Challenges, Prospects and Recommendations

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Challenges, Prospects, and Recommendations

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> The best approach to reforming tax in a developing country—indeed in any country—is one that takes into account taxation theory, empirical evidence, and political and administrative realities and blends them with a good dose of local knowledge and a sound appraisal of the current macroeconomic and international situation to produce a feasible set of proposals sufficiently attractive to be implemented and sufficiently robust to withstand changing times, within reason, and still produce beneficial results.
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> —Bird and Oldman (1990, 3)

Almost every country in Africa levies a recurrent property tax, and many have been trying to improve it. During the past 25 years, there have been many efforts to reform existing property tax systems that in some instances date back to colonial times (Egypt, Gabon, Mozambique, Senegal, and Uganda) or to introduce a new property tax system (Namibia), often as part of a more comprehensive decentralization reform (Kenya and South Africa). Some of these reform efforts have been initiated and strongly supported by international funding and donor agencies, which hope to help stimulate revenue mobilization, develop land markets, and improve transparency in government.

Most of these efforts have not been very successful. Property tax revenue performance is near the lowest in the world in almost all African countries; tax administration is characterized by inadequate valuation practices, poor property coverage, and low rates of compliance; and property

markets remain underdeveloped. Few African countries have shown a willingness to vigorously enforce their property tax laws. This is not to say that there are no success stories. South Africa has developed a well-administered, revenue-producing property tax. Some countries have seen meaningful increases in their revenues (Liberia and Sierra Leone), although in most cases, these increases were from a very low base. In other countries, revenue increases were realized but could not be sustained (Tanzania). There are some good success stories about property tax reform, but they are often found in individual jurisdictions (McCluskey and Franzsen 2016; Moore 2013). But mostly, there has been little progress in improving the property tax as a revenue instrument.

Nevertheless, there are reasons to be optimistic about the future. Africa is urbanizing rapidly, and the number of large and middle-sized cities is growing. This will both increase the demand for local public services and drive up real estate values. Especially if more African countries embrace fiscal decentralization, demand for a viable property tax will be increased. Property markets are becoming more formal and transparent, which should improve the chances for better administration. Although progress has been slow in this area, it should be boosted by urbanization and, one hopes, by more direct foreign investment. Technology improvements can also enable stronger property tax administration. The movement from manual to automated systems has been slow but steady and already is leading to administrative improvements in some places.

The problems and attitudes to be overcome in creating a strong property tax are formidable, but some good opportunities are coming into view. The question to be addressed now is, how do African countries get to the next step in improving property taxation?

Challenges

The African Environment

African countries are among the poorest in the world, and the resulting low taxable capacity is ultimately the greatest constraint to developing a stronger property tax. But there are other environmental factors that are hostile to implementing a productive tax on real property. The postcolonial era in Francophone Africa has been characterized in almost all of the region's countries by military uprisings (the Central African Republic) and coups or attempted coups (Burkina Faso, Burundi, the Comoros, Mali, and Niger). Political instability or even civil war is under way in Burundi, the Central African Republic, Chad, the Comoros, Côte d'Ivoire, the Democratic Republic of the Congo, Guinea, Madagascar, Mali, and Niger. The Somalian government has collapsed, Nigeria is dealing with serious insur-

gency problems, Egypt and Libya have gone through a period of political upheaval, and there is a refugee crisis across much of the continent. The constitutions of some countries (e.g., Burundi, Uganda, and Zimbabwe) have been amended to afford current presidents a further term or terms in office. The physical infrastructure in some countries—the object of property taxes—has been badly damaged in some places (Liberia and Sierra Leone) and has fallen into disrepair in others.

In this setting, it is no wonder that property tax reform is not a high priority. But even if it were, governance in many African countries is in crisis and incapable of leading effectively. Audit reports for local governments often express reservations, and procurement of public contracts is riddled with corruption. Moreover, many central governments and local councils lack the political will to enforce the collection of property taxes. Institutions are also a roadblock to reform of real estate taxes. Although the laws pertaining to property taxes may seem adequate, they are often out of step with the capacities of the governments administering the tax. Other causes of a weak property tax are poor institutional networks and intergovernmental collaboration, inadequate databases and logistics, limited capacity, poorly motivated staff, outmoded technology, and political interference. The result continues to be inadequate revenue mobilization and inadequate institutional and financial capacity to implement and maintain the property tax.

The Politics of Property Taxation in Africa

"Tax policy is the product of political decision making, with economic analysis playing only a supporting role" (Holcombe 1998, 359). This certainly describes the practice of property taxation in much of Africa. First, it is a tax on unearned income that is assessed judgmentally and is payable in response to a highly visible annual tax bill. Second, the services purported to be financed by the property tax are usually deficient, and the taxes are collected by governments in which taxpayers have little or no trust (Fjeldstad and Semboja 2001). Last, the property tax in general and the relation between the tax base and the tax rate in particular seem to be poorly understood. Persuading politicians to sell the property tax and voters to buy it is an uphill battle.

As if the natural disadvantages and capacity limits were not enough, national and local politicians have found ways to compromise the workings of the property tax even more. They find favor with voters and constituents by reducing the tax burden through exemptions and value thresholds (Egypt), amnesties (Zimbabwe), forgiveness of the interest on late payments (Nairobi, Kenya), and more. Tax rates are determined by politicians, either in the central government (Cameroon and Egypt) or in local

governments (Kenya, Namibia, South Africa, and Zambia). In some instances, rates are set so low that the cost of assessment and collection cannot or can barely be recouped (Franzsen and Welgemoed 2011; McCluskey and Franzsen 2005). Politicians also interfere with the property tax in less visible ways, through the tax administration. There are subjective valuation preferences for certain types of properties, and there are cases of political interference with the preparation of valuation rolls. Collection efforts may be lax and uneven, and the penalties for evading the tax may not be enforced. Even central governments often are delinquent in their property tax payments to local governments.

Politicians may have little incentive to reform the system. The amount of revenue sacrificed is usually quite small because the property tax rarely accounts for a large share of tax collections. Moreover, pressures from constituents can be hard to resist. The disruptive impact of vested interests should not be underestimated. Influential individuals who benefit from the status quo will go to great lengths to undermine reforms that are likely to harm their interests, even if a tax is low. In the eyes of some politicians, the benefits of the announcement of a tax reduction may far outweigh the budget cost.

There are ways to reduce undesirable political interference with property taxation. An increase in the amount of revenue raised would make the property tax more consequential, and reducing it would be more likely to require higher taxes elsewhere. Another tactic could be to require documentation of the cost of preferential property tax treatments and to identify the source of funding for these preferences. A third tactic could be to raise the statutory rate, albeit on a broader base.

Politics is not always bad for the property tax. There are property tax success stories that have much to do with politics. What these stories have in common is strong local political leadership, either during the reform phase (South Africa) or during the implementation phase (Cape Town, South Africa). Implementation of fundamental property tax reform requires political champions who can support the reforms, can help communicate the rationale for the reforms, and are prepared to put their reputations on the line (Bird 2004). Four instances where mayors or ruling parties have provided strong leadership are Bangalore (India), Belo Horizonte (Brazil), Bogotá (Colombia), and Cape Town (South Africa) (McCluskey and Franzsen 2013b). The Bangalore story is described in box 36.1.

The Institutional Environment

The proper institutional infrastructure for a well-functioning property tax is not in place in most of Africa. A value-based property tax system

Box 36.1 Political Leadership in Bangalore: A Pragmatic Approach to Property Taxation

The property tax system of Bangalore, the capital of Karnataka State in India, can be described as a hybrid of an area-based system and a value-based system. In response to challenges (e.g., rent control) presented by the dysfunctional annual rental value system, the city introduced the Self Assessment Scheme (SAS) in 2000. Under the SAS system, property owners were required to declare the physical characteristics of their property. The process was transparent, and the mayor had the backing of opposition-party politicians, the media, and, most important, the majority of taxpayers. More than 60 percent of taxpayers filed their declarations within the prescribed 45-day period–an indication of taxpayer acceptance. When a capital value system was introduced in Karnataka State in 2005, Bangalore retained the SAS, thus keeping a promise politicians had made to taxpayers when the system was first introduced. In 2008, the SAS was revised with the introduction of unit area values. Unit area values are determined with reference to the average rate of expected returns from a property per square foot per month, depending on the location and use of the property. The municipal corporation was classified into value zones based on published guidance values produced by the Department of Stamps and Registration. These value zones are adjusted regularly. Over a three-year cycle, the value increase must be at least 15 percent. This ensures some buoyancy in the tax base, which would otherwise be rather static because it is based primarily on area, and resulted in property tax revenues increasing between 2000 and 2011.

Sources: McCluskey and Franzsen 2013b; Rao 2008.

requires a mature and active property market. This means that there should be a clear definition of tenure rights and an efficient land administration system that guarantees the formal exchange of land and a process for determining, recording, and disseminating information about tenure, value, and the use of land. Reforms should concentrate on improving the system of land administration to formalize land markets, clearing up the intergovernmental and interministerial impediments to expanded coverage of the property tax base, finding an effective way to manage the responsibility for valuation, and addressing the serious shortage of valuers.

