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This CMI brief features research on property taxation in Africa



Dar es Salaam (March 2017).
Photo by Odd-Helge Fjeldstad.

Taxing the urban boom: Property taxation in Africa

AUTHORS

Odd-Helge Fjeldstad

Senior Researcher, CMI
Extraordinary Professor,
African Tax Institute at the
University of Pretoria
Senior Fellow,
International Centre for
Tax and Development

Merima Ali

Senior Researcher, CMI
Assistant Professor, Economics
Dept., Syracuse University

Tom Goodfellow

Senior Lecturer,
Dept. of Urban Studies and
Planning,
University of Sheffield

The growth of Africa's towns and cities has outpaced local governments' capacity for service delivery in terms of management, infrastructure, and financing. As a result, many African towns and cities are now faced with a governance crisis. The restructuring of governmental functions and finances has entered the core of the development debate. Policy makers are increasingly aware of the potential and need to mobilise domestic revenues through broad based property taxation. In this *Insight* we examine political and administrative constraints facing the development of effective property tax systems. Based on experiences from across the African continent, we argue that the major obstacles to improved property rates is not valuation, but poor administration and political resistance to reform. We suggest ways ahead.

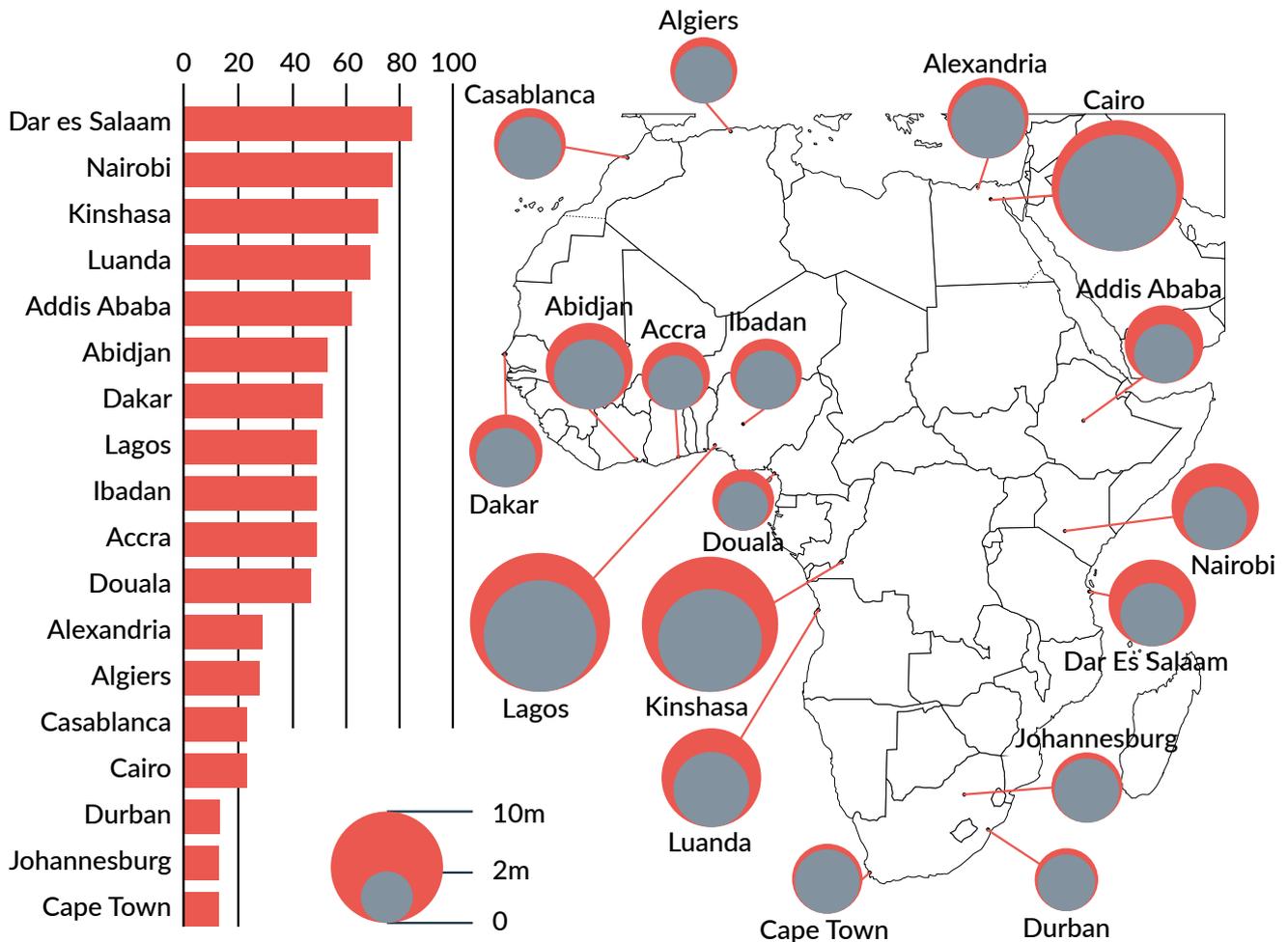


Figure 1: Growth of African cities. Forecasted % increase, 2010–2025

Source: UN-Habitat

The urban boom and property taxation

Africa is urbanising fast. It is estimated that between 2015 and 2050 the share of the population living in towns and cities will grow from 38% to 55% (Freire, Lall and Leipziger 2014). This implies an additional 790 million urban inhabitants. The urbanisation of poverty is one of the most dramatic developments on the African continent. More than 50% of Africa's poor are likely to live in urban slums by 2025 (UN Habitat 2013, 2014). The pace of urbanisation is fastest in middle-income countries.

Southern Africa is the most urbanised region on the African continent, with South Africa currently having an urban population of more than 64%. Some countries, however, have levels of urbanisation below 20%. These include low income countries such as Burundi, Ethiopia, Niger, and Uganda (Freire *et al.* 2014). Cairo, Kinshasa and Lagos are the only cities in Africa with more than 10 million

people (megacities). By 2030, three more, i.e. Dar es Salaam, Johannesburg, and Luanda, are projected to surpass the 10 million mark (United Nations 2014). Dar es Salaam is the fastest growing city in Africa and among the 10 fastest growing cities in the world. The number of large cities with populations between 5 and 10 million in Africa is also expected to increase, from three in 2014 to twelve in 2030.

These developments imply huge challenges for urban governance and service delivery. A sound revenue system is an essential pre-condition for handling these challenges. Property tax appears to emerge as a potential cornerstone for the efforts to strengthen broad based direct taxation in urban Africa. Along with the huge increases in urban populations, investments are pouring into the real estate sector in many African cities. Investors are increasingly drawn towards high-value property development, which promise much better returns and lighter taxation than other

