

UN JOINT PROGRAMME ON LOCAL GOVERNANCE AND
DECENTRALISED SERVICE DELIVERY (JPLG) IN SOMALIA



PARTICIPANTS MANUAL AND GUIDE

LOCAL REVENUE MOBILIZATION INITIATIVE

*MANUAL and GUIDE FOR REVENUE MOBILISATION for LOCAL
GOVERNMENTS in*

PUNTLAND STATE OF SOMALIA

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ACRONYMS

AIMS	Accounting Information System
BIMs	Business Information Management System
CG	Central Government
FGS	Federal Government of Somalia
GIS	Geographic Information System
JPLG	Joint Program for Local Governments
LDF	Local development Fund
LED	Local Economic Development
LG	Local Government
LGA	Local Government Association
Lgs	Local Governments
LRMI	Local Revenue Mobilization Initiative
LRMP	Local Revenue Mobilization Plan
LRMP	Local Revenue Mobilization Plan
NDP	National Development Plan
OSRs	Own Sourced Revenues
RIP	Revenue Improvement Plans
R-MAP	Revenue Mobilization Action Plan
R-MAP	Revenue Mobilization Action Plan
TIN	Tax Identification Number
UNCDF	United Nations Capital Development fund
USD	United States Dollar

FOREWORD

Puntland State of Somalia is constitutionally governed under a decentralization system which has devolved significant powers and responsibilities to Municipalities and districts. Local governments have significant powers to make and implement recurrent and development plans based on locally determined priorities. It is therefore apparent that for successful implementation of their programs, local governments need to mobilize as much revenue as possible.

Under a special program under the UNCDF, the JPLG is supporting local revenue mobilization Initiatives and has done this for some time now. Other UN agencies such as the HABITAT and ILO have been involved in various aspects of revenue mobilization and economic development.

Recent mission studies indicate that there are still difficulties in improving local revenues arising from both structural and administrative challenges. Even when there is external support, this will usually require some form of counterpart funding. Therefore, it is only through increasing locally raised revenue that LGs can ensure themselves of sustainable funding from outside parties. Besides increased local revenue will strengthen the decentralization concept and enhance downward accountability.

Generally in the recent past, the trend of revenue collection has shown increasing trends which are a reflection that the municipalities can still do better especially considering that many sources have not been fully exploited.

This manual and guide will support all levels of Lgs in acquiring new skills in revenue mobilization processes and to acquaint themselves with the best practices in revenue mobilization.

The JPLG anticipates that this manual is used to support Revenue Mobilization Initiatives over the short and medium term LRMP framework.

Section One: Introduction and Revenue Mobilization Process

1. BACKGROUND

The Puntland of Somalia is committed to decentralisation as a system of governance and betterment of service delivery. The success of decentralization will to a large extent depend on the financial viability of local governments and administrations. In support of this development aspiration, the UN Joint Programme on Local Governance and Decentralized Service Delivery in Somalia Phase 2 (JPLGII) 2013-2017 programme has laid emphasis on increasing locally generated revenues. Initially One key strategy has been strengthening the role and coverage of the Local Development Fund (LDF) is critical to improving local government capacity for equitable service delivery.

As a corollary, a Local Revenue Mobilization Initiative, [LRMI] has been designed to support the efforts of Puntland State of Somalia to improve local revenue mobilization. UNCDF has extended support to target districts to formulate and implement **R-MAP (Revenue Mobilization Action Plan)** and annual **Revenue Improvement Plans (RIPs)** that will among others cover identification of sources, sensitization, setting of collection targets, establishing collection tools, budgeting and accountability.

The overall goal of the Revenue Mobilization Initiative is to improve revenue generation at the local level and promote better service delivery and local development through a more effective and efficient revenue administration.

2. INTRODUCTION

The Puntland State of Somalia Constitutional governance system is decentralization by devolution. This system of governance was adopted mainly to ensure effective and efficient service delivery. Consequently, key powers and functions originally controlled at the centre were decentralized to local governments, and these include; policy and planning, budgeting, administrative powers including revenue mobilization¹. Local revenue mobilization powers

¹ Puntland Constitution , Cap 6 Article 120 (1)

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include assessment, collection and enforcement of levies, charges, and taxes as approved by the respective ministries of Interior and Federalism

Recent revenue analysis indicates that there still exists a revenue potential that has not been fully exploited.

There still exist challenges and bottlenecks that make local revenue inadequate to significantly meet the local cost of service delivery. Central Government transfers are inadequate to provide services at the desired levels, implying that the mobilization initiatives are crucial for any meaningful development of LGs.

The capacity of local authorities to raise and administer local revenues is essential for enhanced decentralization, democracy and better service delivery, which is the foundation of genuine local government.

Indeed all regional governments have set within their National Development plans² [NDP] the task of broadening the tax revenue base so as to meet service delivery obligations.

The overall goal of the Revenue Mobilization Initiative is to improve revenue generation at the local level and promote better service delivery and local development through a more effective and efficient revenue administration.

This Revenue Mobilization Manual and Guide is arranged in a way that will enable support of skills transfer in terms of implementation and management of revenue administration processes and to create increased awareness about revenue mobilization best practices. At the same time this manual may be used as a handbook for training revenue officials and managers.

Whereas the strategies within the LRMI are varied, this manual will focus on the aspect of revenue administration processes and analyze factors that have hampered faster revenue growth. The manual and guide will focus on, (1) current sources of revenues (2) rationale for revenue mobilization (3) local revenue administration challenges (4) strategies for moving

² Puntland Taxation Framework, MoF.

The Puntland Five-Year Development (2007-2011) focuses on enhanced mobilization at all levels as a means to fund and stimulate growth and development, promoting more equitable service delivery

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revenues forward (5) best practices and international experiences (6) possibilities for new revenue sources and low hanging fruits and (6) sharing international experiences in local revenues.

3. OBJECTIVES OF THE LRMI MANUAL AND GUIDE

To enable a structured implementation of revenue initiatives, Lgswill develop LRMPs and R-MAPs to guide the mobilization process in the short and long term time framework. This guide aims to support the LRMP and R-MAPs through enabling staff and politicians to achieve the following;

- 1) Identify and understand the importance the major sources of LG revenues
- 2) Describe the procedures for revenue policy, sensitization, assessment, collection, recording , monitoring and accounting
- 3) Explain the roles of the stakeholders involved in mobilization of revenue and particularly the implementation of the LRMP
- 4) Identify best practices and experiences in revenue mobilization
- 5) Prepare a framework for LRMP and R-MAP
- 6) Share other international experiences in revenue mobilization

4. LOCAL REVENUE MOBILIZATION

Local revenue mobilization involves obtaining resources fro communities through taxation and other non-tax measures. Taxes are compulsory *non quid pro quop* payments andso do not necessarily bear any relationship to the benefits of government goods and services received (Hyman, 1990). This absence of direct benefit creates significant challenges for revenue mobilizers who have to explain why this is so. Communities must be made to understand that by paying taxes, they will not individually receive a direct and instantaneousservice in return.

However, in the case of user fees and charges, the expectation is that an immediate and direct service will be provided, for example payment at the abattoir gives permission to slaughter or sell an animal, a stadium ticket gives the right of entry and to watch a game. In the case of taxation payment of tax on a property for shs 30,000 does not mean that you will be able to enjoy equivalent in common goods and services. However, payment of taxes creates a contract between

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taxpayer and LG that services such as health care, education, security services of an equivalent amount will be made available when required during the financial year or any other period.

Social accountability requires that revenue mobilization has a functional relationship with service delivery. LGs must at foremost be able to “sell” to the community, the concept of paying revenues locally. Communities are likely to be willing to “buy” the concept if there is a significant linkage to quality and quantity of service delivered.

The capacity of local authorities to raise and administer local revenues is essential for enhanced decentralization, democracy and better service delivery, which is the foundation of genuine local government.

Increasing urban populations and the current peace in selected areas in Puntland³ is creating pressure on the existing services and the population which is generally young⁴ is demanding better quality and quantity of services. Inadequate local revenue in real terms undermines the desire for good governance and social wellbeing. For survival and better service delivery, LGs must evolve mechanisms that respond to these new demands. Indeed the JPLG programme for 2013-2017 has increased emphasis on increasing locally generated revenues and strengthening the role and coverage of the LDF as a key ingredient in improving local government capacity for equitable service delivery.

4.1 Rationale for Revenue Mobilization, Why pay Taxes?

Local Governments in Puntland are expected to provide and to deliver a variety of services to their citizens, including education, healthcare, water, security, roads among others. In order to provide these public goods and services, LGs must mobilize revenues from the beneficiary communities so that these services are collectively provided.

To justify the Revenue mobilization, the following explanation may be given either during meetings of sensitization forums;

³ Currently, 30% of the region's residents live in the fast-growing towns of Bossaso, Gardo, Garowe, and Galkacyo. Ministry of Planning and International cooperation

⁴ Approximately 70% of the population is also below the age of 30, Background Considerations on Somalia, Arthur Muliro, Society for International Development Forum

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- 1) **More revenue enables municipalities and districts to expand and improve services-** Any additional increase in revenue availability provides an opportunity to improve existing services and expand the scope of service provision in terms of both quality and quantity to wider areas of the local government
- 2) **Impact on the margin of LG autonomy-**In the absence of increased local revenues, the level of autonomy may be undermined through conditional transfers. By raising more local revenue, local governments would strengthen their position to allocate funds to local needs and priorities
- 3) **Constraints in external funding-**Whereas there is a strong will by the central and regional governments to share revenues with LGs, the national budget is already strained by the need for national infrastructure and other administrative costs. The Donor community expects the programs that are put in place are sustained long after they have withdrawn. Transfers and grants are therefore not enough to satisfy current service demands. LGs must consequently develop innovative strategies to increase local revenue to match the increasing quality service demand⁵
- 4) **A civic and constitutional duty-** It is equitable and a constitutional duty for every patriotic citizen to pay towards the cost of service delivery and wellbeing of the community that one resides in. It is inequitable that a community should have free riders in service delivery even when there is an identifiable and exclusive and personal benefit derived in consumption of such services.
- 5) **Accountability-**Locally raised revenues to a great extent encourage the concept of downward accountability and ownership of programs by the taxpaying community. The community will require from the appointed and elected officials a demonstration of where the money goes and so demand accountability. Service visibility and increased trust in the LG leadership will spinoff in increased revenue volumes and more willingness to pay.
- 6) **Better remuneration-** More local revenues may imply better allowances for Councilors and better staff salaries and conditions, with an outcome of ability to retain skilled staff.

⁵ Observation shows large deficit in garbage collection, sanitation, urban roads and health services.

5. OWN SOURCED REVENUE [OSRs]

Revenue has the same meaning as income. OSR is income for the LG assessed, collected and received by a LG from within its jurisdiction. OSRs therefore are distinct from income from any other source in form of transfer⁶ or donation. *This Revenue Mobilization Manual and Guide deals ONLY with OSRs for local governments in Somalia.* However, to the extent those other sources of income have an impact on the LG budget, their relationship cannot be ignored.

Total Income to local governments which funds the LG budget is comprised of (1) Grants and Transfers from government at the centre⁷, (2) income collected from communities and businesses from within the jurisdiction of the LG, (3) Direct grants from development partners and NGOs and (4) donations from private citizens.