Land Administration and Informal Property Markets

Central to the effective administration of a mature property tax system is the registration of titles or deeds and the availability of fiscal and legal cadastres. Further development of these would instill confidence in the

ownership, occupation, and other limited rights pertaining to land and buildings, thus providing increased tenure security. More secure tenure rights and the recording and publicizing of transaction data should result in improved levels of transparency in property markets. Property registration exists in all African countries, but the systems require major technological improvements and more thorough coverage. The deficiencies in ensuring that all transactions are recorded and appropriate titles are issued adversely affect the coverage of the property tax. Both Mauritius and Zambia are implementing programs to modernize their property registers.

Only a few countries in Africa have mature, well-functioning land and property titling systems. However, progress is being made. Many countries are instituting major reforms through full-scale design (Equatorial Guinea), implementing land management modernization programs (Malawi, Uganda, and Zambia), or upgrading or extending geographic coverage (Mozambique). Other countries, such as Eritrea, Mali, and Somalia, are just embarking on this costly but critically important journey. Significant property tax reform projects are in place in Ethiopia and Somalia, but little is occurring in Sudan and South Sudan. On the other hand, as part of its decentralization drive, Kenya seems to be fragmenting its land management system.

Many African countries are discovering appropriate technology and using it to good purpose. A fully digitized property register that records legal ownership is essential; a land information system enabled by a geographic information system (GIS) is equally essential. Several countries have begun their land reforms in urban areas (Benin), followed by extensions into rural areas (Côte D'Ivoire and Mozambique). Digital scanning of deeds and titles is well advanced in many countries; Zambia is only one example.

However, a key challenge facing many countries is sharing of the data contained in legal registers since the register may be in, say, the Ministry of Justice, while property tax administration and valuation are the responsibility of a different ministry. As computerization of land registries gains ground across the countries in Africa, data sharing should become easier. There are still issues, however, when the land registry is a national system, but property tax administration is a local responsibility (The Gambia, Kenya, Lesotho, Mozambique, and Tanzania). Obtaining the data remains problematic. Registration of property has been established in many countries, but the recording of accurate transaction prices and rents is still a problem. This information is essential for a value-based property tax, and it should be recorded in such a way that the data can be regularly reported to the valuation department.

Tax Base Coverage and Property Identification

Ideally, all properties should be covered in a land registration system. With cooperation among the various offices involved, such as titling and deeds, mapping, and the cadastre, preparation and updating of the property tax roll should be relatively easy. However, as noted earlier, there is a great deal of variation in the extent to which individual properties are registered. Compounding the problem, the identification process does not always benefit from intergovernmental and interministerial cooperation.

In most Francophone and Lusophone countries, as well as countries in North and Northeast Africa, central-government entities are most important in the identification process and often rely to a large extent on property owners to self-declare their property holdings regularly, if not annually. Tax departments play a key role in all aspects of the property tax, but it is unclear from the country studies to what extent data are necessarily shared with other ministries and with local authorities. However, it appears that the lack of connectivity between ministries is a constraint. One must also reckon with the silo mentality, which often precludes data sharing.

In Anglophone countries, local authorities play a crucial role in some, if not all, aspects of the property tax, but often with little input from property owners. Data sharing between local authorities and relevant central-government ministries or entities is limited, as is data sharing among departments or divisions within individual local authorities. In the more successful local authorities, one typically finds that municipal valuers receive information on new building permits, rezoning applications, and the issuance of business licenses and occupation permits, which enables them to undertake field visits or interim valuations (Nairobi, Kenya, and South Africa). The updated data are then shared with the finance department, which can bill and collect the property tax accordingly.

Mandating or legislating the sharing of information is no small challenge. It is even more difficult to form new comprehensive departments. There are many players in a highly fragmented environment, such as ministries responsible for land, finances, justice, urban and rural planning, land titling or deeds offices, and the cadastre, and the political infighting can be fierce. But information sharing is important if there is to be an effective property tax. Information sharing can expand the property tax roll significantly. For example, De Cesare (2004, 16) reports that in the city of Guayaquil, Ecuador, an online integration of the public registry of properties and the cadastre made it possible to increase the number of recorded properties from 165,000 in 1993 to 418,474 in 2001.

It is possible to get past intergovernmental and interministry differences. African countries may learn from recent rationalization and streamlining of all the offices or entities involved in the recording and management of land in Northern Ireland and Jamaica, as discussed briefly in box 36.2.

Valuation

In countries where a value-based property tax exists, there will be an institution that by law is responsible for carrying out valuations. The choices are few: either the national government or local governments. The private sector can also play a role in assisting the government. In theory, centralized, decentralized, or shared responsibility for valuation can work. There are many good examples from around the world where different approaches work well. But no system will work well if the institutional framework is not supportive.

In Africa, valuation is one of the weakest links in the property tax chain. Depending on the country, the failures can be attributed to an inappropriate legal framework for the tax, the absence of an adequate fiscal cadastre, the shortage of professional valuation staff, and lack of interministerial coordination and cooperation.

In countries where local governments are responsible for valuation, the problems seem to be worse. Fiscal decentralization programs have directly or indirectly pushed valuation administration down to the local level (Kenya, Mozambique, Tanzania, Uganda, and Zambia) but have not provided the necessary resources to discharge the responsibility. One way to resolve this problem without compromising fiscal decentralization objectives could be to have a centralized national valuation department deliver valuation services to local governments that require them, or at least oversee the work undertaken locally. A model for doing this exists in Botswana and Kenya, but it is not effective in practice. However, such a model seems quite successful in Zambia. There are, of course, some successful experiences with local leadership of valuation. For example, initiatives implemented by the valuation departments in the three Dar es Salaam municipalities in Tanzania (Ilala, Kinondoni, and Temeke) have achieved excellent results in increasing coverage. Good practices are also observed at the local-government level in South Africa (City of Cape Town) and Zambia (Kitwe City Council). But it is difficult to generalize from these few places even to urban local governments in Africa.

The results from placing primary responsibility for valuation at the national level seem to be better, but the improvement is marginal. Examples of poor practice include Gabon, The Gambia, Kenya, Lesotho, and Uganda. In contrast, Botswana, Mauritius, and Namibia (for the

Box 36.2 Rationalizing Land Management: Examples from Northern Ireland and Jamaica

Northern Ireland

Land and Property Services (LPS) is an agency of the Department of Finance and Personnel that was created in 2008 and is responsible for mapping, land registration, valuation, and property tax collection for Northern Ireland. LPS was a merger of four separate government agencies: the Valuation and Lands Agency (VLA), Ordnance Survey Northern Ireland (OSNI), the Land Registry for Northern Ireland (LRNI), and the Rates Collection Agency (RCA). LPS demonstrates the powerful synergies that can be released from merging government organizations involved in land and property services.

The VLA was part of the Department of Finance and was responsible for property tax valuations. OSNI was responsible for mapping services and was an agency within the Department of Culture, Arts and Leisure. The LRNI, within the Department of Finance and Personnel, managed three registers: the Land Register, containing about 60 percent of titles to land; the Register of Deeds; and the Statutory Charges Register. The RCA was formed in 1991 within the Department of Finance and was the largest property tax collection authority in the United Kingdom. It was responsible for collecting approximately £1 billion of property tax annually. The VLA and the RCA merged on April 1, 2007, and the LRNI and OSNI joined on April 1, 2008. On full creation in 2008, LPS employed approximately 1,200 staff.

Source: Greenway 2010.

Jamaica

The National Land Agency (NLA) was established as a result of the Public Sector Modernization Program of the government of Jamaica, which underscored the government's commitment to streamline the administration and management of land. It brought together the core land information functions of government under one agency and included the former Office of Titles, the Survey Department, the Land Valuation Department, and the Lands Department. This merger has enabled the government to build on the synergy of these combined functions and create a modern national land (spatial) information system to support sustainable development. The NLA commenced operation in 2001. Its mission is to ensure (1) an efficient and transparent land titling system that guarantees security of tenure; (2) a national land valuation database that supports equitable property taxation; (3) optimal use of government-owned lands; and (4) basic infrastructure on which to build a modern spatial information system.

Source: Allen 2016.

agricultural land tax) have had some success. The challenge is how to address these problems. Creating an appropriate and dedicated national valuation department, particularly in smaller countries, such as The Gambia, Lesotho, Malawi, Rwanda, Sierra Leone, and Swaziland, could lead to benefits from economies of scale and achieving other institutional gains, such as setting uniform standards. The middle ground might be central oversight. Some countries with national valuation departments, such as Botswana, Kenya, Namibia, Uganda, and Zambia, where typically a division or department in the Ministry of Lands is responsible for or oversees public-sector valuations, might be a good model. However, the mere existence of these divisions or departments does not imply that they are operating effectively. It must be kept in mind that in principle, the responsibility for valuation in Botswana, Kenya, Lesotho, Malawi, and Uganda was previously centralized in the relevant land ministry and was either decentralized (Botswana, Malawi, and Uganda) or simply abdicated to in-house municipal valuers (Kenya and Lesotho) or private-sector valuers contracted by local governments (Botswana and Malawi). In Lesotho, the Maseru City Council appointed its own in-house valuer because it stated that municipal valuation was not viewed as a national-government priority (Franzsen 2003). This was apparently also the case in Kenya, Tanzania, and Uganda.