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investment options (Zinnbauer 2017). Five African property markets are today ranked among the top ten most dynamic emerging markets for real estate and property investments (Jones Lang LaSalle 2015). If taxed effectively, these property developments could generate substantial public revenues for urban services and infrastructure (Goodfellow 2017).

Property tax

Though it can have many forms, property tax is generally levied as a tax on the value of real property. The tax has a host of widely cited advantages in providing sustainable funding to local governments. Because properties are physically immovable, the tax is spatially defined, and enables identification even where local government capacity is limited. Because it is a tax on wealth, rather than productive activities, it does not undermine production incentives. It may also encourage more productive use of land and property. Because it is highly visible to taxpayers, and in principle linked to improved local services, it has a unique potential to make a good foundation for bargaining between taxpayers and governments over revenue and public spending. Property tax is also likely to stimulate broader administrative improvements since it requires collection of detailed data on land and properties.

In spite of these advantages, property taxation in Africa is generally underdeveloped. Revenues from property taxes account for less than 0.5% of GDP in many African countries, and in some even far less than this. In comparison, property tax in some OECD countries can account for more than 2% of GDP and 80% of local government revenue. There are, however, substantial differences among African countries in this respect (Jibao 2009). In South Africa, property tax contributes about one-quarter of the annual budget for the country's eight metropolitan councils. In

Ghana property tax accounts for about 14% of the total revenues of local assemblies, an average of about 6% of total local revenue in local councils in Sierra Leone, and less than 10% in The Gambia (average for the period 2006–2008). In Liberia, which does not allow local councils to collect revenue, property tax accounts for about 1% of total revenues of the central government.

In a study of thirteen Francophone countries in West Africa, Monkam (2010) finds that the property tax systems in all of them are still embryonic. In Francophone countries, the number of properties covered by the property registers is especially low. Cumbersome land registration procedures result in negligible registration of titles. Political and religious leaders use their influence to keep their properties off the register. These countries are also mostly poor in terms of valuation, collection and enforcement. In Cameroon, for instance, property tax was just 0.21% of national revenue in 2008. It is collected centrally, but only 10% of the revenues are remitted back to local governments. In Senegal, property tax amounted to just 17% of local revenues in 2004.