6. SOURCES OF OSRS

OSRs for Municipalities and district Councils vary between regions but generically are raised from (1) User fees and charges (2) Land based Taxes (3) Business Licenses and Permits, (4) Livestock related taxes. There is an all encompassing legal framework that spells out the revenue sources, although each region has a differently numbered Administrative Law, the content is similar.

In Puntland the authority for local revenue mobilization is under *Article 35 and Annex B of Law No.7 while it is under Law 12 for Somaliland.* In each case the following sources are indicated;

A. Taxes and Charges include;

- 1) Income from current and fixed assets
- 2) Sales tax
- 3) User charges
- 4) License fees
- 5) Fines (cash penalties) collected by the courts and grants from the state government and international organizations.

⁶ Share of income from Ports by Bossaso are excluded.

⁷The Capital Law no.3 specifies that 3% of the total government income must be allocated to finance development projects in the capital city of Garowe. District Councils can also receive donations from the State Government (law no. 7 article 35 page 103).

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- 6) Rent collections from the assets of the council, and any other income earned as a result of activities by the council.

B. Service Charges include;

Examples of service charges/taxes may include the following

- 1) Commercial licenses tax
- 2) Livestock sales tax
- 3) Signs tax
- 4) Entertainment tax
- 5) Agricultural tax
- 6) Buildings value tax
- 7) Land value tax
- 8) Temporary structures tax
- 9) Street markets tax.
- 10) Transfer tax.
- 11) Abattoir and butchery tax
- 12) Water reservoirs tax
- 13) Skin and hide tax
- 14) Registration tax
- 15) People registration tax
- 16) Goods and *Miraw (Kat)* tax
- 17) Production tax
- 18) Electricity use tax.

- C. **Donations/financial gifts** from the Government. This is provided for in article 35 of law No 7.

7. OSRS PERFORMANCE IN SELECTED LGS⁸

OSRs growth trends for selected municipalities in Puntland between 2013 and 2014 varied widely between 69% and 9% , the highest being in User fess and lowest growth in Livestock revenues.

⁸ Puntland- Garowe, Gardo, Galkacyo.

Garowe performance was dismal in Livestock taxes but took advantage of the growing commerce to have faster growth in land taxes and user fees.

Land and user fees present better opportunities for faster revenue growth and improvement due to the elastic nature of the source. This seems to indicate strongly that initial revenue mobilization initiatives should focus on land based taxes and user fees, including new sources in fees.

Almost in all revenue cases, the increase in tariff rates was the underlying cause of revenue growth, suggesting that a structured review of tariffs is critical to overall revenue performance.

In municipalities such Gardo seemingly high levels of poverty and unemployment have had a negative impact on revenue mobilization. Consequently, initiatives to tackle poverty, social emancipation and enterprise growth such as LED should be part of early actions.

8. OSR ADMINISTRATION PROCESSES

The key Revenue mobilization activities are; (1) policy formulation (2) enumeration and registration (3) Assessment (4) Publicity, sensitization and customer engagement (5) Collection (6) Monitoring (7) enforcement (8) recording and accountability. **Table 1: OSRs Mobilization Activities**, below identifies and explains the key activities in each process in the cycle.

Table 1: OSRs Mobilization Activities

Sn	Activity	Scope and Meaning
1	Revenue Policy Framework Formulation	<ul style="list-style-type: none"> • Review of tariff structures and rates • Enforcement and prosecution guidelines • Formulation and review of legal framework • Formulation of revenue bye – laws • Policy framework on methods of collection • Budget allocation such as earmarking revenues and accountability
2	Enumeration	<ul style="list-style-type: none"> • Identification and listing of tax payers • Recording all sources of income for an individual tax payer
3	Assessment	<ul style="list-style-type: none"> • Recording income source on a form provided • Determining the tax/ revenue payable basing on given criteria or basing on tariff structure and rates
4	Sensitization and Customer Engagement	<ul style="list-style-type: none"> • Activities that lead to tax payer buy-in, accept to pay, reduce resistance to pay • Holding workshops and seminars for the revenue collectors and the taxpayers awareness campaigns on the importance of paying taxes say, radio announcements, advertising, drama
5	Collection	<ul style="list-style-type: none"> • Receiving revenue from tax payers • Setting up payment procedures and systems
6	Monitoring	<ul style="list-style-type: none"> • Procedures, processes and methods used to ensure that local governments have enough revenue to finance their commitments • Ensure that what is billed is correct, is collected and accounted for
7	Enforcement and Audit	<ul style="list-style-type: none"> • Following up tax defaulters to ensure that all those who should pay actually pay and they pay the right amount • Implementation of prosecution and penalizing processes • Ensuring compliance to systems of control
8	Recording and Accountability	<ul style="list-style-type: none"> • Showing where the money came from and where the money went • Linking services to revenues

9. OSR MOBILIZATION POLICY

Taxation affects communities socially and economically, therefore due consideration must be put in place to reduce on taxpayer apathy and even resistance. When considering revenue mobilization initiatives and more especially for new sources, there are generally accepted principles that should be seen to have been considered. **Table 2: OSR Policy Considerations**, below provides some guidelines and best practices when considering new sources or reviewing current revenue administration systems.

Table 2: OSR Mobilization Best Practice Policy Considerations

Sn	Revenue Policy Considerations	Impact and meaning
1	Adequacy and productivity	<ul style="list-style-type: none"> • Identified revenue sources should be capable of yielding substantial revenues because small revenue sources are expensive in terms of expenditure on collection and effort • The LG should be able to predict with reasonable certainty the revenue yield and flow pattern basing on population and tariff chargeable
2	Simplicity	<ul style="list-style-type: none"> • The type of tax and methods used to assess and collect must be understandable to both the taxpayer and the revenue administrators, <i>e.g. is the property tax assessment based on area occupied or type of materials used?</i> • Complicated revenue instruments lead to disputes, delays and high collection costs in terms of time and resources.
3	Elasticity and flexibility	<ul style="list-style-type: none"> • Local revenue sources should be capable of yielding additional revenues to respond to the increasing demand for services from the community over time • Revenue should increase automatically with the base without always increasing rates. As the base expands so does the revenue yield.
4	Social Equity	<ul style="list-style-type: none"> • Equity means fairness. Taxes should be based on ability to pay by each taxpayer. Those with more wealth and income should be seen to pay more. • Taxpayers should be able to bear a proportionately equal burden in respect to earnings. For instance one should not suffer a 20% of income while the other pays an effective 30% of income if they are in same income bracket. • Those who pay directly for services should be served appropriately

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5	Administrative Capacity and costs	<ul style="list-style-type: none"> • The costs, effort and time involved in administering a particular revenue source should not be more than the actual revenues collected. • Direct Cost of collection and administration should at most not be more than 5% if the tax collection system has to be categorized as efficient.
6	Taxpayer Convenience	<ul style="list-style-type: none"> • Places, seasons and periods in which tax is collected should be convenient to the taxpayer. • A taxpayer should not move long distances to pay at a sub-county if it is possible to open out-posts
7	Certainty, predictability	<ul style="list-style-type: none"> • The nature, base and amount must be known to the taxpayer without doubt. • Uncertainty defeats the prospect of self assessment, discourages further investment and reduces work effort.
8	Political Acceptability	<ul style="list-style-type: none"> • Some revenue sources are very unpopular especially if direct affecting the poor, example of nomads, or livestock • Indirect taxes are less sensitive, while direct taxes like Tax on Employment Income are more sensitive.
9	Economic Impact and ability to pay	<ul style="list-style-type: none"> • Some taxes, charges or fees may negatively affect the propensity of taxpayers to work, save, consume or invest • The taxpayer should be able to easily pay the assessed tax and still remain able to meet good living obligations. • A tax should avoid the impact of making a community unable to pay for basic needs such as food or tuition for their children. • Ability should be gauged against incomes earned, wealth, disposable income to sustain payer's lifestyle, and domestic obligations

10. SUGGESTED OSRBEST PRACTICES

Generically, best practice should cause an increase in revenues through fair assessments and collection methods. For example, the engagement of customer friendly tax collectors, who are able to explain the importance of taxes and to demonstrate challenges in service delivery in a user friendly manner, often results into increased revenue collections.

Additionally there should be effective and efficient use of the revenues mobilized; linking revenues to service delivery. Best practices reflect the efficiency in execution or demonstration of appropriateness of revenue administration activities and outcomes.

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Good practice helps the community to appreciate the benefits of paying taxes and also makes the tax collection exercise a lot easier.

Such examples may include;

- (1) Improved access and interpretation of legal framework. Abide by established laws and procedures. Improvement in access to revenue legal framework also include providing documents in a language generally understood by communities
- (2) Existence of accessible tax tribunals and other institutions for settling tax disputes
- (3) Sufficient and adequate levels of community sensitization and awareness which includes education and information to Taxpayers using all available economically viable means
- (4) Exhibit transparency and accountability by publication of the services funded by taxes; and demonstrate prudence and efficiency in use of resources
- (5) Transparent and fair assessment, collection and enforcement systems
- (6) Taxpayer motivation through incentives for collectors and best payers
- (7) Staff training and development
- (8) Social Service delivery visibility and effective downward accountability
- (9) Increase tax payer convenience in terms of payment systems and location of cash offices
- (10) Sensitization and education of political leaders and employees of council who are key players in revenue mobilization
- (11) Motivation of collectors of revenue and cashiers to reach certain targets
- (12) Regular and effective communication between the tax mobilizers and tax payers.

11. IDENTIFICATION OF NEW SOURCES

A new source as a solution to low revenues should be an option of last resort after ensuring that the current sources are performing at an optimal level and that conditions for a new revenue source are viable. The initial action should be to evaluate improvement strategies on existing sources, identify the “*low hanging fruits*” and focus on these as an early action.

The major challenge is in introducing new revenue sources is, the public attitude, “*does the public think that they are overtaxed and under- served?*”

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As a process of introducing new revenue sources or even changing the tariff structure, revenue administrators should satisfy themselves that policy considerations as indicated in **Table 2: OSR Policy Considerations**, above, are satisfactorily analyzed while assuring the communities that the introduction of new sources will be managed in regard to the suggested revenue best practices.

Box 1: Guidelines for policy formulation on introduction of a new revenue source and change in Tariff

- (1) Conduct analysis of current revenue performance. What is the real cause of the current shortfall? Uncollected debts? Poor collection methods?
- (2) Can the present sources be extended to full potential before a new source is considered? Will a change in tariffs result into a real increase in revenues? Is an increase in tariffs acceptable now?
- (3) How adequate is the proposed source in terms of the need to be financed, is the new source adequate for repairs of abattoir?
- (4) How equitable will the proposed source be
- (5) Is it administratively feasible (compare costs of collection and administration to yield)?
- (6) Will the revenue instrument be easily accepted socially and politically? If not how much is projected to be spent on sensitization.
- (7) Is it affordable and enforceable? Is there sufficient administrative capacity to manage the new source?
- (8) Does the LG have any experiences to go by? Has this tax been implemented in any part of Somalia? Anywhere in East Africa? What has been the experience?
- (9) Consider requirements for Legal and administrative framework. Is a new law required? What would be the costs in terms of time and effort if required?

12. STAKEHOLDERS ROLE IN REVENUE MOBILIZATION

Revenue mobilization is a joint effort of various stakeholders both within the LGs and externally. In order to have a structured implementation of the LRMP, roles of each stakeholder should be understood and respected.