Other institutions could assist in ensuring that suspicious or corrupt valuation contracts and practices are investigated and eliminated. For example, in 2001, the Anti-corruption Board in Malawi investigated the contract that the city of Blantyre concluded with a private-sector valuation firm for the preparation of a new valuation roll (Franzsen and McCluskey 2005). South Africa created the office of valuer general in 2015 but has excluded municipal valuation from this office's functions and responsibilities—a missed opportunity. Because municipal valuations are excluded from the ambit of the valuer general, the office of the public protector could be requested to undertake a review of the procurement of municipal valuation services.

The Shortage of Valuers

In most African countries, national and local (in-house) valuation departments have too few professionally qualified valuers. Large cities typically have tens or hundreds of thousands of properties to be valued. Because there are not enough in-house valuers, revaluations are not undertaken, and current valuation rolls are not properly maintained. For example, in Nairobi, Kenya, the valuation roll currently in use dates back to 1982. The situation is worse in smaller urban municipalities, for example, in

Tanzania, where a municipality may have only one valuer, and in Uganda, where there is simply no valuation capacity. Furthermore, most African countries have few, if any, institutions capable of providing this training.

In many Francophone, Lusophone, and North African countries, officials in the central government loosely administer value-based property taxes. Tax directorates apply questionable market values to determine assessed values (the Central African Republic, the Democratic Republic of the Congo, Gabon, Libya, and Madagascar). These systems are largely based on annual self-declarations by owners. In reality, they are essentially area-based approaches with basic adjustments to reflect value. However, the approaches adopted are pragmatic where there is a very thin or nonexistent property market, and there are no credible data on market values.

What to do? After all, valuation is the centerpiece of a value-based property tax. One solution is to lessen the dependence on government valuers through administrative measures. A positive development in the valuation departments in some large metropolitan areas is the employment of GIS specialists and others with specific analytical skills, such as statisticians, who complement valuers and reduce reliance on them (Cape Town, Durban, and Nairobi). Another positive development is the use of data collectors to assist with the collection of property and ownership details (Arusha and Cape Town). These developments enhance rather than detract from the important role of valuers and do not infringe the legal requirement that valuations be performed by qualified valuers.

Another possibility is to use the private sector on a consultancy basis. This model has been applied in several African countries. It can be expensive, but in some countries, it can achieve the objective of updating the valuation rolls. If private-sector valuers undertake most or all of the actual valuation work, the government will need to deal with project management and address issues such as uniform standards and proper oversight. Cape Town, South Africa, is an excellent example of how this can be done professionally and efficiently. In some African countries (Sierra Leone and Uganda), however, even the private sector may not have the capacity to take on this task.

A third approach is to look to technology and mass appraisal to help reduce the demand for valuers. But simplified mass valuation approaches also require inputs from valuers. Moreover, the absence of reliable data on property transfers leaves computerized mass appraisal out of the reach of almost all African governments. The City of Cape Town is all but unique in Africa in its use of computer-assisted mass appraisal (CAMA) (box 36.3).

Box 36.3 Cape Town: A CAMA Success Story

The general valuation of 2015 for the City of Cape Town had the purpose of updating the valuation roll to incorporate value changes since the last general revaluation in 2012. The 2015 valuation roll was produced under the Local Government: Municipal Property Rates Act of 2004, which is the national legislation governing the valuation of properties for rating purposes. The act prescribes that all properties on the valuation roll must be valued at market value as of the date of valuation. The market value is defined as "the amount the property would have realised if sold on the date of valuation in the open market by a willing seller to a willing buyer."

By law, metropolitan municipalities in South Africa must produce a general valuation roll at least once every four years. The City of Cape Town elects to produce a general valuation roll once every three years because long periods between general valuations can result in significant changes in property values. Some 830,000 valuations were prepared.

The city gathered information about property sales that took place around the date of valuation (August 1, 2015). These sales were scrutinized and then formed the basis of the property value assessments. The valuation employed CAMA based on sales data, aerial imagery, and other property information (e.g., location, size, number of rooms, outbuildings, general condition and quality, and view) to determine the value of a property. The results were then reviewed by property valuers and adjusted if required.

Source: City of Cape Town Valuation Department 2016.

Urbanization and the Property Tax

Africa is urbanizing faster than any other continent (UN-Habitat 2004). There are already more than 20 urban agglomerations in Africa with more than 2.5 million inhabitants, and in 2014 there were three megacities (Cairo, Kinshasa, and Lagos each have more than 10 million inhabitants) on the continent (United Nations 2014). Dar es Salaam (Tanzania), Johannesburg (South Africa), and Luanda (Angola) are projected to surpass the 10 million mark by 2030 (Viruly and Hopkins 2014). 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 by 2030 (United Nations 2014). However, the fastest-growing urban agglomerations are medium-sized cities and cities with fewer than 1 million inhabitants.

Because of the pace of urbanization in Africa, sustainable development challenges will be increasingly concentrated in cities, particularly those in the lower-middle-income countries, where the pace of urbanization is fastest (United Nations 2014). Without ignoring the plight of rural dwellers,

well-designed and integrated planning policies will be needed to improve the lives of urban dwellers. Africa is expected to be the fastest-urbanizing region from 2020 to 2050 (Durand-Lasserve 2016; United Nations 2014). For example, in 1995, Lagos was estimated to have 6.5 million inhabitants, and in 2000 the population grew to 8.8 million. In 2002, it passed 10 million and continued its astronomical growth to surpass 16 million by 2015—the world's 11th-largest urban agglomeration (UN-Habitat 2004). Durand-Lasserve (2016) provides even more startling projections regarding urbanization, stating that between 2015 and 2050, urbanization in Africa will grow from 38 percent to 55 percent, which implies an additional 790 million urban inhabitants.

If African urban areas are to enjoy the economic growth that can go with this population growth, they will need to increase the level and quality of public expenditures. An expected growth of nearly 800 million urban dwellers will significantly increase the demand for housing, social services, and public utilities. It will also require significant expenditures for infrastructure to support business development and to keep these businesses competitive in international markets.[1] One estimate is that annual new infrastructure needs in developing countries will require about 5 percent of GDP over the next 20 years (Ingram, Liu, and Brandt 2013). By contrast, the level of total central- and local-government revenue in sub-Saharan Africa is only about 13 percent of GDP. At the same time, economic growth and increased public investment in infrastructure will drive up property values. Almost certainly, this will generate increased demand for property taxation in African urban areas, and the premium on improving the administration of the property tax will continue to grow.

Property-Related Taxes and Charges

Property Transfer Taxes, the Stamp Duty, and the Capital Gains Tax

There is evidence that high taxes on real estate transactions undermine the regularization of land registration or titling and discourage transactions, which might ultimately make the market thinner, and encourage underdeclaration of property values. Underdeclaration is detrimental to a value-based recurrent property tax and almost fatal to the possibility of a credible CAMA system. As argued in chapter 2, there are several potentially good reform directions. The best practice in this area would be to remove disincentives to a functioning real estate market and to accurately report sales values for property transactions. This suggests three pathways to reform. The first is to abolish the property transfer tax and make up the revenue loss by increasing the levels of the annual property tax. A nominal duty or fee could be levied to cover the cost of transferring

ownership. Perhaps this fee could be redesigned as a user charge or fee for the maintenance of the cadastre and a titling or deeds register.

The second reform direction would retain the property transfer tax but significantly lower its rates where they are high, and aggressively monitor declared values for transactions. This might be done by requiring certified appraisals on high-value properties at the expense of buyers and sellers, upgrading and expanding the valuation staff at the local-government level, and imposing significant penalties for underdeclaration. The administration of the property transfer tax could be merged with that of the annual property tax. There are, however, constraints on this proposal. First, cooperation and coordination of officials are often lacking where these taxes are levied at different government levels, as is often the case. Cabo Verde may provide some guidance in this regard. Second, finding the valuers necessary to do this job is difficult and almost certainly will incur significant cost increases.

The third reform path would be to replace the property transfer tax with a tax on capital gains from sales of real property. Administration would need to be phased in and would require estimated amounts for current values, but this would arguably be no more difficult than verification of declared values under the current transfer tax. Moreover, there would be an incentive for buyers to force an accurate declaration of the transfer price.

Ground Rent

Where land remains in public ownership in many African countries, the system of ground rent should be retained. It could be significantly better managed in many countries, although there are recent examples, most notably Lesotho, where administration has been improved with a positive effect on revenue. However, since ground rent is a rent for the right to occupy land, not a tax, it should be set as close to market rents as feasible.

Value Capture Mechanisms

Land value capture is a concept that describes several land-based finance tools whose use is growing. In essence, land value capture constitutes "a public claim to some portion of the increase in property value due to public investment, such as infrastructure improvements" (Youngman 2016, 13). Among the techniques that are used to capture these costs (or increments in value) are betterment levies, special assessments, land adjustment, and tax increment financing.

These instruments of land value capture may be seen as a way to defray part of the cost of infrastructure investment that goes with urbanization. They have been successful in Latin America (Smolka 2013). One of

the great advantages of this approach is that the cost recovery can be assigned in large part to direct beneficiaries. In most African countries, current laws will require amendment, or new laws will have to be passed to enable the use of one or more of these mechanisms. Land value capture does have great potential in growing urban areas of low-income countries, but it may be some time before most African countries can absorb this approach.

