership Structure

Business Model

Long term service contract or Public-Private Partnership (PPP)

- > **Funding:** Initial project financing upfront for valuation roll and technological infrastructures
- > **Remuneration:** Service fee collected - % of tax bill payment executed by taxpayers to local gov.
- > **Duration:** 5 to 10 years PPP, correlated with the time required to recover investment



Benefits Of PPP



Improvement of
taxable value
accuracy



A more equitable tax
administration



Improvement of
enforcement measures



Increase of payment
rate and overall
revenue



Development of skills
and capacity within local
governments



Ensure reliable revenue
projection and budgeting



Upfront funding and
better execution



Risk Mitigation and
Risk Sharing

Risks of and for PPP's

- > Successful PPP's require a comprehensive legislative and regulatory environment
- > Property Tax, like all other tax, requires a functional social contract between government and the tax payer. Local Governments will have to improve service delivery when taxes are collected.
- > PPP's are generally long term commitments which exceed the terms of elected officials.
 - Politicians need to be mature and accept that the benefits of PPP's are not instantaneous and will probably be achieved during the next administration
 - Legislation needs to be in place that secure the investment of the private sector beyond the change of the administration.

THANK YOU

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