The stakeholders include more specifically the following;

- (1) The Ministry of Interior and Federalism
- (2) The ministry of finance
- (3) The decentralization Champion Office
- (4) The LGAs
- (5) The Mayors
- (6) Chief executive Secretary

- (7) Director of revenues
- (8) All heads of LG departments
- (9) The council and Councilors
- (10) LG Chiefs , Traditional and Community leaders
- (11) Taxpayers of all categories

12.1. Roles of the Centre [Ministries of Finance and Interior]

The minister oversees all operations of LGs and more specifically approves tariffs set by councils and any laws relating to revenues mobilization. All revenues are subject to the constitution and any laws of the land that may be set from time to time.

12.2. Roles of LG Political leaders [Mayor and Councillors]

The Regional and District Law, Cap six, Articles 125 and 127(2) provides for powers and responsibilities of the Councillors and the mayor. The Mayor is the Chief executive and “supervise all the activities of the state in the district”. The council through the Mayor exercises control over all the functions of the LG, and by implication is responsible for Tariffs, regulatory framework, monitoring, appointment of revenue officers and their remuneration. More specifically politicians have the following roles and functions;

- (1) District Council to approve the appropriate service tariffs based on valuation; and to set, adjust upward or downward its tariffs while passing by-laws and regulations
- (2) Enforcing and encouraging peace, stability, order and improvement of the rule of law.
- (3) Initiate and formulate relevant policies on revenue mobilization
- (4) Ensuring the approval of tariffs and bye laws by the Minister
- (5) To monitor and oversee the implementation of revenue mobilization policies
- (6) The mayor to receive and solve problems or disputes (if any) on revenue forwarded by technical officers or directly from the community and villages⁹
- (7) Receive regular reports on revenue performance, discussion and consideration for any appropriate action

⁹ In Gardo this is a process done almost on a routine basis by the Mayors

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- (8) Active participation in publicity and sensitization of taxpayers in order to mobilize revenue
- (9) Promotion of economic growth and development including initiation and implementation of development programs and projects.
- (10) Revenue mobilization, generation and allocation (including accounting for the use) of public resources
- (11) Setting up markets for the sale of goods, livestock and other commodities
- (12) Provision and maintenance of public infrastructure e.g. construction, improvement and care of roads inside the towns of the district.

12.3. Roles of the Chief executive officer

- (1) Responsibility for the implementation of all LRMP and revenue mobilization decisions taken by the council
- (2) Responsibility for enforcement and ensuring compliance
- (3) Coordination, support and participation in OSR mobilization publicity initiatives
- (4) Coordinate activities in revenue departments and ensuring that collection targets are being achieved
- (5) Giving guidance to the Council in the application of revenue legislation.

12.4. Roles of Council officials [Finance and other Heads of Departments]

All officers of a LG must work as a team and support attainment of revenue targets and service delivery. The Head of Finance and Revenues as head of treasury and receiver of revenues, more specifically is responsible for;

- (1) Coordinating the preparation of revenue estimates for consideration and approval by the Council
- (2) Working on tariff structure and advising council on a regular basis
- (3) Ensuring that revenue mobilization best practices are adhered to and promoted
- (4) Supervising all officers entrusted with the receipt of Council revenue to ensure minimal loss of revenues

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- (5) Ensuring that proper records are kept for revenue collections
- (6) Making provisions for safe-keeping of all Council collections and arranging for safe custody of all the receipt books, tickets and licenses.

12.5. The Roles of revenue collectors, cashiers and chiefs

- (1) Issue official receipts, tickets, licenses acknowledging all monies paid
- (2) Ensure that all revenues due are collected and transferred to the LG treasury offices promptly
- (3) Control all stocks of used and unused receipts books, tickets and licenses entrusted to them
- (4) Attain revenue targets set and reporting regularly
- (5) Prepare periodic returns of revenue collected.

12.6. Roles of community leaders and taxpayer

As a method of effective revenue mobilization, communities and their leadership [traditional and religious leaders] must be sensitized on the importance of prompt payment of taxes due and payable. Communities must understand that payment of taxes is a constitutional duty for every citizen. Tax payment enables the local government to provide and deliver joint social services for everyone. The specific roles of the community and taxpayer among others include;

- (1) Promote compliance and prompt payment of all taxes assessed and levied
- (2) Participate in publicity and sensitization meetings as made from time to time
- (3) Providing a positive environment for them to be assessed and to receive assessment bills
- (4) Cooperation with tax assessment committees by providing accurate relevant data
- (5) Community leaders especially to encouragement of fellow tax payers (advocacy) to meet their respective tax obligations
- (6) Reporting tax defaulters and those who evade taxes in their areas of residence, to relevant local councils
- (7) Cooperating with revenue enforcement staff and police
- (8) Demand accountability for taxes paid
- (9) Participate in community development activities of self help nature.

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- (10) Contribute labor or money towards implementation of community projects
- (11) Funding of development activities in the District through payment of taxes
- (12) Take part in participatory planning and monitoring of community projects.
- (13) Receive and consider progress reports from the district council as presented by the councilor(s) representing them

13. REGISTRATION AND ENUMERATION

To be able to collect as much revenue as possible, the revenue potential should be established. This means that all taxable items should be identified and registered in the records of the local government. *LGs must know who the taxpayers are, where the taxpayers are located, what they earn, what their capacity and willingness to pay is and what is collectable for supporting the budget.*

In the LRMP this is part of the early action. If the potential is unknown, it will be difficult to have any meaningful performance measurement.

Good revenue administration systems should have in place *procedures and policies to ensure that all those who should pay a specified tax, charge or fee actually do so.*

Registration involves identifying the taxable items such as number of camels owned, land size and putting them on a list which shows location, names of the owner to be taxed from the village level to the highest local government level.

Enumeration involves estimation of income from each of the activities registered, for example what is the average income earned by a restaurant owner at the end of the year. It is best practice to use teams of at least three persons to conduct the registration and enumeration. These activities are done at the same time and the words could be used interchangeably.

A register should be made for each revenue type and for each village unit or area showing the taxable amounts, names of persons or business and tax. For example a trading License register should show type of business (wholesale shop), street location or village, estimated taxable income and name of owners.

Box 2: Registration and Enumeration Best Practice Guide

- (1) Appoint enumerators to work in teams in locations and areas- inclusive of all key stakeholders
- (2) Publicize days and dates for enumeration and registration of tax objects and persons
- (3) Conduct awareness campaigns on the reason for enumeration
- (4) Involve community leaders to support the exercise
- (5) Train enumerators and provide terms of reference, and use of stationary
- (6) Enumeration teams should move from house to house or business to business in order to register individuals and businesses.
- (7) Door to door property verification irrespective if the GIS
- (8) During registration of persons, deaths, births the TIN should be updated.
- (9) Identity cards may be issued for all tax payers.
- (10) Register all tax object types- number, location and estimated taxable income
- (11) Identify and categorize all business types and location e.g. Hair Salons, restaurants
- (12) Record each information in registers and computers provided
- (13) Allocate number plates or labels on buildings, commercial property, and land.
- (14) Allocate Large taxpayers with life-long *Tax Identification Numbers* (TIN)
- (15) All enumerations should take place in the whole LG at the same time

14. PUBLICITY AND SENSITIZATION

To ensure appropriate compliance and equity in revenue mobilization, all processes should start with sensitization of taxpayers and other stakeholders. Local government officials should at this stage be able to sell the idea to contribution to local development through payment of taxes and charges.

Communities must be made aware that unless taxes are paid services and especially those benefiting the poor will not be affordable. At all times during the sensitization meetings and forums, officials must demonstrate a linkage between taxes and service delivery.

Sensitization may be done through Radio programs¹⁰, use of bill boards, prayer time, and meetings with traditional leaders and workshops especially with the business class.

Effective sensitization reduces the costs of collection generally and, more specifically compliance and enforcement.

¹⁰ Gardo Municipality plans to construct a radio station for this purpose.

Box 3: Publicity and Sensitization best practices guide

- (1) Select a team of officials and councillors for the task. Councillors should be representatives of areas where the sensitization activity will take place.
- (2) Train Officials and councillors in public speaking and knowledge on revenue mobilization, types of revenues, why they are imposed and assessment criteria, enforcement systems..
- (3)
- (4) The sensitization teams must move from area to area. Taxpayers should be met within their locations and NOT call the to head office
- (5) Appoint revenue appeals tribunals so that the community is assured of fair taxation
- (6) The sensitization team should be able to demonstrate how the resources of the previous years were used by showing the most visible services such as education, supply of clean water for animals and people, play grounds, health centres and roads
- (7) Completed projects should be commissioned by senior politicians such as Mayors, Ministers in the presence of village heads and other local leaders and councillors
- (8) Publication of revenues collected and what they were used for using village notice boards in the local language and in simple understandable format

15. REVENUE DATABASES MANAGEMENT

Revenue data management improvement almost always has a significant positive impact on revenue mobilization¹¹. LGs and especially municipalities must therefore strive to create effective municipal data banks systems that are able to collect, analyze, retrieve and distribute social-economic data with a focus on local revenue mobilization and budget information to stakeholders in a timely manner.

The revenue data management system should particularly be able to create *local revenue registers, capture revenue payments and produce instant reports on registration, payment and summary reports.*

The BIMS which is already in application for business and property taxation is a good example of a data base system that could be extended to other revenue sources. There are many data software systems based on Ms-excel and Ms-Access that may be used as off shelf or tailored to the needs of the LG.

¹¹ Gardo and Garowe increase in property revenues is due to better data management and the BIMS. Other international experience shows that improvement has a significant impact. In a local government in Uganda, Kalangala District, a pilot scheme during the 2011/12 financial year and proved successful by increasing the district's revenue collections from Shs98 million in 2010/11 to Shs589 million in 2012/13.

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It is recommended practice to continually update and clean up all revenue data on a regular basis, more especially to include changes identified during the annual enumeration and registration exercise.

Overall a good data base supports effective revenue mobilization by providing a basis and an environment for effective;

- 1) criteria for making fair and reliable assessments
- 2) collection and recording
- 3) analysis and interpretation of results
- 4) internal audit and monitoring
- 5) revenue forecasts and budgets,
- 6) enforcement and compliance through tracking payment trend so that defaulters are isolated.

Box 4: Data Base Management Best Practice Guide

- (1) Identify a user friendly system or tailor made to suit operating environment
- (2) Data base should have facility for storage and retrieval of information on all revenue sources
 - a. Revenue type, e.g. Rent for council houses
 - b. Names of taxpayers and Names of businesses
 - c. Type of business (retail, wholesale, Carpentry, restaurant
 - d. Location- their village
 - e. Estimated earnings and wealth for each taxpayer and amount assessed
 - f. Description of tax object- e.g. 5- floor building, volume 1000sq. meters
 - g. Assessment number or number such as market stall, property number
 - h. Amount assessed for each taxable item or individual
 - i. Details of Payment made to date, receipt numbers, dates, cash office, bank deposit slip number
 - j. Arrears due from individual taxpayers, comment on action taken
- (3) Be able to generate monthly revenue performance reports
- (4) Record of complaints and how solved
- (5) Provide access on internet for public to track own revenue payments
- (6) Link data to budget performance reports

16. REVENUE ASSESSMENT PROCESS

It is desirable that more revenues are mobilized but it *must be equitably assessed and collected* and with due regard to the social economic environment of tax payers and business. This section deals with (1) the Revenue Assessment Committee (2) basis and methods of assessment, (3) the use of assessment forms and certificates.