Property Tax Reform

Property tax reform involves (1) an in-depth evaluation of the current system that highlights its strengths and weaknesses; (2) identification of the primary objectives of the reform; and (3) a review of the tax policy and administration options that might lead to achieving the objectives (Bahl 2009; Bahl and Bird 2008; Bird and Slack 2004). It is noteworthy that property tax reform is happening not only in developing and transition countries but also in industrialized countries, such as Australia, Ireland, New Zealand, and the United Kingdom (Franzsen 2014). But industrialized countries can take advantage of many more reform options, while African countries are at a much earlier stage in property tax development. The question we raise here is, what appear to be the best reform options for African countries?

The caveat to this discussion, of course, is that not all African countries are alike, not all political settings are alike, and not all capacities to implement a property tax are alike. Specific policy and administrative reform options will not likely be on the mark. But there are enough commonalities in the problems and the setting for us to reach some general conclusions about possible good reform directions.

Clarify the Objectives

The first important question for a country to answer is what property tax reform is to accomplish. In almost all cases, the primary purpose of the reform is to generate revenue (Bird and Slack 2003; Dillinger 1991; Rosengard 2012). But even this objective is problematic because the property tax starts from such a low base in Africa, perhaps an average of only about 0.3 percent of GDP. Even a doubling of the effective rate in most countries, which would risk taxpayer shock, would probably do little to address the revenue gap. Perhaps equally important is to increase the income elasticity of the property tax so that its revenues grow in step with GDP.

A second overall objective could be more fairness (horizontal equity) in the property tax so that families and businesses in similar circumstances would pay roughly the same property taxes. The general strategy is usually to broaden the base and lower the rate through specific initiatives, such

as limiting exemptions and preferential treatments, increasing coverage, keeping valuations accurate and up to date, and enforcing the tax to achieve a high collection rate. But oddly enough, an apparently fairer property tax can be politically the most difficult to sell. When tax burdens are rearranged, there are invariably winners and losers. Those who benefit from reform often tend to remain silent, but those who lose tend to be vocal (Kelly 2014). And the losers may be politically powerful.

Although the reform advice here is to stick to fixing the basics, there are other objectives that might be good candidates for emphasis. These include increasing the progressivity of the tax and improving the land use impacts. Although these might eventually be on the table, the right reform now in most African countries is more fundamental structural and administrative change to broaden the base and administer the tax more efficiently. The United Kingdom's Department of the Environment (DoE 1991), the Institute of Revenues, Rating and Valuation (IRRV 1997), and Northern Ireland's Rating Policy Division of the Department of Finance and Personnel's Rating Policy (DFPNI 2002) have indicated several criteria as being worthy of consideration in holistically viewing reform issues. Table 36.1 illustrates some of the models that have been recommended.

Include All the Fiscal Instruments Necessary for Reform

The revenue productivity and horizontal equity of the property tax are the products of several different policy instruments and administrative actions. Unless all these fiscal policy and administrative action instruments are part of the reform program, the objectives are not likely to be realized.

Table 36.1 Proposed Criteria for a Local Property Tax System

United Kingdom Department of the Environment (1991)	Institute of Revenues, Rating and Valuation (1997)	DFPNI Rating Policy (Northern Ireland) (2002)
Practicability	Ability to pay	Adequate yield
Fairness	Ease of understanding	Equity
Accountability	Administratively efficiency	Interference in markets
Cost of administration	Difficulty of evading and avoiding	Stability and certainty
Fiscal dimensions	Impartiality	Policy objectives
Financial control	Benefit principle	Administration
Suitability	Accountability	Transparency
		Compliance costs
		Difficulty of evading

Sources: DFPNI (2002); DoE (1991); and IRRV (1997).

There are many examples of reforms that have stumbled because they failed to get all the pieces on the table, for example, countries that raised the legal tax rate but continued to increase exemptions, or countries that embarked on an aggressive identification campaign but failed to properly revalue the new properties.

One frequent problem in the design of reforms is an excessive concentration on the upstream stages of property tax administration, such as property identification and valuation, to the neglect of collection. Given the extremely low level of collection efficiency in developing countries, much of the effort spent on mapping and valuation is likely to be wasted if corresponding efforts are not made to improve collection administration. Newly identified and valued property does not yield revenue if collection administration is dysfunctional. Roy Kelly (2014) was led to his now well-known "collection-led" strategy of property tax reform by an Indonesian program that at first focused on valuation but ignored collection. The collection focus of the Kampala Capital City Authority in Uganda since its establishment in 2011 is an excellent African example of revenue enhancement through applying the basics of collection. The following are the most important fiscal instruments that might be a target for property tax reform:

The statutory tax rate: In a fiscally decentralized system, tax rates should be determined by the local government in order to foster accountability of the local council to the population. In this way, the tax rate can vary across jurisdictions depending on affordability and the demand for public services. If the property tax is to finance services provided by local governments, then local governments should have the right to change the tax rate annually depending on budget needs, although it may be necessary to limit increases or decreases via applying differential tax rates through central-government oversight, as happens in South Africa. In centralized systems, the national government will set rates, but some method of allowing for differentiation among local governments is probably desirable because the cost of providing local public services may vary from place to place. To preserve accountability, preferential tax rates should be set by the level of government that is responsible for providing local public services. Ideally, the property tax rate should be flexible enough to rise with the increased cost and demand for local public services that it supports. Preferential tax rates other than the zero rate below the value threshold should be discouraged.

Exemptions: Most, if not all, countries in Africa could benefit from a thorough review of their current exclusions and exemptions from the property tax base. Especially, relief for owner-occupied residential property, government-owned property, and newly completed buildings could usefully be reexamined. If the property tax is used to finance local government

services in a fiscally decentralized system, the local government should decide most exemptions. In every case, however, a fiscal note should be required that will identify the revenue loss from the exemption, the plan for recouping this loss, the beneficiaries, and the sunset period when the exemption will next be reviewed. Higher-level governments might provide technical assistance for local governments that cannot carry out the necessary analysis. Excessive exemptions could be guarded against in three ways: first, restructure the intergovernmental transfer system to penalize property tax exemptions; second, require public hearings to vet all exemption proposals; and third, impose a finite life for each exemption and require a review and a revote before the preferential treatment can be continued.

In more centralized fiscal systems, the national government usually decides property tax exemptions. Where this is the case, intergovernmental transfer systems should compensate subnational governments for the loss of property tax revenue. In this way, accountability of national politicians could be increased.

Identification of properties: An important problem for the revenue potential of the property tax is that large numbers of properties are not on the tax roll. In some African countries, less than 50 percent of properties have been identified (The Gambia, Kenya, Tanzania). The identification of properties can follow the traditional approach of "feet on the ground," that is, a manual identification and survey, but a modern approach would employ "eyes in the sky" technology, such as aerial photography, satellite imagery, and drones. This approach identifies properties and through a GIS creates a digital map that can be followed up by an actual inspection.

Record keeping: Property tax records, which are essential for assessment and collection, typically include many thousands of properties. Manual approaches to record keeping are not viable and in many cases are being phased out, for example, in Tanzania, where the computerized Local Government Revenue Collection Information System (LGRCIS) was developed to manage all own-source revenues, including the property tax. Early indications are that the LGRCIS has had a positive impact on revenue collections in many cities and municipalities.

Continued modernization and the automation of systems and procedures are important. Countries can gain significantly from the greater use of GISs because they can provide the required data-management capabilities for proper land use administration, as well as property taxation. Cape Town (South Africa), Bangalore (India), Belo Horizonte (Brazil), and Bogotá (Colombia) are examples of cities in developing countries that have made huge strides in enhancing revenue from their property taxes by integrating a comprehensive GIS with their property tax systems (McCluskey and Franzsen 2013b).

Valuation or assessment: Valuation (or assessment) is the core of the property tax system because it provides the mechanism to translate an abstract quantity, the defined tax base, into an amount (of value, size, or extent) that can then be multiplied by a tax rate to determine tax liability. Accurate valuation or assessment is therefore critical in distributing the tax burden fairly among taxpayers. As elsewhere in the developing world, many of the shortcomings in African property tax systems are due to the failure to value accurately (assessment ratios as low as 50 percent are not uncommon) and to revalue at the intervals required by the law.

There are two reform directions that countries might take to address this problem. One is to invest significant resources in correcting the present undervaluation and addressing the irregular revaluations. The other is to rethink whether a value-based tax is feasible if they do not have adequate valuation capacity. The latter has particular appeal as a short-term solution.

Collection rate and enforcement: As Keen (2012, 23) points out, the "fundamental strengthening of revenue collection will be largely a matter of persistent and unspectacular effort." In many African countries, the low rate of revenue mobilization can be directly linked to low collection rates (20 percent for residential properties in Niamey, Niger, in 2007; less than 50 percent in Lusaka, Zambia, in 2011; and less than 70 percent in Dar es Salaam, Tanzania, between 2006 and 2011). Not surprisingly, any meaningful mobilization of the property tax will require that the primary focus of attention be on administration generally and on enforcement more specifically. Tax collection needs to be improved, whether the property tax is a local tax (as in most Anglophone countries) or a central-government tax (as in most Francophone and Lusophone countries).

