# Property Taxation in Anglophone West Africa:
# Regional Overview

Samuel S. Jibao



**Lincoln Institute of Land Policy**
**Working Paper**



**Lincoln Institute Product Code: WP09AWA1**

## Abstract

The Lincoln Institute and the African Tax Institute (ATI ), located at the University of Pretoria, South Africa, have formed a joint venture to better understand property-related taxation in Africa. Its goal is to collect data and issue reports on the present status and future prospects of property-related taxes in all 54 African countries, with a primary focus on land and building taxes and real property transfer taxes. Each individual report aims to provide concise, uniform and comparable information on property taxes within a specific country or region, considering both the system as legislated and tax in practice. This paper provides a regional overview of property taxation in Anglophone West Africa (The Gambia, Ghana, Liberia, Nigeria, Sierra Leone).

## About the Author

**Mr. Samuel S. Jibao** of Sierra Leone is a Ph.D. candidate in Economics at the University of Pretoria, in South Africa. Mr. Jibao holds a M.Phil in Economics and is deputy director of the Monitoring, Research and Planning Department, Sierra Leone National Revenue Authority. He is currently a Lincoln – African Tax Institute Fellow.

Email: sjibao@yahoo.com

# ACKNOWLEDGEMENT

The Researcher acknowledges with much gratitude the financial support provided in the form of fellowship award by the Africa Tax Institute and the Lincoln Institute of Land Policy without which this study would not have been possible.

I am particularly grateful to Prof. Riel Franzsen, Director of the African Tax Institute and Prof. Niek Schoeman, Director of Finance of ATI who facilitated this research work.

Data collection activities were facilitated by the cooperation of Local Government Officials, Officials from the Ministry of Finance, and Local Councils in the five countries. Specifically I wish to thank the following officials: Adams Tommy and Alimamy Kargbo , Economists in the Decentralization Secretariat in Sierra Leone; Dr Alhassan Iddrisu, of the Ministry of Finance in Ghana, Mr Amin, Human Resource Manager in the Ministry of Local Government and Rural Development in Ghana, Mr Johnson Alifu, Director, Ministry of Local Government in Ghana, Mr Aike, Budget Section, Accra Metropilitan Assembly; Mr. Francis S. Dopoh,II, Director Division of Real Estate Tax, Ministry of Finance, Mr Jerry J Taylor, Coordinator, Tax Administration Reform Program of Liberia, Edward B. Dogoseh, Commissioner, Internal Revenue of Liberia, Andrew G. Paygar, Assistant Minister for revenue, Oliver N. Rogers, Deputy Commissioner, Internal Revenue; Mr Rogers and the Administrative Director, KMC in the Gambia; and Dr. Robert Korsu in Abadan, Nigeria for facilitating my data collection in their respective countries.

Finally I take full responsibility for all errors and omissions detected in the course of reading this material.

Samuel S. Jibao

Sierra Leone.

## ACRONYMS

| | |
|---|---|
| ALGON | Association of Local Government Chairmen |
| AMA | Accra Metropolitan Assembly |
| AAV | Assessed Annual Value |
| CGT | Capital Gains Tax |
| CTC | Certified True Copy |
| DA | District Assembly |
| DACF | District Assembly Common Fund |
| EFCC | Economic and Financial Crimes Commission |
| GDO | Gold and Diamond Office |
| GRA | Gambia Revenue Authority |
| IMF | International Monetary Fund |
| KMC | Kanifing Municipal Council |
| LUCL | Land Use Charge Law |
| LVB | Land Valuation Board |
| NRA | National Revenue Authority |

| | |
|---|---|
| NRS | National Revenue Secretariat |
| PIA | Personal Income Tax |
| TMA | Tema Municipal Assembly |
| UNDP | United Nations Development Fund |
| VAT | Value Added Taxation |

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## EXECUTIVE SUMMARY

Taxes on Land and property are among the oldest and most common forms of taxation. Despite the recognition that property tax is one of the most lucrative revenue sources, it continues to be plagued by problems.

In an effort to address these various problems, policymakers, donors and Researchers are exploring ways to design and implement more effective property tax reform strategies. The first step is to undertake a thorough analysis of the existing property tax system, identifying the major constraints and opportunities for improvement, hence the need for this research work.