16.1 Revenue Assessment Committee/Team

A *gender balanced* assessment teams comprising representatives from different geographic and political demarcations should be appointed by councils before the start of a financial year, preferably three months before the end of a financial year.

The assessment team should be selected from among a group of villages considering administrative convenience and selecting persons who have a personal knowledge of the taxpayers. Business interests and other interests such as farmers and minorities should be considered. It will be unwise to have an assessment team for property without representation of property owners, an area political representative, or councilor.

The team should be headed by an appointed official such as a Senior Revenue Officer or area chief.

The team must be trained on use of stationary, criteria for assessment and eligibility, the tariff structure and the purpose of paying the type of revenue.

The key function of the assessment teams is to ensure participatory, fair and equitable taxation free from any political or social interference. Assessments that are deemed fair by the taxpayer will increase willingness to pay and reduce the costs of revenue administration in terms of enforcement costs.

16.2 Basis and Methods of Assessment

The nature of the tax payable determines the basis and method of assessment. For Council residential houses, the basis is the market rent and dues based on tenancy agreement terms or any such terms as may be approved by the municipality or LG.

Business License is based on the tariff structure which varies from each LG but generally based on the value of goods in the shop. Other Fees, fines, charges for livestock and rents are based on the approved tariff structure.

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For example, a rate per camel sold in the market ranges from shs 1,000 to 5,000 and this is multiplied by the number actually sold. A trader with 200 camels will pay shs 200,000 while a trader with 500 camels will pay shs 500,000. This system ensures that those who earn more will pay more in taxes irrespective of the services that they will consume.

Property tax will be based on rates defined by the tariffs structure, *see example of tariff structure for Puntland, at end of this manual.* The criteria for property are either *the area occupied by land or volume in cubic meters for buildings* irrespective of the building material and the commercial purpose for the building.

Distinctions have been made between residential and commercial buildings. The assessed amount is fixed by applying different methods of assessment based on area of the land and volume¹² of building depending on rates approved by respective municipalities.

Municipalities such as Garowe Municipality has graded properties in zones from Grade “A” to Grade “E” and different rates. Grade “A” pays premium of shs 4,000 per square metre and shs 1,500 for Grade “C” areas. In Gardo municipality, Grade “A” properties pay up to shs 3,000,000 while the lower Grades pay as little as shs 300,000.

These systems ensure fairness and equity and should be encouraged.

Assessment may be done daily or annually depending on the type of tax payable. Daily assessments such as market dues, will usually not require an assessment team since they are subject to an already approved tariff rate.

In the case of more especially daily taxation such as market dues, hawkers’ charges, livestock fees, the amount actually paid is at the discretion of the revenue officer at that point. Taxes payable annually such as property taxes and licenses are best served by an assessment team.

¹²Lgs are using volume to determine amount payable as property tax from storeyed buildings and areas for land taxes. Garowe charges shs 3,500 per cubic metre for buildings.

16.3 Certificate of Assessment

A certificate of assessment is issued for annual assessment especially for property and business taxes. This assessment certificate should be part of the data to be input in the computer system reflecting *expected and payable revenue from specific tax payer, assessment number and type of revenue*. The taxpayer also reserves the right to complain to the appeals tribunal or court if unsatisfied with all the assessment.

On receiving details of assessment and entry in the data system, revenue officers then produce a computer or manual bills for delivery to the respective taxpayers. If however the bill differs from the certificate, then the taxpayer may lodge a complaint with the appeals tribunal or the chief executive officer.

The agreed and issued bill should be made available to the cashier/ tax collector by the taxpayer at the time of paying the tax.

Example of assessment certificate

Gardo Municipal council- Property tax

Assessment Number		Register folio				
	Location	Details		Value	Rate	Tax payable
Noah	Area B	3-Storey	Building	Occupy	1,500 per	3,000,000
Ahmed		Property on Plot 203		2,000 sq.		
		High Street, Gardo		metres		
Signature of assessment team Leader					Date	

Tax assessors keep forms and working papers detailing evidence of their assessment, such as measurement of property, type of materials used, nature of business, number of occupants... so that this may be used in the event of a dispute. It is advisable that at least three members of the assessment team sign on the assessment forms used.

A person exempted from payment of the respective tax is issued with a certificate of exemption which must be kept to substitute the assessment forms.

16.4 Appeal against assessment

Revenue policy should provide for grounds of appeal against a tax or any assessment for purposes of equity and democratic governance. The basis for appeal may include reasons such as;

- (1) Those assessed to pay a tax they are not liable to, for instance if a tenant is assessed for property tax which should have been imposed on the owner of the property, or assessment on a place used for religious purposes only such as a mosque
- (2) Those assessed to pay a tax rate higher than the standard rate, for instance an individual with property in Grade “B” area assessed at a rate for Grade “A” area
- (3) Those denied exemption from payment of a tax either due to old age, disability, working in the armed forces, gender or for whatever reason

For fair taxation, there should be tax appeals tribunals representing groups of villages or urban councils to handle in its area of jurisdiction cases of persons aggrieved by tax liability.

It is a democratic right for every taxpayer to be given an opportunity to be heard in the event a complaint against a tax assessment is filed. In the event a complainant is not satisfied with the decision of the appeals tribunal, then there should be a provision for appeals to a higher local government level, the Mayor or Minister.

Box 5: Assessment Process Best Practices Guide

- 1) The council selects assessment committees representing all areas and locations in the municipality and Agree remuneration for committees
- 2) Each committee to be headed by a technical officer
- 3) Conduct training and show material to be used and tariff structure
- 4) Assessment should start at least 120 days before the end of a financial year
- 5) Circularize dates of assessment and request local leaders to participate
- 6) Select convenient areas where people may come for assessments
- 7) Every meeting starts with an explanation about the assessment system, linking the enumeration to the assessment
- 8) The appeals system should be well explained
- 9) Assessments should be base on information from the enumeration and registration exercise. Assessors should not for example go out to measure volumes of buildings.
- 10) Provide registers for recording all names and details of assessment
- 11) Issue assessment certificate to each payer and record number reference in register
- 12) Retain a copy of the certificate for use by the Head Office Revenue accounts section
- 13) Issue forms to persons who want to appeal against the assessment

17. REVENUE COLLECTION PROCESS

One of the major risk or fear is that assessed revenue may not be fully collected as efficiently and effectively within the expected time frame or as desirable.

The best case scenario is when all amounts billed are collected on a timely basis and in full without an option for arrears or defaults. The risk is that the longer the revenue remains uncollected, the higher the risk of default.

High defaults undermine the budget and therefore service delivery.

This section discusses issues and hurdles relating to processes in the actual collection of revenue from taxpayers. More specifically the section focuses on the;

- (1) importance of receiving all expected revenues
- (2) procedures for receipt and recording of revenue
- (3) need to make revenue collection documents available in time
- (4) procedures for custody and banking of revenue
- (5) constraints and good practices for collection of revenue.

17.1. Receiving of revenue

Effective revenue mobilization implies that all assessed revenue must be collected within the expected time. Delays in receiving revenues results into delays in service delivery and may also force the LG into debt or legal challenges if suppliers are not paid in time. As a supporting activity, all required stationary and logistics such as transport, cabinets, pens, and registers must be provided in a timely manner.

Only legally approved revenue may be collected by revenue officers.

The current practice¹³ is that revenue collectors receive and bank this revenue directly and deliver bank pay-in slips to the treasury office. In some municipalities however, municipalities' cash is brought to the treasury and then banked by a designate official.

It is mandatory that official receipts are issued for all council revenues received instantly. Official triplicate receipt books should be in use so that the original goes to payer, copy to accounts for computer input or entry in registers, with a third copy retained for internal audit

¹³ Garowe municipal Council

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purposes. Receipts for receiving revenues must show (1) *Name of Payer* (2) *date of payment* (3) *amount in words and numerals* (4) *Purpose of payment* (5) *location of tax object* (6) *outstanding amounts if any* (7) *revenue budget code* (8) *name and signature of cashier*

Box 6: Receiving Revenues Process Best Practice Guidelines

- (1) Receipt books are received from revenue stationary stores and signed for by each revenue officer undertaking to collect revenues
- (2) All receipts must be pre numbered by the printers in a serialized sequence
- (3) At beginning of a financial year, the director of revenues issues a revenue demand bill to taxpayers, either pre printed or generated by computer BIMS and pre numbered serially
- (4) The cashier or collector should ask for the certificate of assessment or make reference in the computer system so as to determine the particulars and amounts of revenue receivable
- (5) The Revenue Collector must immediately, in the presence of the payer, count the cash and issue an acknowledgement serially pre numbered and carbonated receipts receipt for the revenue collected.
- (6) Cheque like counter foils or electronic printed receipts may be used, so as to retain the actual, true and original data on the copies.
- (7) Issue One acknowledgement receipt is issued to a revenue collector who accounts for daily collections banked directly
- (8) Revenue shall be collected by a qualified and competent officer who is in an established post, and is so authorized in writing by the Chief Executive Officer, on written recommendation of the Director Revenue or Finance
- (9) Set targets for revenue collectors per revenue type basing on budget as approved

17.2. Records for revenue received

To reduce the risk of any revenue loss care must be exercised at receipting, banking and recording in cash books and other revenue books. The recording system should be able to ensure that all revenue stationary and receipts are fully accounted for and that they are issued out in a systematic and transparent manner.

For more effective revenue and cash control, besides receipt books or computer based receipting system, specified other revenue documents are necessary. Some of the key documents include;

- (1) Revenue Registers-For each source of revenue, including taxes, rates, fees, rents and other income, relevant revenue registers are used to show details of revenue due from each taxable item, revenue collected and all arrears. If a computer is available, this information will be a register form within the computer environment.

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- (2) Tax Collectors Records-Each revenue collector maintains books for accountability of receipts and cash showing; all receipts books and receipts received and how they were issued out indicating amount for each receipt and a cash register/book showing cash received daily and evidence of banking deposits

Box 7: Records for Revenue Received Best Practice Guide

- (1) Receipts, tickets and licenses are ordered for and issued in numerical sequence
- (2) All receipt books must be signed for from the revenue stationary store and be accounted for before a new book is issued to a collector
- (3) Receipts are completed in indelible ink, not pencils or erasable ink
- (4) Receipts should be written in full view of the payer, no receipts must be written from below the counter table
- (5) Supporting documents such as assessment certificates must be retained for future inspections
- (6) Each receipt provided a space for signature of the receiver of revenues and a name
- (7) Erasures on receipts are forbidden, if however there is a genuine error which is made by a collector, the receipt must be cancelled and a new one issued. The cancelled receipt must remain in the book for verification by internal audit.

17.3. Security and Control of revenues received

Security refers to applying measures that reduce the risk of loss of cash and failure to pay revenues.

The initial step is that a LG should have a secure facility for custody of cash, receipt books, documents and other valuables, preferably an appropriate burglar proofed room within the premises. Where feasible electronic alarm systems should be installed supplemented by closed circuit cameras.

Individual revenue collectors should also be provided with safes or cash-boxes with additional security for cash in transit¹⁴.

All revenues collected within a LG must be banked promptly on a *Special Revenue Collection Account* from which funds are periodically transferred to operation accounts.

¹⁴ Some revenue collectors in Garowe collect millions in cash everyday and move on foot for long distance.

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All cash should be banked before any spending. *No collector should spend any money from collections.* The revenue collector or cashier who makes the banking must ensure copies of the bank pay-in-slips are provided to the treasury as evidence and to be used for accounting purposes. Copies of bank deposit must be provided to the treasury for reconciliation with the receipts issued. The internal auditor has an important role in this daily reconciliation assignment.