An efficient, honest tax administration is both a cornerstone and an outcome of good governance and is likely to result in improved voluntary compliance (Fjeldstad and Semboja 2001; Mikesell and Birskyte 2007). Improved administration and compliance should result in increased revenue. Significant progress in billing and collection has been made in most countries in Africa. Improved payment options have reduced administration and especially taxpayers' compliance costs. Focusing on administration does not mean that policy choices are unimportant; policy and administration are inextricably linked. Important concerns such as political will, good governance, and voluntary compliance must be addressed from both policy and administration angles. But "due attention must be paid to the extent to which revenue is attributable to enforcement (the active intervention of the administration) rather than compliance (the relatively passive role of the administration as the recipient of revenues generated by other features of the system)" (Bird 2004, 135). In the end, it is the willingness of the

government to enforce the tax that matters most in determining the revenue and the fairness of the tax. First and foremost, collection and enforcement are statutory obligations, as is clear from the example in box 36.4.

Lack of enforcement is the single most important reason that the property tax is not reaching its potential in most African countries. Collection levels are often appalling, and in some instances, councilors and officials are unwilling to pay the property taxes due on their own accounts. The instruments for tough enforcement are in place in nearly all African countries, but so far, most governments have been unwilling to use them. Especially the harsher enforcement mechanisms, even if they are on the statute book, are not used in practice. Governments in Africa need to become as enthusiastic about using enforcement measures as they are about giving preferential treatments. Although there may be administrative challenges in regard to some or all of the available mechanisms, the real solutions to the problem seem to have more to do with governance and trust. Strict enforcement against noncompliance is essential. If existing legislation does not provide for appropriate enforcement mechanisms, these should be introduced. However, local culture and political economy are relevant and need to be considered. Even in countries where collection levels have traditionally been very high, such as Namibia and South Africa, there seems to be cause for concern. Relevant bylaws, if any, should be amended, or bylaws should be introduced to facilitate enforcement through such measures as allowing for the issuance of tax liens, refusal to issue tax clearance certificates, cancellation of leasehold titles, foreclosure on the property of defaulters, seizure, and, as a last resort, public auction of the property in arrears.[2]

Last, the importance of communication between government (at all levels) and taxpayers cannot be overemphasized, as is illustrated by the smooth implementation of the land tax on commercial farmers in Namibia and the problematic aftermath of the 2012 revaluation. The lack of transparency and proper communication also bedeviled the implementation of the new property tax in Egypt and eventually resulted in significant base erosion through a value threshold in response to taxpayer concerns.

Recognize That a One-Size Property Tax Will Not Fit All Local Governments

The "one country, one tax base" model for the property tax is unsustainable. Reforms in Great Britain (1991), Northern Ireland (2007), and the Republic of Ireland (2013) have moved away from having only one base for the property tax. These reforms introduced capital value for residential property while retaining annual rental value for commercial and industrial properties. Clearly, in Africa, there are strong arguments for the use of more than one tax base. There may be active property markets in large urban areas but no

Box 36.4 Debt Collection and Credit Control in South Africa

A municipality has the responsibility to collect all money that is due and payable to it, subject to the law, and for this purpose it must adopt, maintain, and implement a credit-control and debt-collection policy that is consistent with its property tax and tariff policies and complies with the provisions of the law. A credit-control and debt-collection policy must provide for the following:

- Credit-control and debt-collection procedures and mechanisms.
- Provisions for indigent debtors that are consistent with its property tax and tariff policies and any national policy on indigents.
- Realistic targets consistent with generally recognized accounting practices and collection ratios and with revenue estimates set in the budget (less an acceptable provision for bad debts).
- Interest on arrears, where appropriate.
- Extensions of time for payment of accounts.
- Termination of services or restriction of the provision of services when payments are in arrears.
- Matters relating to unauthorized consumption of services, theft, and damages.
- Any other matters that may be prescribed by regulation.

A credit-control and debt-collection policy may differentiate between different categories of taxpayers, users of services, debtors, taxes, services, service standards, and other matters as long as the differentiation does not amount to unfair discrimination.

A municipality may (1) consolidate any separate accounts of a person liable for payments to the municipality; (2) credit a payment by such a person against any account of that person; and (3) implement any of the debt-collection and credit-control measures in relation to any arrears on any of the accounts of such a person.

A municipality may with the consent of a person liable to the municipality for the payment of property tax or other taxes, or fees for municipal services, enter into an agreement with that person's employer to deduct from the salary or wages of that person (1) any outstanding amounts due by that person to the municipality; or (2) such regular monthly amounts as may be agreed; and (3) provide special incentives for employers to enter into such agreements and employees to consent to such agreements.

The minister may make regulations or issue guidelines to provide for or regulate the action that may be taken by municipalities and service providers to secure payment of accounts that are in arrears, including (1) the termination of municipal services or the restriction of the provision of services; (2) the seizure of property; (3) the attachment of rent payable on a property; and (4) the extension of liability to a director, a trustee, or a member if the debtor is a company, a trust, or a close corporation.

Source: Local Government: Municipal Systems Act 32 of 2000.

market in smaller urban and rural areas (Botswana, Kenya, Mozambique, Namibia, and Tanzania). This argues for basing the property tax on value in large urban areas while using less sophisticated nonvalue bases in rural areas, as is already done in many Francophone countries.

Differentiation is already beginning to take place. The law in Kenya allows for up to four bases, although it is uncertain whether it still applies after the 2013 county elections. Niger values residential property on a different basis than commercial property. Most Francophone countries have different taxes (in most instances with different bases) for developed and undeveloped land. Agricultural and rural land provides a good example of property where an area basis could be used. However, where the law does not presently allow for different options (e.g., South Africa and Uganda), new legislation would be required to enable local governments to choose among various options.

Even in rural areas, land titling and registration processes are making significant inroads to provide security of tenure (Mozambique and Rwanda are good examples). However, although first registrations are being achieved, it is essential that subsequent changes in ownership also be captured and registered. The high costs of registration (including high transfer taxes in many instances) and lack of accessibility to land registry offices are impediments to ensuring that registries are properly maintained and remain current. From a property tax perspective, rural areas with high levels of traditional and customary land holdings should be treated differently from urban areas. These are generally areas of low property value where subsistence agriculture predominates. If a property tax is deemed feasible and justifiable in rural areas, it should be based on a structure with low administrative costs, probably area or rudimentary land value zones.

Monitor Property Tax Performance

Fiscal systems in many African countries are centralized. There is a trend toward fiscal decentralization in the Anglophone countries, but it is still in an early stage. The move toward a more viable property tax supports this fiscal decentralization strategy because the tax is so suitable for local governments. But until local-government fiscal autonomy is more developed, the central government will need to monitor the performance of the property tax. This monitoring will serve two purposes. First, it will track the performance of the property tax for all local governments; that is, it will evaluate revenue performance and various aspects of tax administration, such as collection rates, arrears, and coverage rates. This performance evaluation will also track exemptions and other preferences and their costs. Second, it will identify areas where local authorities (and some central-government departments) need technical assistance in improving prop-

erty tax performance. This might include troubleshooting with respect to administrative procedures, training, automation, and the like.

Successful property tax monitoring will require a unit, probably in the Ministry of Finance, with a small staff that has expertise in property taxation. This unit can then draw on a network of academics, valuers, tax administrators, and other experts to carry out monitoring and technical assistance. It will also be responsible for preparing and updating statistics on property tax performance for all local governments in order to conduct and publish an annual benchmarking exercise.

The Valuation Problem

A sustainable value-based property tax requires a functioning property market and a capacity to value property. Most African countries have neither. A value-based property tax relies on evidence from market transactions to determine assessed values. Property markets in many African countries are immature, lack transparency, and usually operate only in the more developed urban areas. The lack of property registration affects the number of formal transactions and reduces the evidence base used to assess property. There is progress in developing property markets across the continent, but it is slow. Even where the transactions base is present, valuers usually are not. Professional institutions such as those in Zimbabwe and South Africa are active in setting and enforcing professional standards, but little is being done to produce more professional valuers. A few countries are making progress in this area (e.g., Kenya and Tanzania), but here also, the going is slow.

What is abundantly clear is that many value-based property tax systems are in serious administrative decline. To capitalize on the revenue potential of the property tax, more innovative, pragmatic solutions need to be found. The discrete parcel-by-parcel valuation of each parcel often prescribed by law is unsustainable, as is shown by the long intervals between revaluations (Ghana, Kenya, Tanzania, and Uganda). In many countries, valuation rolls are often extremely out of date (The Gambia, Kenya, Lesotho, Uganda, and Zambia; South Africa is an exception). This undermines the buoyancy of the tax base and also the fairness and legitimacy of the property tax (Franzsen and McCluskey 2005; Mutema 2016). A value-based property tax is ideal in theory, but in some instances, it may be necessary for theory to take a back seat and to allow for pragmatism to assist in shaping an appropriate tax base. Simpler solutions are required that can be practically administered, particularly by subnational governments.

Simplified valuation approaches should be adopted for property tax purposes to account for the paucity of valuation skills, to minimize costs, and

to produce tax rolls more regularly (Franzsen and McCluskey 2016). Councilors and finance officers should be trained in the new procedures for property assessment, and all stakeholders need a better understanding of the relationship among the tax base, the tax rate, and tax revenue.

In light of the problems with the current practice, one might ask why there is so much reliance on value-based taxes in Africa. The answer is probably somewhere between inertia and "this is the devil we know." Old habits and laws die slowly. Despite some obvious problems and the need for reform, many property tax systems still retain the legacies of colonial administrations (Gabon, Lesotho, and Uganda). However, there are countries, such as Cameroon, that have reformed their system to adopt a value-based property tax.