Centralised collection of property tax

In most Anglophone African countries, property tax is the responsibility of local government administrations. This is in line with the tax literature that emphasises that lower-level governments should tax revenue bases with low mobility between jurisdictions. Property tax is seen as the 'ideal' local tax. Rural properties are rarely taxed, although property taxation is being extended to rural properties in South Africa. Namibia introduced a land tax on commercial farmers in 2004 as a measure to fund a land reform programme.



Kigali. Photo by Tom Goodfellow.

In West African French-speaking countries the property tax is designed and administered by the central government. In most of these countries, the revenue is either shared with sub-national governments, for instance in Benin and Niger, or transferred to local governments, e.g. in Côte d'Ivoire and the Democratic Republic of Congo (Franzsen and McCluskey 2017). Property tax is also a central government tax in Liberia.

In recent years, also central government revenue administration in some Anglophone African countries have become involved in the collection of local property taxes. These include The Gambia, Rwanda and Tanzania. In 2008, the Tanzania Revenue Authority (TRA) was assigned the task of collecting property taxes on behalf of the municipalities in Dar es Salaam. It was expected that this measure would substantially improve revenue collection. This did not materialise, partly due to substantial coordination and cooperation problems between TRA and the municipalities. In February 2014, the Government announced that property tax collection should be returned to the municipalities. However, in July 2016, property tax was again centralised and TRA became responsible for administering the tax in the whole country.

It is too early to evaluate the experiences with the centralised property tax regime in these countries. Based on lessons from Dar es Salaam during the period 2008–2014, it is however clear that a national tax administration can only do what the current legislation allows it to do. If the relevant laws require revisions, these must be tended to first. Clarity on the division of functions and responsibilities of the central and local government administrations is critical. Particularly, it is important to decide which functions are to be centralised and which will remain the municipalities' responsibilities. This includes clarifications of who is responsible for property registration, valuation, maintenance of property registers and revenue data. It is also important to assess to what extent local politicians and officials will provide support and cooperate with the national tax administration. Both the revenue authority and the municipalities must be provided with incentives to cooperate. For instance, how will the revenue authority be compensated for the additional workload? How much of the collected revenues will be transferred to the municipalities?

Generally, there is also a need to clarify roles and responsibilities between the central and lower levels of government regarding:

- Who taxes what?
- Who provides what services?
- Who is accountable to whom?

This implies clarification of the connection between tax reform and decentralisation policies. If the national government aims to pursue fiscal decentralisation by devolving taxing and spending powers to lower levels of government, a minimum degree of autonomy for sub-national governments on own revenue generation and

expenditures is required (Fjeldstad, Chambas and Brun 2014). What level of government should be assigned the responsibility for property tax collection and spending should be part of these considerations.

Property tax reforms in Africa

Many countries utilise an *ad valorem* (value-based) property tax system. Due to scarcity of valuation data and valuation capacity, the *ad valorem* system is generally ineffective and has low revenue productivity. Recent experiences from African countries suggest that significant and rapid improvements in property tax collection are possible even in relatively low-capacity environments. Improvements have been achieved in different ways, for example by expanding the tax base, revaluing properties, improving tax administration, pursuing a successful collection-led strategy to improve the collection ratio among existing properties, or some combinations of the above.

Due to the challenges of using the value-based property tax model, several countries have adopted area-based valuation as a temporary solution. In Ethiopia and Mozambique, municipalities impose a presumptive levy based on size and location of buildings. This has simplified the system to a degree where it is both transparent and easy to administer (Moore and Monkam 2015). Rwanda initially adopted an area-based model, recognising its limited administrative capacity in the aftermath of the 1994 genocide. The country has since moved to self-assessment by the taxpayer, reducing the administrative burden, but carrying significant risks of underpayment. In Sierra Leone, after the civil war, several city councils, including the capital Freetown and the second largest city Bo, deviated from the *ad valorem* model and adopted a simplified, area-based model. Property valuation was based on the dimensions of the structure, construction type, location and accessibility. This approach was perceived to be fair and secured legitimacy of the local government. The municipalities increased their income from property tax by 300–500% between 2007 and 2010 (Jibao and Prichard 2015).