Box 8: Security and Control for Revenues Received Best Practice Guidelines

- (1) Revenue receipt books orders are placed at least 60 days before end of financial year
- (2) A LG should have a secure facility for custody of cash, receipt books, documents and other valuables and issued only on approval by the head of revenues
- (3) Individual revenue collectors should also be provided with safes or cash-boxes with additional security for cash in transit
- (4) Receipts issued by cashier should have a reference to assessment and bills for tax payer
- (5) No collector should spend any money from collections. The revenue collector or cashier who makes the banking must ensure copies of the bank pay-in-slips are provided to the treasury as evidence and to be used for accounting purposes
- (6) Daily bank reconciliations using daily cash summary sheets
- (7) All revenue must be banked intact and promptly on a special Revenue Collection Account
- (8) Bank deposit slips should be delivered to the cash office daily, cashier to acknowledge
- (9) The Cashier or Revenue Collector shall arrange the cash according to denominations, and prepare a daily cash summary report detailing cash and cheques in the safe at close of the day. The daily reconciliation is witnessed by the internal auditor
- (10) Set targets for revenue collectors per revenue type basing on budget as approved
- (11) Provide bonus and incentives to revenue collectors who meet their collection targets within the planned time period
- (12) Involve community leaders in the actual collection exercise
- (13) Regular transfers of revenue staff between revenue zones and areas

18. LRMP AND R-MAP

The Local Revenue Mobilization Initiative has an underlying expectation that a LG administration will be committed to optimizing the revenue sources that are legally and administratively available. The intent is to use each source of revenue to its fullest potential in accordance with the wider goals and priorities of the state and LG. Revenue mobilization initiative besides seeking to empower LGs to increase revenue volumes through reforms in revenue administration systems includes a focus on exploiting opportunities to identify new revenue sources where the existing revenues are inadequate to meet the demands of residents.

An important tool to ensure effective revenue mobilization is to agree on a strategic Local Revenue Mobilization Plan so that consequent actions relate to a structured Revenue Mobilization Action Plan, R-MAP.

The LRMP is an expression of commitment and putting in place a wide-ranging series of improvements to its administration policies, legal framework and operational structures.

The LRMP has a significant impact in revenue mobilization because it tells us *what should be done, when, defines the expected output in terms of revenues, defines expected outcome in terms of impact on economic activity and social wellbeing and finally indicates who will do the activity and when.*

In order to effectively develop and implement the LRMP the key challenges to revenue mobilization must be further analyzed. Previous mission have already documented and analyzed the various revenue mobilization challenges within the region and based on these findings, LGs will have a hands-on development of their respective LRMPs and R-MAPs before the close of financial year 2015.

Box 9: Development of LRMP and R-MAP best Practice Guidelines

- 1) **Step One:** Appointment or selection of a Revenue Mobilization Steering Committee [RMSC] and task forces for specific revenues which will spear head the monitoring of the process and ensuring implementation.
- 2) **Step Two:** Review of legal framework and administrative policies to identify what are acceptable revenues legally and what are the possible sections of the law to review.
- 3) **Step Three:** Analysis of past revenue performance to identify the reasons behind the trend and to draw conclusion on which future strategy and actions will be based.
- 4) **Step Four:** identification and analysis of revenue administration challenges. Basing on the revenue performance analysis, document the challenges that must be overcome and the opportunities to be exploited. Construct a matrix indicating revenue administration challenges and make recommendations for managing these bottlenecks so that there is enhanced revenues for at least four years basing on the improvement strategies.
- 5) **Step Five:** Moving forward. Identification of revenue improvement and risk management strategies. The opportunities should be exploited, while risks are mitigated so that there is overall revenue betterment. A key activity is reviewing the outmoded tariff structure. For this phase of the *LRMI- Somalia, review of tariffs is a critical success factor in revenue mobilization improvement.*
- 6) **Step Six:** Costing of services and identification of expenditure rationalization strategies. Identify services that have an identifiable private benefit for which user fees may be levied. Making estimates of the marginal costs of delivery of specified services such as abattoir; for instance *what is the cost added by slaughter of an additional animal at the abattoir?* In the medium term the service costing will help support setting of appropriate charges and reduce the level of current “subsidy” and hence releasing extra revenue. In the longer term budgeting could be done under a cost centre system.
- 7) **Step Seven:** Analysis of past expenditure trends. Identify expenditure areas that are priority and those that have been underfunded. Construct a projection schedule for the new priority expenditure to which the improved revenues will be applied. The trend growth in expenditure is then linked to strategies that will raise sufficient revenue to meet the service delivery requirements. Linking revenues to service delivery
- 8) **Step Eight:** Develop a revenue and expenditure projection for 2015-2019

19. OSR MONITORING CONCEPT

To monitor means to watch and check something over a period of time. It ideally involves closely observing the performance or progress made by those who are responsible for carrying out certain activities. Monitoring involves taking relevant decisions to ensure that collection targets are achieved. To a great extent monitoring process are linked to the R-MAP which provides for a series of sequenced activities that lead to increase in revenue volume.

The R-MAP details the activity to be done, why it is to be done, what the expected results are, the time for performance and the responsible person. The monitoring concept includes ensuring that the Plan is actually followed and continuous corrective action done.

To ensure that the LRMP and R-MAP remain on course, the revenue mobilization activity referred to as monitoring must be undertaken.

The monitoring of revenue collection therefore encompasses those procedures and processes performed by Political and Administrative officials within a LG to check;

- (1) Whether the planned activities are being complied with
- (2) What the implementation challenges are
- (3) Whether revenue is being collected economically
- (4) Whether revenue is being collected efficiently
- (5) Whether the safety and financial controls are complied with
- (6) Whether the risk for defaults and undermining of service delivery is well managed
- (7) Revenue is being mobilized and collected in accordance with set rules and expectations of the LRMP and the legal framework

The monitoring concept is to put in place procedures and to perform activities on a continuous basis that will ensure that maximum effort is being put into the collection of revenue in order to maximise yields or total collections at the lowest collection cost possible. Of special importance in revenue collection monitoring is the prevention of irregularities of any form and especially fraud

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This section focuses on explaining key issues in revenue mobilization monitoring systems which are primarily based on (1) Setting up sound collection targets (2) Setting up good control systems (3) taking corrective action.

19.1. Revenue Collection Targets

To enable realistic and sound collection performance measurement collection targets are set for periods and individual collectors and revenue zones. Targets set criteria against which performance is evaluated

These targets should be achievable and responsibility should be assigned to individuals to ensure their achievement in terms of timing and revenue volume. Collection targets are important because the actual collections will later on be compared to this set of targets and any necessary corrective action taken.

In setting targets past performance should be assessed to determine whether the hurdles have been addressed. Staff should be evaluated on circumstances that are within their control; therefore any factors deemed uncontrollable immediately should be isolated.

Revenues are collected so that services are paid for.

The first step in target setting is determining the cash outflow pattern monthly and quarterly

The second step is to identify all revenues payable daily and determine the monthly expectations, at least 95% of daily revenues

The third step is to identify the monthly revenue such as Rent and set at 95% performance

The fourth step is to examine the trend in annual taxes such as Licenses and property tax at assume at least 70% is receivable in the first six months and the balance in the next six months and determine a quarterly expectations.

The fifth step is to determine revenues per location and zones

Lastly identify and allocate staff according to their competencies and assign¹⁵ them a target.

The expenditure cash outflow pattern has an impact on periodic cash revenue targets.

For example there must be enough revenues to meet fixed costs such as wages, fuel and transport, councillors' allowances and utilities. Then there are periodic costs such as payment for contractors and suppliers. The cash outflow should determine the monthly needs.

¹⁵ Discuss the setting of targets with the staff so that the best part is agreed in a participatory manner.

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The next step is to document payments that are expected on a monthly basis and target at least 90% receivable every month.

Publish on the notice boards targets for (1) each revenue staff (2) revenue type (3) location (4) time period (5) incentive plan

Example of Collection Targets format

REVENUE SOURCE		Market Rent 2015					
No. of registered tax payers	Grade/Location	Expected Annual Inflows	Actual received per Quarter				Name of staff
			Q1	Q2	Q3	Q 4	
600	A	30,000	8,000	9,000	9,000	4,000	Mustafa
1200	B	20,000	3,000	10,000	5,000	2,000	Amina
900	C	86,000	18,000	25,000	36,000	7,000	Abdu
300		136,000	29,000	44,000	50,000	13,000	
Supervisor			Hassan Karim				

19.2. Control Systems

Controls are financial management systems and tools used to ensure compliance to set revenue mobilization plans and strategies including risk management. These tools will be found within the approved financial regulations that may be issued by the LG and the Ministries of Finance and Interior.

An important aspect of control is *the assessment of actual performance against planned performance, and reacting to the results*. The key output of control procedures is development of a corrective action. For example if revenues from markets are continually declining then investigations must be quickly made to identify the causes and finding a lasting solution, such as sending reminders regularly..

The success of a control system is heavily dependent on the quality of accounting and revenue records. *Revenue collections should be continuously compared to planned targets and corrective action taken*

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There should be two levels of controls; (1) operational level controls and (2) management level controls.

Operational controls are those controls put in place to control the effective and efficient performance of specific tasks, for example, banking of the collected revenues intact, daily balancing of cash and issuing receipts immediately.

Management controls are essentially a matter of exercising management judgement by for example focussing on resource requirements for all tasks in the revenue collection process, determining when incentives should be paid or when enforcement should start operations.

It follows therefore that if good operational controls are designed for each task in the revenue collection process, management intervention will be at a minimum. Frequent and direct involvement in routine revenue collection may undermine effectiveness and efficiency and should therefore always be at a minimum.