Area-Based Systems

Legislation in several countries provides for a value-based property tax, but in practice, a system that is not based on value can be a pragmatic solution. The area of land or buildings serves as the tax base in some districts in Sierra Leone and some municipalities in Tanzania (so-called flat rates). In The Gambia, building costs are preferred to property values as the tax base. In Tanzania and Ghana, where only buildings are taxable, depreciated replacement costs are used. This is an example of a solution for the lack of valuation resources. Area-based approaches are also used in Burundi, the Democratic Republic of the Congo, Eritrea, and Sudan.

The land use charge (LUC) in Mozambique recognizes that the use of land has economic value. Although land, according to government policy, has no value, what clearly has monetary value is the use of the land, either existing or potential, and its location. The assessment methodology of the LUC is very simple. Only three objective variables are taken into account: the use of the land, its location, and its area (table 36.2).

Table 36.2 The Land Use Charge in Mozambique

Parcel Use	LUC (MZN)/Hectare
Nonagricultural land	75
Agricultural land	37.5
Cattle farming	5
Wildlife farming	5
Permanent crops	5
Land up to 1 ha within 3 km of coastline	500

Source: Based on Ministerial Diploma 144/2010 and Land Law of Mozambique, 1997.

Such adjusted area-based systems could provide the short- to medium-term answer for countries with poorly developed property markets and limited capacity and skills. Buoyancy under these two options could be addressed by regular revision and adjustments of the multipliers for characteristics such as location, size, age, and quality. Neither requires individual parcel valuation or frequent revaluations. These approaches can produce revenues, but they also can present challenges. One challenge is determining the area or size of the building or parcel. There are different codes of measuring practice applied to different property types (RICS 2007). The adjustment factors should also be based on some objective measure that can be tested. Unit-area values and flat rates are discussed in box 36.5 and box 36.6.

Box 36.5 The Unit-Area Approach in New Delhi, India

The New Delhi Municipal Corporation uses a unit-area assessment approach. The corporation moved to this simplified methodology in response to problems in applying its previous value-based property tax, based on annual rental value. The New Delhi Municipal Corporation uses the following formula to calculate annual value:

Annual value = unit-area value × covered area × multiplicative factors.

Unit-area values are determined in reference to eight categories (zones) from A to H. Category D constitutes the base unit-area value. For categories E to H, multiplicative factors of less than 1.0 are used; for categories A to C, these factors are greater than 1.0. The prescribed unit-area values for Delhi are provided in the table below.

Unit-Area Values

Category	Unit-Area Value (Rupees per M^2)	Category	Unit-Area Value (Rupees per M^2)
A	630	E	270
B	500	F	230
C	400	G	200
D	320	H	100

The 2011 tax rates on the annual value of vacant land or covered space of the building for the respective categories were as follows: for residential property, 10 percent for categories A to E and 6 percent for categories F to H; for nonresidential property, 10 percent for all categories.

The assessment value is based on specific physical characteristics of the property, such as location, size, use, and age (of buildings). The data requirements for administering an area-based system are less than for a value-based approach. Additional property characteristics can be incorporated as adjustment factors in order to try to have a closer proxy to value.

The Multiplicative Adjustment Factors

Occupancy Factor (Residential)	Factor	Structure	Factor	Age	Factor	Use	Factor
Owner-occupied	1.0	Pucca	1.0	After 2000	1.0	Medical institutions, religious purposes, schools	1.0
Tenanted	2.0	Semipucca	0.7	1990–2000	0.9	Industrial (vacant), utilities, telecommunication	2.0
		Kutcha	0.5	1980–1990	0.8	Industrial (occupied), museums, theaters	3.0
				1970–1980	0.7	Business, retail	4.0
				1960–1970	0.6	Hotels, towers	10.0
				Before 1960	0.5		

For example, in 2011, an owner-occupied 200 m^2 business property of good-quality material built in 1995 with a unit-area value of 500 rupees per m^2 would pay property tax as follows:

$$\begin{aligned}\text{Annual value} &= 500 \times 200 \times [1.0\ (\text{occupation}) \times 1.0\ (\text{quality}) \times 0.9\ (\text{age}) \\ &\quad \times 4.0\ (\text{use})] \times 10\% \\ &= 360{,}000 \times 10\% \\ &= 36{,}000.\end{aligned}$$

Sources: The Delhi Municipal Corporation (Amendment) Act, 2003, read with the Delhi Municipal Corporation (Property Tax) Bye-laws, 2003.

Box 36.6 Flat-Rate Taxation in Tanzania: An Interim Solution?

If a property is not valued and included on a valuation roll, it is liable for flat rates. In this context, flat rates are a simplified property-based tax used by some local-government areas and implemented through a bylaw. Properties liable to flat rates are not valued as such but are assessed a tax amount based on such factors as property use, location, and size. The process of applying flat rates is nontechnical.

Given the large number of properties and the lack of valuers within some local-government authorities, flat rates are seen as a viable alternative to value-based taxation. The Arusha City Council and the Temeke Municipal Council use both value rating and flat rating. The table illustrates how the flat rating system works in Temeke. The bylaw specifies the various property types of varying sizes and the prescribed flat rates that are levied. Only two variables need to be obtained, the use of the property and some measure of size, such as square meters, the number of beds (for hotels and guesthouses), or the number of seats (for cinemas).

Description of Ratable Property	Gross External Area	Flat-Rates Assessment
Commercial–prime	Up to 50 m^2	75,000
Commercial–prime	Over 50 m^2	45,000
Hotel	Up to 10 beds	75,000
Hotel	Over 20 beds	200,000
Bank	Main branch	1,000,000

In Arusha, only 7,000 properties of an estimated total of 80,000 are on the valuation roll. The city has been using students to inspect properties for flat rates and increased the number of properties on the tax roll to over 25,000 in only two months. The program began in January 2016, and the city council was confident that full coverage would be achieved by June 2016.

It is estimated that a property liable to flat rates will have a tax bill approximately 50 percent lower than that which could be charged if the property were to be valued. Thus, operating a flat-rate system in parallel with a value-based system violates the principle of horizontal equity. In the long run, there is a financial benefit to valuing all taxable properties and to moving all flat-rate properties to the valuation roll. However, the flat-rate system seems to be a pragmatic short-term measure to identify and record taxable properties and thereby broaden the tax base.

Value Banding

Another option that countries with functioning property markets could consider, at least in urban areas, is value banding (McCluskey and Franzsen 2013a). It is currently used only in Great Britain (since 1993) and the Republic of Ireland (since 2013). Under this approach, each property is placed in a value band (interval) based on available evidence about that property. All properties in a band have the same tax liability, and a property moves to another band only at the time of a general revaluation. Value banding has a number of advantages. It requires less information and less expertise on the part of tax administrators. Consequently, it is less expensive to implement and maintain than a fully discrete capital market value system. Because there is less precision in valuation, there are fewer grounds to dispute a valuation and therefore fewer objections and appeals from taxpayers (UN-Habitat 2011). Because properties are not individually valued, revaluations are needed less frequently. Depending on the width of the bands, a property value can often increase or decrease within the same band. It is only when values have moved beyond the upper or lower limit of the band or across several bands that a revaluation should be considered, but the revaluation process is relatively quick and inexpensive because it does not require the discrete valuation of all parcels. Another advantage is that the political role of assigning the legal tax rate is separated from the valuation question. The banding approach may be well suited for African countries with limited valuation capability. The major problem is whether there is enough evidence to assign all properties to a specific value band. It is noteworthy that although value banding is not used in practice in Africa, it is at least mentioned in the property tax laws of South Africa and Uganda.

Self-Declaration

Where there is a paucity of valuation expertise, self-declaration may be a pragmatic option. The government's role then becomes the traditional tax authority role of auditing rather than assessing. However, subjectivity in the declarations, and therefore horizontal equity, will be a problem. The limited valuation capacity in the government may also hinder oversight. Liberia and Rwanda have started down this road, and their progress should be watched. Self-assessment has been quite successful in some Indian cities, notably Bangalore and New Delhi (Rao 2008), as well as in Ireland. Self-declaration of property holdings is common across Francophone Africa, but self-declaration of values is less common. The basic problem is how governments are to verify the accuracy of the self-declared values.

Mass Appraisal

Mass assessment that is based on a simplified database algorithm can be an effective methodology to reassess many properties at the same time. It is not a direct value-based approach but uses tables that contain the assessment parameters, such as size, use, age, and location. Each property is linked to a table that gives the relative value for a particular parameter. The final computation is the assessed value of the property. This system is used in Mozambique and Tanzania.

Computer-Assisted Mass Appraisal

The appraisal community has developed computer-assisted mass appraisal (CAMA), which uses statistically based predictive models to determine assessments. A CAMA model can be more accurately described as an automated valuation model. A hedonic index of prices for real properties is developed by linking actual sales prices to the location and physical characteristics of the property. A regression equation is used to develop the index and then to calculate an estimated price for all properties that have not sold (Eckert 2008). This approach is used to assist assessments in North America and is also used to a limited extent in some middle-income and low-income countries. In Africa, it is encountered in Cape Town, South Africa, and in two pilot areas in Cairo, Egypt.