Introduction of modern technology for mass valuation of properties has proved effective in some countries. In 2014, Arusha City Council in Tanzania changed from a manually administered own-source revenue system to a modern Local Government Revenue Collection Information System (LGRSIS) integrated with a geographic information system (or a GIS platform). The new system allows the local government to use satellite data to identify taxpayers' properties and includes an electronic invoicing system that notifies and tracks payments. This new method identified more than 102,000 buildings, a huge increase from the 23,000 of the old system. In the first 15 months after the introduction of the new system, the number of eligible taxpayers more than tripled, from 31,160 to 104,629. Within one year, the city council boosted annual revenues by 75 percent (World Bank 2017).

Local political economy dynamics

Some countries have experienced innovations and improvements in some cities, but not in others due to local political economy dynamics. Research in Sierra Leone, for instance, suggests that while there has been a general increase in the effectiveness of property taxation due to increased national support, some municipalities have been considerably more effective than others in raising property taxes (Jibao and Prichard 2015). The most expensive and technically complex reform efforts has not yielded the best results. Technical complexity might have undermined the long-term local support needed for successful reform. For example, while the capital city Freetown saw substantial increases in revenues from property taxes, these were disappointing given the size of the tax base. This related to the city council's essentially submissive stance towards national-level elites as well as major economic players in the city. In some of the smaller cities such as Bo, however, where there was less elite power, partly due to greater ethnic diversity and higher numbers of migrants, reform efforts were much more successful.

Elite cohesion may facilitate more effective taxation at the national level, because elites perceive the benefits to themselves of increased national-level government spending. This may, however, not be the case at the local level. Elites may consider the types of expenditure that local government taxes fund, for example local services and infrastructure, as not essential to their interests. Consequently, where the elites are united and powerful they may block tax reforms. Where they are divided, the government may succeed in driving reforms through. In Sierra Leone, Jibao and Prichard found that municipalities controlled by opposition parties have stronger incentives to increase taxation, due to a desire to increase their own autonomous revenue base. This may be particularly important in cases where 'hostile' central governments employ strategies of subversion towards opposition-held councils, including withholding or reducing central government transfers (Resnick 2014).

Unlocking the political dynamics of reform

The city of Lagos in Nigeria has attracted attention for its tax and governance reforms in recent years. The elite's perceived need to increase revenues and, thus, improve public services in order to survive politically, has been highlighted as a driver for reform. In her study of governance reforms in Lagos, de Gramont (2015: 4–5) summarises the challenge of urban governance (including tax) reforms as follows:

...political will for reform does not derive simply from enlightened leaders or objective economic incentives. Instead, it tends to emerge from a combination of three factors: a serious and persistent threat to elite interests, a subjective perception among key actors that a proposed reform will benefit them politically or economically, and sufficient political stability to make change appear feasible.



Dar es Salaam from the air. Photo by Odd-Helge Fjeldstad.

In Lagos, these conditions emerged in the context of the transition from military to civilian rule in 1999. The transition resulted in increased electoral competition, but also – unlike in some other parts of Nigeria – a lack of revenues from oil resources. This made the situation in the city 'untenable' for Mayor Tinubu when he came to power in 1999 and created strong political incentives to embark on the path to major tax reforms.

Lagos had previously employed a system of property-related taxation whereby ground rents based on land value and a 'neighbourhood improvement charge' were collected by Lagos State. Tenement rates based on the value of buildings were collected by lower local tiers of government. In 2001, Mayor Tinubu consolidated these taxes into a land use charge collected by the State government to be redistributed according to a formula (de Gramont 2014: 45). Systems were computerised, and in his second term Mayor Tinubu set up the Lagos State Internal Revenue Service (LIRS) as a semi-autonomous authority. A private contractor (LRC Nigeria Ltd) ran the land use charge system. LRC had control of the entire revenue generation process, from enumerating properties to issuing bills to collection. Mayor Fashola who succeeded Tinubu as mayor, placed increased priority on the land use charge and gave LRC a grant to make an inventory of all properties in the state. This led to a fourteen-fold increase in the number of enumerated properties in Lagos state over three years from 45,000 in 2007 to 635,000 in 2010.

Administrative and political challenges

Why is property tax not more utilised as a revenue source in Africa? There are a number of different reasons. With the exceptions of Botswana, Namibia and South Africa, real estate registers and markets are not well developed.



Kampala. Photo by Tom Goodfellow.