Box 10: Revenue Monitoring and Control System Best Practice Guide

- (1) Approve LRMP and R-MAP
- (2) Select monitoring teams for each major revenue category,
- (3) Involve appointed and elected officials
- (4) Set collection targets, individual collector and revenue zone and each revenue and time period
- (5) Assign a supervisor for each revenue type
- (6) Each collector and supervisor files a periodic report and explanations
- (7) Conduct regular monitoring meetings on a weekly basis and ensure continuous corrective action
- (8) Prepare monthly reports for consideration by council finance committee
- (9) Review the R-MAP and develop a checklist to evaluate performance according to plan
- (10) Involve the internal auditor in monitoring of results on a regular basis
- (11) The Internal Auditor must prepare a quarterly revenue monitoring report
- (12) Action on irregularities must be fair, equitable, firm and swift
- (13) Control systems should follow best practices such as supervision, segregation of duties, regular reconciliation and accountability

20. PERFORMANCE MEASUREMENT

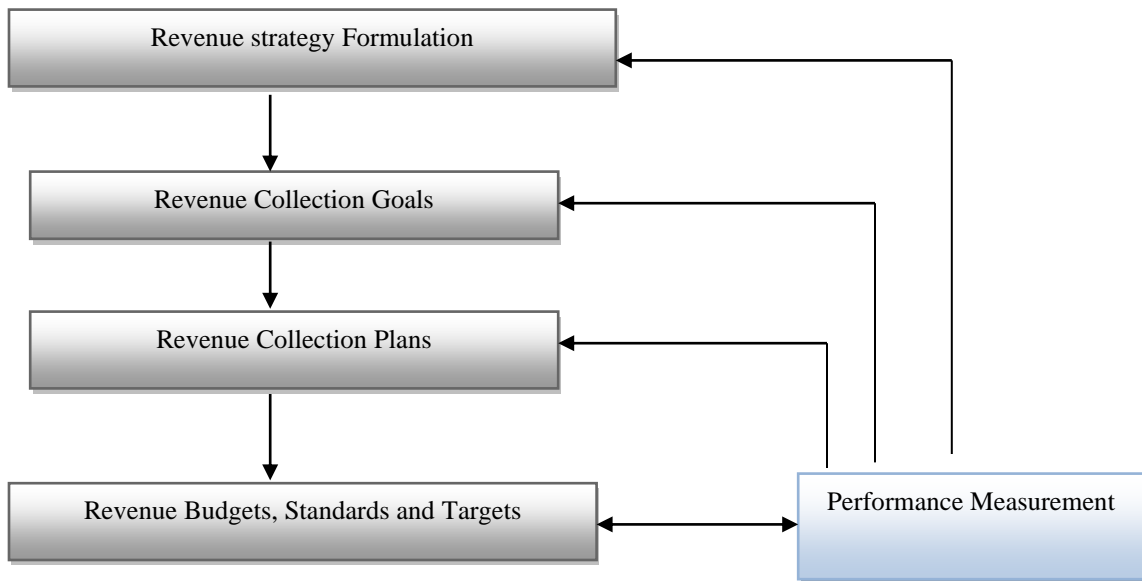
Performance refers to how well the revenues have been collected in respect to the budget and the LRMP. A performance measure therefore refers to a quantifiable indicator used *to assess how well* a local government is achieving the desired revenue level within the budgetary framework. Performance indicators will measure for example *the speed of delivery of bills, the cost of collection per revenue shilling, the time within which revenues have been collected.*

Measurement is then the *comparison* between the target and actual collection. The key purpose for performance measurement is to identify the nature of corrective action to be taken so that there is sustainable increase and effective mobilization of revenues.

For council and management to take the appropriate corrective action to improve performance, there must be timely and accurate reports. Good and useful reports are in turn based on reliable revenue data at all stages of revenue mobilization.

Performance measurement examines and reports on various aspects of revenue mobilization activities and processes. The following diagram illustrates this concept.

Use the following diagram to illustrate the feedback control model.



Feedback must always be acted upon (follow-up) and corrective action taken to rectify the situation.

20.1. Performance monitoring Reports

The ultimate reporting requirement is to report on revenue collection variances in terms of volumes and timing. The report should include *an analysis of the causes* of collection shortfalls (or even over collections) and submitted to the appropriate manager or council committee.

Revenue collection variances (shortfalls and over collections) can be either controllable (*e.g.* where the council fails to provide enough funding to the collectors) or uncontrollable (*e.g.* due to the effect of a drought and insecurity).

There should be an agreeable reporting frequency or depend on what is prescribed by financial regulations. Some reports can be weekly, or even daily, others can be monthly, or even quarterly. The responsible manager/supervisor/Director is responsible for analysis and interpretation of the periodic performance reports. The revenue director is responsible for guiding the council committee on the performance and seeking permission for corrective action especially if it involves a policy shift. Revenue and finance officers and directors should assess that validity of the reported causes of the trend in performance and make viable suggestions and alternatives for revenue improvement.

Reports must be prepared in a user friendly format so that councillors can read them, understand them and be able to act on them.

Example of a monitoring Report format

REVENUE SOURCE Land Tax 2015 Date: 30th June 2015

No. of registered tax payers	Grade/Location	No. fully paid	Expected Annual Inflows	Expected Quarterly Inflow	Actual received per Quarter				Cumulative received as at 30 th June	Variance	Causes for under/over performance
					Q1	Q2	Q3	Q 4			
100	A	60	300,000	75,000	80,000	90,000			160,000	+10,000	Billed early
200	B	50	200,000	50,000	30,000	10,000			40,000	-60,000	Poor register
300		110	500,000	125,000	110,000	100,000			200,000	-50,000	Staff failures
Revenue Collector names											
Director of Revenues											

20.2. Performance Analysis

Analysis of performance involves identifying revenue trends over time and within different collection zones. Other parameters will be used for analysis with a purpose of enabling municipal councils to take rational and informed decisions.

The reporting and analysis of revenue collection performance is a key aspect of control and will involve the development of acceptable performance measures for inputs and outputs.

The common analysis tools are (1) ratio analysis (2) trends analysis for individual sources and across selected sets of LGs. As an administrative tool this analysis may be used for comparisons between different LGs and also used for benchmarking of performance across LG and regions

The control process as a component of the monitoring concept requires selection and agreement on performance measurement indicators for outputs, inputs and outcomes. Some of these indicators are already included in the R-MAP.

The quantitative performance indicators used for further analysis include; *number of taxpayers responding in a given period, total amount paid, period in arrears, levels of defaults, cost of collection...number of complaints..Number attending sensitization meeting, timeliness of reports...*

Example of ratio analysis:

(1) Total Collection for a given source[divide by] Total amount collected

Assume : Data for Garowe	
Livestock taxes 2015	Shs
Collection Cost for Livestock tax	2,000,000
DIVIDED BY	
Livestock tax collected	40,000,000
Collection Efficiency Ratio for Hergesia	5%
Compare with others: Efficiency ratios	
Galkacyo	10%
Gardo	20%

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The above analysis shows that Hergeisa is collecting land revenues more efficiently than any in the region. The task of management is to analyze why this is so and what corrective action may be done.

(2) Number of staff involved and cost of wages for each revenue source

Assume : Data for Gardo¹⁶	Land	Livestock	Business	Charges	Total
Total collection	90,000	30,000	50,000	45,000	215,000
divided by					-
Number of staff	50	5	20	60	135
Revenue collected per revenue staff	1,800	6,000	2,500	750	1,593
Total wages	9,000	6,000	10,000	30,000	55,000
Wage Cost per revenue source	10%	20%	20%	67%	26%

The analysis shows that collection of charges is done at a high cost leaving only 33% of the revenue to be used for other services. The reason may be too many staff or that the wages are too high. The results of this analysis can be used to identify the causes and therefore corrective action and to compare with other municipalities

Example of Variance analysis – this gives a comparison between the targeted or budgeted amounts and actual collection per period expresses either as a percentage or a difference in amounts.

(1) Actual less Budgeted amount for a given source [divided by] Budgeted amount for a given source

	under collection	over collection
Actual	45,000	60,000
Budgeted	50,000	50,000
Variance	(5,000)	10,000
Variance ratio	-11%	17%

Actual performance needs to be compared with targets, standards (if any), and overtime, with similar activities within and outside a particular LG. To be able to know the actual performance, one needs to record all the revenues as they are being collected.

¹⁶ These figures are fiction and for purpose of illustration only.

It is important to realise that performance measures are not in quantitative or numerical terms only but can also be qualitative for example the number of complaints from taxpayers against council staff.

20.3. Corrective and Feedback Action and

At the end of the whole monitoring process, relevant decisions have to be taken by those with the authority and responsibility. In many instances there may be revenue collection shortfalls and decisions have to be taken to boost income. Examples might be disciplinary action on errant staff, mounting of door to door task force, paying staff incentive on time...

Box 11: Performance Measurement Guide

- (1) Setting performance measures such as revenue collection targets
- (2) Compare actions with the LRMP and R-MAP
- (3) Determining what has happened *i.e.* how much revenue has the LG collected? How many complaints have been made? What is the cost of collection? Which area collected what and how much?
- (4) Determining why it has happened, for example why has the LG collected such a low figure during the past month? Reasons could be embezzlement, effects of a drought and the like.
- (5) Deciding how to rectify the situation. In this case the LG managers must take decisions to improve the situation and ensure that the projected revenue levels are reached. Decisions might be transferring staff, revenue enhancement campaigns...
- (6) Compare performance rates with past trends

21. ADMINISTRATIVE AND POLITICAL ACCOUNTABILITY

After revenues have been collected, the public needs to link this to service delivery, *showing where the money came from and where the money went*. The administrators and politicians should be able to show where the money goes. Satisfying the public on effective and efficient use of funds has got a direct impact on taxpayer willingness and therefore a reduction in enforcement costs.

Stakeholders entrust staff with their money and resources in the hope and conviction that they will use such resources *‘as if it was their own*. The term *accountable* refers to the requirement to give a report or explanation of one’s actions and performance.

Derived from accountable is *accountability* is a term used to denote the explanations given by those who have an obligation to the taxpayer and other stakeholders about their performance and more specifically how funds have been utilized. The political and administrative cadres must provide this accountability by *providing documentary and other evidence* in support of actions taken while executing tasks assigned while ensuring that all actions are in line with expectations of stakeholders. There must be demonstrable evidence and explanation **of the outcomes and outputs** and not merely paper evidence in order for such action to be evaluated with respect to generally pre-agreed outcomes.

The concept of accountability presupposes that staff and politicians will act in outmost good faith to achieve the objectives set for them. *But we know that staff may have objectives that may vary from what the organization has set and often this undermines revenue mobilization initiatives.*

The term accountability generally refers to a broad spectrum of *public expectations*¹⁷ dealing with organizational performance, responsiveness, and even morality of a local government. Public and community expectations often include implicit performance criteria such as achievement of planned outputs and outcomes or other criteria relating to perceived obligations such as relationships with the electorate and in whose benefit responsibilities are executed.

The other underlying requirement for good governance and therefore accountability is transparency in all dealings with public funds and performance of public functions. One such method is publicity of financial and operating information.

Box 12: Accountability and Transparency Delivery Guide- Publication of documents

- (1) Budgets and work plans
- (2) Grants received and source
- (3) Periodic accounts
- (4) Tender board minutes
- (5) Financial decisions of Governing body
- (6) Internal and external audit reports
- (7) Reports on investigations
- (8) List of approved suppliers and contractors
- (9) Existing vacancies and how filled
- (10) Procedures for accessing a service

¹⁷ Some have argued that the absence of direct elections for Top local government politicians in Somalia diminishes the quality of downward accountability, this is debatable and contradictory since other politicians see this as a patriotic duty. Direct elections do not necessarily guarantee downward accountability

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At a local level transparency may be demonstrated by illustration of following due process of the law through publication of information and documents, complying with regular external audit, conducting public meetings and budget conferences, involving the community in decisions that affect them, participatory budget process and special attention to marginalized groups. Conduct regular direct elections is a considered a critical litmus test for good governance and accountability under the assumption that the leaders who do not deliver to public expectations will be replaced periodically!

Box 13: Accountability and Transparency Delivery Guide- How to publish

- (1) Village notice boards in user friendly language, use charts and pictures
- (2) Local Press and other media
- (3) Local Radio Programs, Talk shows
- (4) Announcements in public meetings and prayers
- (5) Annual budget conferences
- (6) Display on public buildings- Hospitals, Markets, Schools
- (7) Send some reports and documents to Donors and other stakeholders
- (8) Communicate to community leaders, traditional leaders, Imams
- (9) Staff Notice Boards
- (10) Office notice boards
- (11) Regular consultative meetings with stakeholders
- (12) International media
- (13) Participatory budget process to involve all levels- from villages to Municipality council
- (14) Regular meetings of finance committee to discuss performance reports
- (15) Establish a tax appeals tribunal
- (16) Regular meetings of council attended by the public in gallery
- (17) Allowing member of the media in council meetings
- (18) Creation of an independent public accounts committee at the LG level
- (19) Term limits for top politicians
- (20) Executive secretaries to be employed on a contract basis

SECTION TWO: Mobilization of Specified Own Sourced Revenues

22. OWN SOURCE REVENUE CATEGORIES

The main legal framework and policy is the Administration Laws within the regions and other tax policy issued from time to time. The key control is the tariff structure which sets out numerous charges for different commercial and social activities

For purposes of this analysis, OSRs have been categorized into four broad grouping;

- (1) Commercial and Business Licenses
- (2) Property related taxes
- (3) User fees and permits
- (4) Livestock taxes.