It is easy to see why some low-income countries have become so excited about CAMA. It appears to bypass much of the expensive legwork involved in developing a cadastre and assessing all properties. But for most low-income countries in Africa, CAMA may be an idea that is too good to be true. The basic problem is that the model requires accurate data on sales prices for real property, which few African countries have. The dependent variable that most analysts use (or propose to use) in developing a CAMA system is owner declaration of the sales price at the time of transfer, but this declaration varies according to the seller's subjective determination of how much he can understate the sales price without being audited.[3] In most low-income countries, there is no reason to expect that this is a good proxy for market value. The second problem is that these estimated values are used only to assist the process and do not fully replace the need for trained valuers.

Prospects

If African countries do what is required to improve the practice of property taxation, the result will likely be more revenue mobilization and more efficient property markets, both of which will stimulate economic growth. But the track record of tax reform in Africa has not been good, overall

revenue mobilization lags behind that in other regions, and revenues raised from the property tax are very low. Time and urbanization might eventually heal these problems, but well-thought-out reform programs can speed up progress. The prospects for successful reform of the property tax can be evaluated by asking three questions:

- What incentives would make African countries willing to bear the political and economic costs of property tax reform?
- What would be the elements of successful property tax reform in Africa?
- Have past reforms of the property tax been successful?

Incentives

There are a number of incentives for African countries to reform their property tax regimes. The costs of urbanization are high and growing. Central and subnational governments need more revenue to cope with these costs, and central governments want to reduce transfers to local governments. The mobilization of increased property tax revenues to finance local public services can achieve both of these goals. The property tax has good potential for revenue mobilization, especially in rapidly growing urban areas in many African countries. Growth in the property tax base also can recapture some of the value of location-specific capital investments and benefits from government programs and services not captured otherwise through various fees, user charges, and taxes (Kelly 2014).

The creation of a modern property tax will also entail identification and registration of all properties, which will be a big step toward formalizing the land market. If land markets work well, land will be mobile between uses and will be allocated more efficiently (World Bank 2009, 22–23). This can help remove important impediments to urban economic growth, housing, and finance and can facilitate effective urban planning. Finally, a well-functioning property tax is a natural choice for a local-government revenue source in a fiscally decentralized system and can spur the devolution of functions.

The benefits seem clear enough, but they may not be sufficient to stimulate reform. There are also negative aspects of property taxes that work against reform. In Africa, as in the rest of the world, they are unpopular with taxpayers and therefore with politicians. They are expensive to administer properly and demand skills in valuation that many African countries do not have. In some cases, the costs of good administration may outweigh the revenue to be realized. Finally, the availability of significant intergovernmental transfers to subnational governments can dampen the

demand for property tax reform by local government taxpayers and politicians. In any case, revenue decentralization has not been a major policy thrust in African countries.

The Elements of Property Tax Reform

Property tax reform can mean many things, ranging from large structural and administrative changes to small tweaks of the operation of property tax systems. Some of these changes directly affect revenues and tax burdens (reduction in legal exemptions and the use of stronger enforcement measures), but others are only intermediate steps to increased revenues (training of valuers, better valuation practices, registration of properties). In a sense, any changes in the property tax regime currently mandated in the law or regulations constitute reform.

Property tax reform is reminiscent of the old saying about pornography: we cannot define it, but we know it when we see it. No doubt, the introduction of a recurrent property tax in Burkina Faso and Seychelles would constitute reform. At the other end of the scale, a general revaluation or an amendment of the tax rate(s) is already provided for in the tax law and has more to do with implementation than reform. In contrast, changing the statutory valuation cycle from five to ten years, as has been done in Kenya and Zimbabwe, may be perceived as a procedurally minor amendment of the law, but it has significant implications, both positive and negative, and can be seen as a policy reform. There are other gray areas, such as a more efficient registration system for properties, university programs for valuation, replacing manual records with computerized systems, and properly codifying enforcement measures.

Reforms do not always improve the property tax. Some may be quite good, some may be quite poor, and some may be a mixed bag. The 2004 national law in South Africa heralded a new regime, replacing provincial laws allowing local municipal choice of one of three possible tax bases with a single, uniform tax base across all municipalities, whether large or small and whether predominantly urban or rural. The result has been increased revenues but less local choice in property tax practice. In contrast, the 2005 law in Uganda retained most of the important principles of the law it replaced; the changes were cosmetic rather than reconstructive. Reforms can also be reversed. Egypt improved its system with reforms in 2008 but dismantled these reforms in 2014.

If we interpret the term broadly, property tax reform has occurred in more than half of the 54 African countries since 1995 (table 36.3). In many instances, these reforms were quite extensive, for example, in Egypt, Mauritius, Mozambique, Rwanda, Senegal, Sierra Leone, and South

Table 36.3 Property Tax Reforms in Africa

1995–2000	2001–2010	2011–2016
Cape Verde	Cameroon	Ethiopia
Gabon	Central African Republic	Lesotho
Liberia	Congo	Kenya[1]
Malawi	Egypt	Nigeria (Abuja Capital Territory)
Swaziland	Gabon	Rwanda[2]
Zambia	Madagascar	Somalia (Puntland)
	Mauritius	South Africa[3]
	Mozambique	Zimbabwe (Harare)
	Namibia	
	Nigeria (Lagos State)	
	Rwanda[2]	
	Senegal	
	Sierra Leone	
	South Africa[3]	
	Tanzania[4]	
	Uganda	

Sources: Fjeldstad and Heggstad (2012); Franzsen (2014).

[1] The creation of new local government structures in Kenya in 2013 and the lack of constitutional clarity regarding legislative responsibility for property taxation will likely have far-reaching implications.

[2] After the decentralization of the property tax in Rwanda in 2005, the base was effectively changed, and self-assessment was introduced in 2015.

[3] In South Africa, a new law comprehensively reforming the property tax system was implemented in 2005. Significant amendments amounting to further reform were implemented in 2015.

[4] The amendments in Tanzania were mostly administrative.

Africa. Less extensive reforms occurred in Cabo Verde, Tanzania, Uganda, and Zambia, although in some cases (e.g., Uganda), a new law was passed.

Evaluation of Property Tax Reforms in Africa

Property tax reforms have multiple outcomes. The shift to a new base may enable easier and more frequent revaluations, but it can lead to unfairness in taxing smaller, more expensive residences at a lower rate than larger, less expensive residences. Lowering the threshold value for property taxation may increase revenues but also increase the regressivity of the property tax. This raises the difficult question of how the impact of property tax reform can be evaluated.

We offer three guidelines for determining whether a property tax reform is successful. The first is whether the goals or targets of the reform were clear, and whether they were achieved. Examples of successes and failures in Africa can illustrate the importance of clear objectives.

Rwanda introduced a universal registration system with the goal of improving the formality of the land market. Full registration of titles (leasehold and freehold) has been achieved, even though property tax revenue will not directly increase. A program in Arusha, Tanzania, stated the goal of increasing the number of properties liable to both rates and flat rates in order to achieve full coverage of all properties by July 2016.

In contrast, the property tax in Egypt has been the subject of reform since the early years of the 21st century, but the objectives have not necessarily been clear or generally agreed to. The government successfully rationalized several outdated property-related taxes when it enacted the real estate tax in 2008. However, because of a lack of transparency, political pressures, and internal civil conflicts, implementation of the reform package was stalled. New legislation was passed in 2014 that introduced significant exemptions, including hotels, and raised the threshold for taxable residential property. Most of the revenue gains foreseen in the 2008 policy change were lost.

The second marker for success is whether all the related elements of the reform were included in the package of changes to be implemented. Success in improving the mobilization of property tax revenue requires getting all the pieces on the table: coverage of the base, automated record keeping, valuation, and collection. If one step is missing, the revenue objective will be compromised.

There are many examples of African countries that have missed a step, notably The Gambia and Kenya. Francophone countries generally rely on self-declaration of property values, with the result that the tax base is greatly understated and revenues underperform. But there is no effective monitoring system to verify the accuracy of declared values. Arusha and Mtwara, Tanzania, have taken pragmatic steps to get as many properties as possible recorded in the property tax system by assessing flat rates (see box 36.6). However, enforcement continues to be lax, and collection rates are low.

Third, a property tax reform can be viewed as successful if taxpayers understand it and accept it as fair. The result may be an increase in revenues and in voluntary compliance.

South Africa's property tax reform, unlike Egypt's, was managed in a transparent and politically accountable manner. The tax base eventually chosen was market value, to be applied uniformly across all property use categories in urban and rural areas. The broad base extended to many

properties not formerly taxed, most noticeably commercial farms. Effective measures were enacted to mitigate the impact on bona fide farmers and other vulnerable use or ownership categories. Revenues increased dramatically, so seemingly the reform was successful. However, there are still concerns. Was the extension of a market value tax to local municipalities with predominantly communal land a success? This is an important policy matter that needs to be reexamined. On the administrative side, the procurement of private-sector valuation services and the lack of professional oversight are issues to be revisited.

The introduction of an earmarked land tax on commercial farms in Namibia was a resounding success. Policies were well designed, property owners were consulted and kept informed, and the eventual legislation was professionally drafted. The small numbers of objections to the first (2002) and second (2007) provisional valuation rolls suggest broad acceptance of the quality of the valuations, and the tax rates that were set resulted in tax liabilities that the commercial farming community generally accepted. Problems emerged when the 2012 provisional valuation roll was published. Values of farms increased dramatically, and there was no indication that the government was going to adjust the tax rates accordingly. Objections increased from less than 2 percent in 2007 to more than 21 percent. The High Court ruled that because of various administrative lapses, the valuation court was not lawfully constituted, and somewhat abruptly, the whole process was put on hold. The important lesson is that the government cannot rest on its laurels once the tax has seemingly been implemented successfully. The system's credibility must be maintained through proper administrative practices, but more important, politicians need to remain cognizant of realities and respond accordingly.