Still, many African countries utilise a value-based (*ad valorem*) property tax model, calculating tax rates based on the properties' capital value or rental value. An *ad valorem* based system requires a functioning property market with clear land ownership and transaction records. In addition, it requires qualified valuers, capable of assessing the worth of land and/or buildings at fixed intervals. Most municipal governments in Africa do not have the adequate skills and resources to manage such a model. Due to a combination of inappropriate tax policy and weak administration, property registers and valuation rolls are often outdated or not in place. This situation is exacerbated by a lack of street names and house numbers in many cities. Administrative capacity and equipment to identify, assess, and value the taxable property are often limited. Billing, collection and enforcement are generally weak. However, the major constraints for the development of effective property tax systems are often considerably more political than administrative. The tax base is usually narrowed by extensive legal exemptions. Political support to enforce the property tax is often in short supply, and political interference in revenue collection is common.

Property tax has powerful political enemies in many countries. The tax tends to strike people with wealth

accumulations directly. People with considerable property wealth usually have considerable political power and use that power to thwart taxes that aim directly at their assets. As argued by Burgess and Stern (1993: 802) more than two decades ago, low utilization of property and land taxation “reflects the success of the resistance of the rich and powerful to measures which harm their interests.” The result is that taxes are paid on a base that often bear little resemblance to the true level of property values.

Ineffective property taxation might become self-reinforcing through its effect on incentives to invest in property. Real estate interests often produce powerful resistance to property tax. Thus, the more real estate wealth accumulates in the absence of property taxation, the harder it is politically to implement property tax. Further, in most African countries, high property transfer taxes are levied. High transfer taxes tend to undermine the formalisation and regularisation of the property market (Franzsen and McCluskey 2017). These taxes are easy to collect and usually levied by the central government. The political appetite to reduce or abolish this source of revenue in favour of a ‘difficult to administer’ and ‘data hungry’ property tax is often low or absent.

Moving forward towards a workable property tax system

Substantial improvements in property tax collection are possible, even in environments with low tax collection capacity. This is illustrated by the experiences from Nigeria, Sierra Leone and Tanzania presented above. While each case is different, some elements of these achievements appear to be crucial. First, “collection-led” reforms are more important and more likely to be successful than “valuation-pushed” strategies. The major obstacles to improved property rates is not valuation, but poor administration and political resistance to reform. Relevant measures should be tailored to the specific local context and may include:

1. Addressing the administrative deficit in property tax collection. The emphasis should be on constructing a workable, even if imperfect, system for raising revenue, rather than seeking first to build a perfect policy and institutional framework. A simplified, area-based model where properties are valued based on the dimensions of the structure, construction type, location and accessibility should be considered in situations with poor administrative capacity.
2. In many African countries, revenue collection from property tax shows a very low collection rate with almost no enforcement against non-compliance. Therefore, rather than focusing on legal provisions, the emphasis should be on improving the basic tax administration components. This implies focusing on improving the core revenue administrative components, including database maintenance, assessment, billing, collection, enforcement and taxpayer services.
3. Establish mechanisms to improve intra-governmental coordination and cooperation by linking the basic revenue administrative components, including database maintenance, billing and enforcement, with other revenue sources such as business permits, house rents, land rents, and user charges for, for instance, water and electricity.
4. An increasing number of central government revenue administrations in Africa are now getting involved in the collection of local property taxes. To make the “centralisation” of property tax collection work will require cooperation, exchange of information and proper coordination between the national revenue administration and the local government authorities, as well as with other relevant ministries and other entities such as the deeds office.
5. Effective policy implementation requires that the various public agencies involved have a mutual understanding of the objectives of the policy and, their respective roles. To ensure a sound working relationship between the actors, it is vital that legislation and standard operating procedures are in place. If the relevant laws require revisions, these must be addressed first. Clarity on the division of functions and responsibilities amongst the key stakeholders is also essential, for instance:
 - Who must provide and maintain the taxpayer database?
 - Who must value the properties?
 - What training of valuers and collectors is required and who will do the training?
6. The major constraint to improved property taxation is not technical, but rather political. It is therefore important to mobilise the necessary political will to administer the tax in a comprehensive and impartial manner.
7. Many property owners resist paying their bills due to the lack of any visible benefits, especially in areas with poor infrastructure and irregular or non-existent service delivery. To enhance voluntary compliance, there is a need to establish clearer links between tax payment and improved services.
8. Attention should be given to educating taxpayers on the rationale, procedures, obligations and responsibilities related to property tax. Provision of easy payment options, such as mobile phone based system M-Pesa used in Kenya and Tanzania, should be considered. Tax administration will only earn taxpayer compliance by creating a climate of fairness and trust.



Lagos. Photo by Tom Goodfellow.

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