This section discusses *unique revenue mobilization issues of specified revenues* basing on analysis of performance between 2013 and 2014 in selected LGs. **Table 3: Revenue growth performance in selected LGs in Puntland** respectively for period between 2014 and 2015

Table 3: Revenue growth performance in selected LGs in Puntland

OSRs category	Garowe	Gardo	Galkacyo	Average
Livestock taxes	-8%	13%	21%	9%
Land based taxes	72%	11%	122%	69%
User Fees and Charges	107%	19%	23%	50%
Business Licenses	93%	41%	19%	51%
Total OSRs	93%	20%	30%	47%

In terms of contribution to total OSRs, there has been varying performance based on recent UNCDF analysis. **Table 4: Revenue category Contribution to Total OSRs 2014 in selected LGs in Puntland.**

Table 4: Revenue category Contribution to Total OSRs in Puntland 2014

OSRS	Garowe	Gardo	Galkacyo	average
Livestock taxes	10%	22%	32%	16%
Land based taxes	52%	25%	16%	23%
User Fees and Charges	23%	30%	11%	16%
Business Licenses	16%	23%	41%	43%
Total OSRs	100%	100%	100%	100%

23. COMMERCIAL AND BUSINESS LICENSES REVENUE

Business licenses are levied annually on all commercial business within the LG and are based on tariffs set by the LG. Licenses are for permission to operate a business such as shops, restaurants, car ports, professional firms, shops and other kinds of businesses.

The administration of licensing involves assessment teams determining the amount payable basing of value of goods found in the shop at the time of assessment. Using rates provided under the tariffs guide, a license payable is computed. The owner is then notified and payment demanded.

Overall business licenses have had a rapid growth, over 45% between 2013 and 2014 which may be largely attributed to improvement in data management and using a computerized system, BIMs and AIMS. In terms of contribution to total OSRs, Puntland reflects over 43% while Somaliland has only 9% on average.

This implies that there is more room for improvement both in terms of amounts to be collected and growth due to better data capture.

There is a rapid growth in economic activity in municipalities and improvement in mobilization of revenues from business is now more urgent.

Commercial and Business Licenses among other initiatives cover the following business types;

(1) Business Trading Licenses (2) Commercial Sign Boards (3) Public Markets (4) Concerts and Videos (5) Sports and Open spaces (6) any other business activity

Box 14: Improvement of Revenues from Commercial Business Best practice guide

- (1) Pre-printing the amount to be paid on the license itself and counter folios are Increase spending in sensitization and publicity
- (2) Census of all business using a door to door survey method
- (3) Labelling and assigning numbers to all businesses categories
- (4) Set targets for each collectors
- (5) Involve communities in collection support
- (6) Set taxable values and update all registers
- (7) Revision of tariffs
- (8) Upgrade the BIMs and dispatch of bills within the first three months of the financial year
- (9) Direct Deposit of payments by taxpayers to the bank as a way to ease payer convenience
- (10) Consider use of smart phones for payment
- (11) Using collection task forces for door to door collection
- (12) Demonstrate how the licenses revenues id supporting service delivery
- (13) Provide suitable incentives to assessors and collectors

24. PROPERTY RELATED REVENUE

Property tax is defined as a tax levied on immovable property such as land and buildings within the area of jurisdiction of a LG. There is no specific law that governs the assessment of property tax but it is mentioned in the taxation law. All property, buildings and land within the jurisdiction of a LG are eligible for property tax unless specifically exempted under the laws of the land. Such exempted property may include places of worship, property exclusively used for educational purposes and some categories of residential premises.

Property tax is assessed by applying a tariff (a percentage) to a property value based on either area of the land or volume in case of buildings. The level of rate value varies widely between from LGs. The GIS has supported improvement in data and this has resulted into a rapid growth in this revenue source. On average the growth within selected districts in has been 69% and 31% in Puntland and Somaliland respectively between 2013 and 2014. Because of its high yield, land based revenue sources have attracted a lot of attention and even lower local governments are taking benefit of the growing real estate industry in Somalia.

Besides the generic revenue mobilization challenges, property tax has been dodged more especially by low data capture, basing assessment on uneconomic tariff rates on both land and buildings and the absence of a specific legal framework to support assessment and enforcement.

The property related taxes among others include the following property categories; (1) *Property Taxes Building* (2) *Property Taxes Urban Land* (3) *Tax on rural agricultural land* (4) *Property Ownership Transfer fees* (5) *Agricultural Production* (6) *Tax on Rain fed farms* (7) *Irrigated Farms Tax* (8) *Rents from Municipal buildings* (9) *Rent from Markets and Shops*.

Box 15: Property Tax Revenue Mobilization Improvement Guide

- (1) Door to door validation of the GIS
- (2) Speed up labeling of property
- (3) Complete the task of road and street naming so that bills are delivered to the right taxpayers
- (4) Invest more in sensitization and publicity
- (5) Review the tariff rates
- (6) Set target for revenue collectors
- (7) Involve community leaders in sensitization, assessment and collection enforcement
- (8) Set up an appeals tribunal
- (9) Introduce incentive pay for staff and elected leaders involved in assessment, collection and enforcement
- (10) Review the level of penalties for defaulters beyond a given period
- (11) Deliver all bills within the first three months of the financial year
- (12) Demonstrate where the money goes in terms of service delivery
- (13) Develop a legal policy framework to support enforcement and compliance more effectively

25. LIVESTOCK RELATED REVENUES

Revenue related to livestock include (1) Livestock Market Tax (2) Livestock at export point (3) Hides & Skins Sales Tax (4) Slaughter houses and holding charges. This revenue category contributes on average about 17% of total local revenues and is growing at an average of 89% in Somaliland and 16% in Puntland. Considering the growing demand for exports, this revenue category will gain more significance in the whole region due to its proximity to the Middle East who is the main market for camels and sheet.

The largest challenge has been the assessment based on low uneconomic tariffs.

Box 16: Livestock Revenue Mobilization Guide

- (1) Review tariff structure currently at less than USD 50 cents
- (2) Introduce animal transit fees for LGs without sea ports as the case for Sheikh municipal council
- (3) Review tariffs on abattoirs
- (4) Earmark revenue from abattoir for improvement and maintenance of these facilities
- (5) Facilitate revenue collectors to move the long distances to local Camel and Sheep markets
- (6) In the long term develop special livestock markets and agree on market days
- (7) LGs may acquire land for development of well fenced and controlled gazette markets

26. USER FEES AND OTHER CHARGES

The assessment is based on approved tariff rate and the administration laws of the land. This revenue category is wide ranging and covers various business and individual taxes and generally including charges for (1) Hygiene and Sanitation (Cess emptier) (2) Public Health sanitation (3) Stamp Duty (4) Surtax and fines (5) Markets traders and Hawkers dues (6) Public Transport operation permit (7) Slaughter houses (8) Registration services for persons and property (9) Fines and Penalties.

Average revenue growth between 2013 and 2014 has been at 69% and 50% for Somaliland and Puntland respectively indicating a vibrant economic activity that can be harnessed to support more service delivery and contribution over 20% to total OSRs for the year 2014.

The key challenge has been low data capture, absence of register, low knowledge on tax potential and below economic value tariffs. There is a risk that costs of collection are higher than the revenues collected in some of the cases. There are many unregistered small traders especially hawkers who do brisk business alongside the formal market. Because these traders are not registered, they do not pay for licenses and permits and they therefore tend to sell cheaply. The result of which is that they undermine formal markets traders who then feel encouraged to move out of gazette markets leading to lost revenues.

SECTION THREE: Revenue Mobilization Initiatives elsewhere

27. OTHER INTERNATIONAL EXPERIENCE

Local revenues are a key success factor in supporting delivery of services at the local level. World over however, LGs have been grappling with finding sources and strategies for sustainable OSRs.

This section discusses some the initiatives that have been applied in some countries with a view to providing an opportunity for a future learning curve which may be implemented or where regions in Somalia may become leaders in application of these sources.

27.1. Separate Local Income Taxes

Local governments are permitted to impose an income tax, which is separate from the national income tax system. In Finland, for instance, LGs have powers to levy a parallel income tax. In the USA, cities and counties are permitted to levy a separate income tax, so that for example, a citizen pays income tax to the state, Federal, county and city governments.

27.2. Surcharge on National Income Tax

LGs may impose a fixed or progressive surcharge on national income tax, a percentage in addition to the tax liability as assessed and collected by the national taxpayer. LGs in Japan and a number of European countries (Belgium, Denmark, Italy, Sweden, and Switzerland) have such powers.

27.3. Assignment of National Income Tax

A fixed percentage of national income tax collected is assigned to LGs. In Germany, the Philippines, the Republic of Korea and Turkey, the percentage pertains to the tax collected within the LG's boundaries. In Brazil, the Netherlands and Nigeria, the percentage share is pooled and distributed by formula.

27.4. Tax on Professions

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In France and India, a tax is payable upon pursuit of a certain profession such as Law, Medicine and payable to the respective LG. The tax may bear reference to the payroll, turnover, or a fixed rate. Kampala city council Authority in Uganda is currently charging a fee similar to a trading license on professional firms such as Accountants, Valuers.... Some professions such as lawyers have still resisted this tax and have appealed in Courts of Law against this charge.

This tax can raise substantial revenues; it is easy to identify the tax base and cheap to collect. Simple rates and less complicated formula should be used. In a number of French speaking Africa, the tax is a multiplier of the property valuation for the specific businesses applied for.

27.5. Sales of goods

Sale of goods taxes are generally charged at national level. Over 3000 LGs in the USA impose a surcharge on state sales tax. In the Netherlands and the Philippines, municipalities receive share of national sales tax. In Brazil municipalities receive 25% of the VAT. Local surcharge on petroleum sales taxes operates in some cities in Japan and many cities in South America.

27.6. Municipal Levy on Sales of services

A local tax on sales of individual services such as cinema, theatre, discos, hotels, and eating-places and on consumption of public utilities is charged by a LG. This is an avenue that would raise a lot of money easily for all municipalities especially if based on consumption of electricity and telecommunications. Uganda introduced a local Hotels tax payable by all persons who reside in hotels within the jurisdiction of the urban area. The rate of 1% of the accommodation charge is collected by the hotel management on behalf of the LG and is paid weekly or monthly depending on the local arrangement. Dubai Municipal Council charges a rate per night of 10 Dirham about USD 5 per night for all hotel patrons. In Zimbabwe, LG councils charge 5% tax on electricity consumption. This helps both to regulate usage and to raise revenue. *[Buroa Municipal council is already charging a similar fee on electricity consumption and intends to extend this to water consumption]*

The public would support usage of these services well knowing that some of the money goes directly to improvement of their local services.