Finally, property tax policy may be affected by other reforms. Kenya did not embark on property tax reform as such. However, this country's far-reaching constitutional and institutional reforms by default significantly affect a property tax system that is regulated by two national laws, the Rating Act and the Valuation for Rating Act. There is uncertainty, rooted in the 2010 constitution, whether these acts still apply to the 47 new counties, or whether counties can enact their own property tax laws. Meanwhile, the Nairobi City County has passed its own property tax law, largely based on the two national acts. In short, Kenya's property tax was already beset by serious administrative problems and political interference, but it now faces a much more severe and potentially damaging policy challenge: deciding who has the power to determine the tax base and who has the responsibility to regulate and oversee municipal valuations.

Recommendations

The property tax has been maligned for years (in most cases rightfully so) as a badly administered tax that has not lived up to its potential in developing countries.[4] In African countries, this may have been a self-fulfilling prophecy. The property tax raises little revenue because it is badly structured and administered. Governments have continued to neglect administration of the property tax and have ravaged its base by preferential treatments, with the result that it has fallen into even more disrepair. Taxpayers have lost confidence that it is a fair tax, and few politicians are interested in championing it. Most of the proposals for reform that are seen nowadays are the same tired and safe recommendations that have been around for years: revalue more accurately and collect better. This remains good advice, but it does not seem to go anywhere. Almost everybody says it, but few do it.

Is there a way out of this state of affairs, or is the best course to move to other sources of financing local public services? We take the view that there is a way forward for the property tax. Although there is no one size that fits all in property tax reform in Africa, there are some basic principles that, in many African countries, might show the way to a more sustainable property tax. There are also a few bad practices where one size really does fit all. Steps toward sustainable property tax reform include the following.

Decide what roles the property tax will play in national development policy. Should it emphasize revenue mobilization, focus on horizontal equity, tax property wealth, stimulate more intensive use of land, form an integral part of a fiscal decentralization strategy, or promote some combination of these? The government should begin the effort by thoroughly analyzing the existing property tax and determining how it is out of step with the economic development goals of the country.[5] The result could be a white paper on property tax reform that provides a road map for policy and administrative actions.

Find a champion. Not many politicians will want to play this part, but those who are strong advocates of fiscal decentralization will be more sympathetic to strengthening the property tax as a source of local-government revenue. As urbanization increases public expenditure needs, the property tax may find more advocates than it has had in the past. Property tax reform as a plank in the decentralization strategy should be a less difficult sell than simply stating that the property tax is a good local tax (Kelly 2014).

Audit the legal underpinnings of the property tax—the constitution, the property tax laws, and the implementing regulations—to make sure

that the definition and coverage of the tax base and the tax rate structure are clear and appropriate. Redrafting the laws may be required.[6]

If the goal is to support fiscal decentralization, develop an overall strategy, including laws and incentives that will cause local governments to make more intensive use of the property tax. The most powerful way to do this is to reduce intergovernmental transfers to local governments with significant property tax revenue potential. This might be accompanied by a combination of revisions in the intergovernmental transfer formula and significant rewards in the transfer system for local governments that raise their property tax revenues above a threshold level.

Divide property tax administration appropriately between the higher and lower levels of government. This division should be based on comparative advantage, particularly with respect to who handles the maintenance and upgrading of the cadastre, property transfers, and valuation. The weaker the local-government capacity, the stronger the case for centralizing these responsibilities.

Upgrade the infrastructure of property tax administration. Governments should develop a system that generates and records accurate information on property transactions. This information is essential for developing the value map that underlies good assessment practice. Advances in technology, such as CAMA and GISs, can be especially useful for valuation and assessment. Replacing the property transfer tax with a capital gains tax on real property could remove an impediment to accurate self-reporting of transaction amounts. An alternative approach is to lower the rate of the transfer tax and aggressively check declared sales values. It may also be feasible to merge the administration of the recurrent property tax and the property transfer tax.

Align the structure of the property tax with the goals that have been set for it. The reform should focus on broadening the tax base, removing preferential treatments, and simplifying the tax. In most cases, this will require a new law. Exemption policy should be reviewed and revised. Exemptions should be minimized because a broad-based property tax better serves equity goals. Low-income housing might usefully be exempt or assigned a lower burden, but the practice of exempting owner-occupied property and government property and providing special exemptions should be rethought. At a minimum, all exemptions should be reviewed periodically, the revenue forgone should be annually calculated and reported, and a sunset period should be set to review every exemption. Preferential treatments become entitlements that are hard to get rid of. Beware of fiscal engineers who have plans to stimulate desired actions by reducing property tax liability. Graduated property tax rate structures

and classification systems complicate the administration of the tax and can introduce unwanted distortions. A better approach would be a flat rate with a floor exemption, no classification, and accurate valuation of the base.

Review collection and enforcement practices. Low collection rates are an important constraint on revenues. Tougher enforcement and a more realistic set of penalties are likely to be more effective in raising property tax revenues than attempts to create a more "friendly" property tax.

In most African countries, concentrate reform and revenue-mobilization efforts on the largest cities. The tax base is larger there, the administrative machinery is usually better, and the local public financing needs are greater. Smaller governments and rural areas are important, but a more rudimentary form of the property tax can be more successful in them. These governments will in any case remain more dependent on intergovernmental transfers.

A more far-reaching idea: change the focus of the reform to the creation of a comprehensive system for taxing all land and real property. In the present system of property and land taxation in most developing countries, the annual use of urban property is subject to one rate schedule, agricultural use to another, gains from the sale of property to a third, and so on. A plausible idea is to begin moving this system toward one that taxes a more uniform base. The result could be an increase in the revenue yield from property taxes to a level that could justify significant increases in administrative expenditures.

Finally, recognize that developing and transitioning countries cannot move immediately to the practices of industrialized countries. They need to develop a long-term plan for improved property taxation and implement it over a period of years. The timing of changes is important. The best route to success is to plan a transition that allows the tax administration to catch up and taxpayers to get used to the new system.

Conclusions

Theory suggests that the property tax is a good local tax. Moreover, almost all countries across the world use it (Almy 2016). However, the property tax is notoriously difficult to administer and maintain and is wildly unpopular. This raises the question: Should we bother with it at all? Our short answer is yes, but the medium-term focus should be on urban centers, higher-value properties, and more affluent taxpayers. Well-targeted relief must ensure that valuers and tax collectors do not waste time and effort on thousands of low-value properties and poor taxpayers, but it also

must ensure that the relief is counterbalanced by taxing those with the ability to pay for local public services.

The priority must be to improve collection, tax base coverage, and valuation, preferably in that order. In most, if not all, of the countries reviewed, collection and enforcement were the weakest links in property tax administration. A collection-led strategy deserves special consideration (Kelly 2000, 2014), such as the revenue-enhancement reform in Kampala, Uganda. Strategies that focus on valuation have generally not been successful in Africa and elsewhere (Kelly 2014). Without an effective collection and enforcement system, there is little to be gained from increasing the coverage and valuation components, both of which can be costly, as is clear in Egypt, South Africa, Tanzania, and Uganda.

Enforcing a tax system, is difficult, especially in the dynamic environments in developing countries. However, unless this task is approached fairly, efficiently, and consistently, even a well-designed tax system will fail to produce good results (Bird and Zolt 2003). Arguably the greatest failing of the property tax in Africa is the unwillingness of governments to enforce it. Implementing a well-designed and well-administered property tax is an investment that the countries of Africa can ill afford to ignore.

Notes

1. However, a serious concern is that although urbanization in developing countries has proceeded faster than in developed countries, the correlation of the rate of urbanization with economic growth has been weaker (United Nations 2014).

2. Bylaws can deal only with issues provided for in the law. In countries where the property tax is contained in the tax code or the revenue code, which is often the case in Francophone Africa, all the enforcement mechanisms mentioned in the code may be available to the authority (be it the local government or the central government's revenue authority) responsible for collecting the tax and enforcing its payment.

3. Declared transaction values supplied to the stamp duty office could be supplemented with expert judgment and other evidence of land values (e.g., bank mortgage information and real estate listings), just as they are when property values are assessed under an improved capital value system. However, there is limited evidence, except in South Africa and Zambia, that this happens in practice. The expectation in most countries is considerable underassessment.

4. This section has benefited from the discussion in Bahl and Bird (forthcoming).

5. Some examples of property tax reviews are those sponsored in Pakistan (Bahl, Cyan, and Wallace 2015) and Tanzania (McCluskey et al. 2003) by the World Bank, in Macedonia and Montenegro by the U.S. Agency for International Development (USAID 2006), in Jamaica by Inter-American Development Bank (IADB) (Sjoquist 2005), and in India (Mathur, Thakur, and Rajadhyasksha 2009). See also Bird and Slack (2004, chapter 3), and Bahl and Bird (forthcoming).

6. The property tax reform in South Africa is an example. Giving effect to the 1993 constitution, the *White Paper on Local Government* (Government of South Africa 1998) was drafted, which eventually culminated in the current property tax law.

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