27.7. Movement of goods

Several cities in Nepal, India, USA, and Pakistan charge a fee on all goods entering the municipalities, an equivalent of customs. However this has been criticized on account of the inconvenience caused to traders. Municipalities who are responsible for collection of garbage however argue that goods such as Mira (*qaat*) cuttings, fruit cuttings and other agricultural produce increase the amount of garbage in towns and so justify the collections of such a tax. If approved, tariff rates should be affordable and low enough to avoid serious negative macro-economic impact.

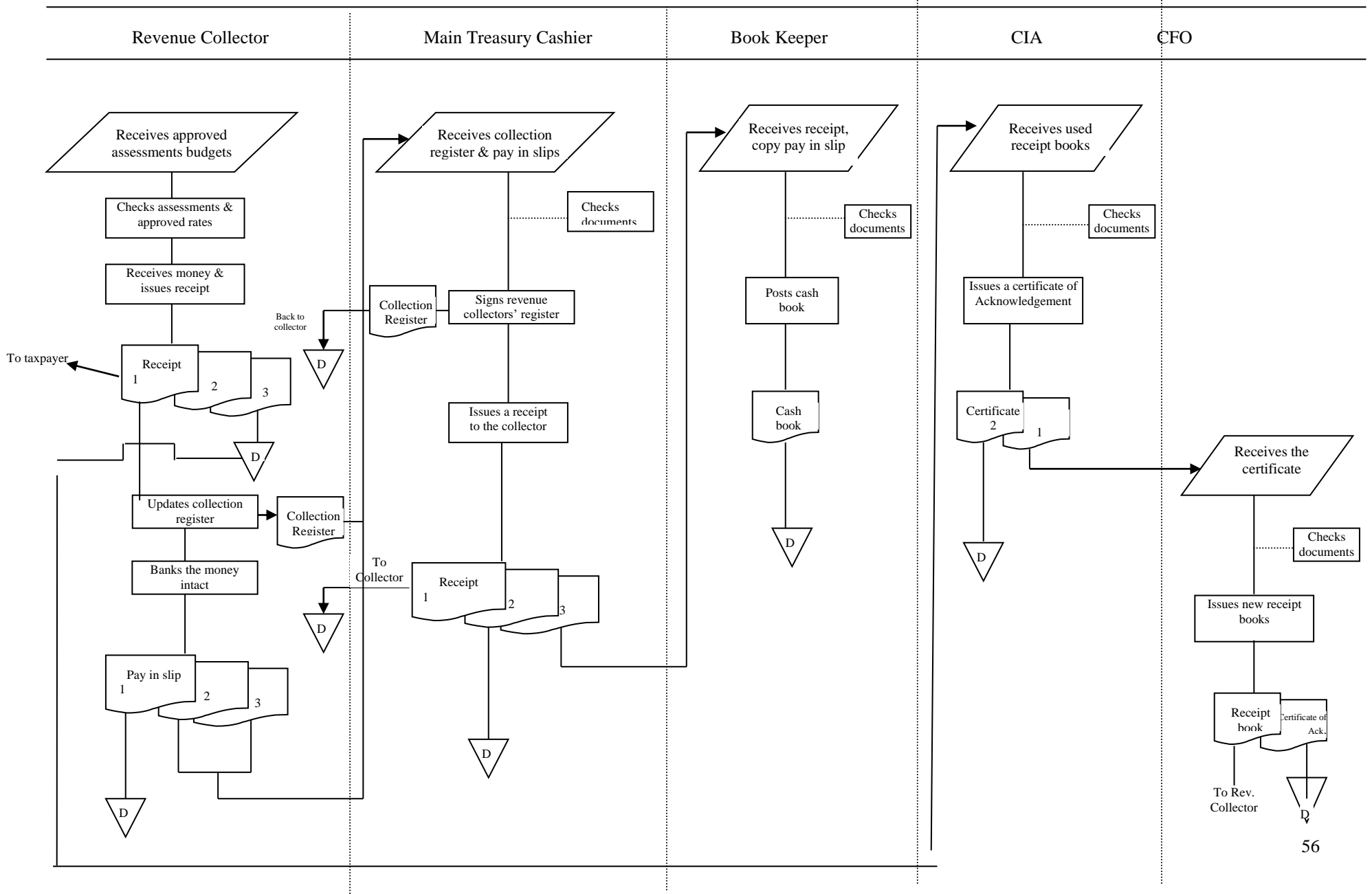
27.8. Motor vehicles taxation

National Governments often claim full responsibility for his revenue and argue that vehicles do not operate full time or locate in one LG area. LGs on the other hand claim that they meet the costs attributable to motoring such as road construction, parking, and road repairs. Some countries recognize the validity of this argument and assign vehicle taxes to municipalities and cities, Zimbabwe, Egypt, Spain, South Korea are cases in point. In Tanzania half of these taxes accrue to urban LGs. In India, Pakistan, Uganda, Indonesia, LGs may charge bicycles, rickshaws, and bullock carts but not share the road license revenues directly.

Other systems involve a sharing of the initial registration fees and subsequent transfers of ownership only.

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ANNEXTURE 1: FLOW CHART FOR REVENUE COLLECTION CONTROLS



ANNEXURE 2: BUSINESS LICENSE TARIFF FOR PUNTLAND

100	GENERAL TRADER SHOPS AND RETAIL SERVICES	CANSHUURTA
GRADE 1	Maqsinada Qaadka heerka 1 ^{aad}	3,000,000
	Dhoofintaiyo Soo dejinta (Import/ Export)	3,000,000
GRADE 2	Bakhaarada Jumlada Q/ dhismaha heerka 1aad	1,800,000
	Bakhaarada Jumlada Daawooyinka	1,800,000
	Bakhaarada Jumlada Sigaarka	1,800,000
	Bakhaarada Jumlada Dharkaiyo Bagaashka	1,800,000
	Bakhaarada Qaadka heerka 2 ^{aad}	1,800,000
GRADE 3	Bakhaarada Jumladaiyo Tafaariiqda heerka 2 ^{aad}	1,200,000
	Dukaamada iyo Kabadhada Dahabka	1,200,000
	Kaalimada Shidaalka heerka 1 ^{aad}	1,200,000
GRADE 4	Hoteelada Jiifkaderajada 3 ^{aad}	900,000
	Maqaaxiyaha Cuntada heerka 3 ^{aad}	900,000
	Dukaamada Caadiga ah	900,000
GRADE 5	Bacadlayaasha Yaryarka ah	600,000
	Biibitooyinka	600,000
	Buushashka Ganacsiga	600,000
	Dukaamada Yaryarka ah iysandaqadaha	600,000
	Xalwadkariyaha heerka ugu hooseeya	600,000

ANNEXTURE 4: DAILY CASH REVENUE CONTROL SYSTEM REPORT FORM

Name of LG Council		
DAILY CASH SUMMARY REPORT		
DATE		
RECEIPT NOs.FROM [e.g. SL 3300 TO 3400]		
DENOMINATIONS		TOTALS
SHS NOTES		
1000	1000	1,000,000
5000	3000	15,000,000
SHS COINS		
Total cash		16,000,000
Total cheques¹⁸		20,000,000
Total cash and equivalents¹⁹		36,000,000
Prepared By		
Checked by		

¹⁸ Show details on cheques, payer name, cheque number, Drawer Bank, Amount , receipt number, date,

¹⁹ The total cash must be shown as banked the following day. The cashier must fill in bank deposit forms which should be signed by a senior officer before cash is taken to the bank. The form must be returned to the accounts section for posting in cash book..

ANNEXTURE 5: CERTIFICATE OF REVENUE ASSESSMENT²⁰

.....MUNICIPALTY

DEMAND NOTE/CERTIFICATE OF ASSESSMENT

Revenue type..... *Property tax – Commercial Building* Revenue Code *GRW*
234

Assessment Date *20th September 2015*

Name of Taxpayer *Osman Aden Osman*

Assessment Number..... *PLG 1200*

Location of Property..... *Guri HWG Zone- B*

Property Number *GURI 0288*

Assessment Period.. *1st January 2016 to 31st December 2016.*

Arrears

Amount Assessed.....

TOTAL DEMANDED FOR

PAYMENT.....

Less payments in advance

BALANCE DUE AND DEMANDED.....

Name and Signatures:

(1) **Assessment Committee/Team leaders**.....

(2) **Revenue Officer**.....

(3) **Taxpayer**.....

²⁰*Complete in triplicate (three copies), 1- Taxpayer, 2- Revenue officer 3- retain in assessment book*

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ANNEXTURE 6: LRMP FORMAT AND EXAMPLE²¹

Short term initiatives: Property Tax Goal: to increase property tax collection effectiveness in next FY By [Hergesia=70%, Berbera-50%,Others =40%						
Key results area	Plan Action/steps	Expected outputs/Indicators/Milestones	Time	Cost	Responsible persons	Remarks
Registration and valuation rolls	<ol style="list-style-type: none"> 1. Registration teams appointed 2. Valuers deployed and rolls completed 3. Mass property valuation 4. Approval of rolls by council 	<ul style="list-style-type: none"> • Lists and valuation rolls complete • Updated registers for all taxable property • Complete road naming and location maps • Computer based registers 	Q4 current FY			
Revenue information and communication strategy	<ol style="list-style-type: none"> 1. Formation of Revenue education teams 2. Manuals and materials for sensitization meetings 	<ul style="list-style-type: none"> • Trained cadre of revenue educators and mobilizers • Calendar for revenue education • Reduced enforcement costs 				
Collection and monitoring systems	<ol style="list-style-type: none"> 1. Issue demand notes and bills 2. Computerizes receipts 3. Daily cash reconciliation 4. Daily banking of revenues 5. Prompt enforcement and penalties 	<ul style="list-style-type: none"> • System based reporting and monitoring • Direct payments into Banks • Increase revenues by 75% from all zones 				
Reporting and Accountability	Regular reporting	<ul style="list-style-type: none"> • Internal audit reports discussed and auctioned • Linking services to revenues • Increasing service visibility 				

²¹ The Revenue Mobilization Plan should have short, medium and long term strategies for each revenue source. The Plan should be approved by council. Then the R-MAP is drawn to reflect the sequence of actions and outputs.

ANNEXTURE 7: REVENUE RECEIPT FORMAT²²

.....MUNICIPAL COUNCIL

REVENUE RECEIPT

Receipt Number.....

Assessment Number.....

Date.....

NAME OF PAYER.....

ADDRESS/LOCATION OF TAX OBJECT

AMOUNT RECEIVED (In words).....

.....

REVENUE TYPE.....

REVENUE CODE.....

ARREARS

CURRENT

CASH SHS.....

CHEQUE NO..... **Shs**..... **BALANCE Shs**.....

.....

Name and Signature of Cashier

Stamp of Cashier/Revenue Collector.....

²² Use indelible ink and no erasures are allowed. Original to taxpayer, Duplicate to Accounts section- attach copy of demand bills, third copy retained in book for audit purposes.

ANNEXTURE 8: PRIORITY REVENUE AND EXPENDITURE PROJECTION

REVENUES

Revenue type	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Livestock taxes					
Property taxes					
Business licenses					
User fees and charges					
Total OSRs					
Total Transfers					
Total Donations					
Total Donor funding					
Total external funds					
Grand Total Budget					

PRIORITY EXPENDITURE

Service sector	2015	2016	2017	2018	2019
Natural Resources					
Water, Sanitation and Hygiene and solid waste					
Primary Health Care					
Education					
Transportation and Roads					
Total New expenditure					
Total present needs					
Surplus deficit					