The prime objective of this research is to do a comprehensive review of the property-related taxes in the five (5) Anglophone West Africa countries. Specifically the research sought to:

- Develop a comprehensive template to collect data regarding all forms of property taxation in the Anglophone West Africa that could be updated and maintained with relative ease;
- Report in a concise , uniform and comparable manner on property-related taxes levied in these Anglophone countries;
- Report on property tax systems as legislated in these countries;
- Establish the importance and extent of annual property taxes as sources of national and/or municipal revenue in the survey areas;
- Establish the importance and extent of property transfer taxes as sources of national and/ or municipal revenue in the countries under review;
- Comment on the future role of property taxation in these countries; and
- Discern general trends in the application of property taxation in Anglophone West Africa Countries.

To achieve the above objectives the Researcher did extensive visits to the five countries and focused on the main cities. In addition, the Researcher also reviewed legislations, and conducted structured interviews with central and local government officials in the five countries.

Attempt was made to obtain accurate and up-to-date data on at least the following key areas in the five countries surveyed on the same key areas in each country visited:

- A brief country description providing appropriate background statistics (e.g geographic size, population, constitutional make-up, urbanization etc.);
- Property –related taxes : National and Sub- National;
- Property –related tax base provided by legislation and used in practice;
- Valuation and Assessment procedures and practices, including valuation cycles, objections and appeals;
- Tax rates;
- Exemptions and tax relief mechanisms;
- Collection procedures and practices;
- Enforcement procedures and practices and;
- Other relevant features

The main problem areas that are common to the five countries discussed could be summarized as:

- **Poor Governance:** One major problem affecting Local councils in the five countries is governance. The root causes range from the lack of political will on the part of the councils, poor institutional network and collaboration, inadequate data base/logistics, poorly motivated staff and political interference.
- Furthermore, legislation in all five countries mandates an ad valorem property tax system with discrete values for each rateable property. This method is fraught with a lot of constraints in these countries which range from lack of adequate data, dearth of knowledge of the property market, property market not well developed and mostly informal and social behaviours.

- All five countries, more so Sierra Leone, Liberia and The Gambia, lack appropriate practical training programmes for municipal valuers and property tax administrators. As a result statutory valuation cycles are often not adhered to and re-valuations postponed. The outcome is valuation rolls are hopelessly outdated (e.g Sierra Leone with valuation roll over 20 years and 25 years in the case of Liberia).
- Apart from human resource capacity, there is also a lack of physical and financial capacity to undertake sustainable property tax administration system, as is clearly shown in Sierra Leone, Liberia and Nigeria. With very limited access to technical support, one computer hardware (at Freetown city council), no software on valuation, and very limited number of vehicles for most of the councils in these countries.
- Low taxpayer education: the inculcation of a culture of tax compliance depends on changing attitudes and perceptions. Even though the Councils in the respective countries have embarked on public education programmes either in the media or on posters and billboards the approach is ad hoc and piecemeal. Therefore, a more concerted and sustained approach needs to be put in place for the sensitization of the public on assessment, rating and the provisions in the Local government Acts and other legislations guiding the implementation of property taxes in these countries.
- Collection and enforcement continue to pose serious problem in these countries due to social and political factors. Collection is often poor and many bills go unpaid, because taxpayers are not identified, or they resist payment because their housing conditions are too poor or urban basic services are not provided to their areas.

- The accountability to the electorate and the native administration for moneys received is yet to take effect and this would largely be due to: lack of awareness of the general public of this right; and the delays in updating accounting records to facilitate preparation of up to data financial statements.

- Unlike the other four countries, property tax administration in Liberia is done by the Real Estate Department in the Ministry of Finance.

In General it was recommended in this report that Local councils need to be empowered and strengthened with the capacity to more effectively manage and collect their locally generated revenues. Although the central government, is and will be transferring financial resources through an intergovernmental fiscal transfer system (based on **EQUITY**), it is essential for local councils to enhance their own source revenues in order to ensure local autonomy, promote accountability, enhance economic governance and local ownership and realize the decentralization efficiency gains by linking their revenue and expenditure decisions. It is essential that local councils have the power and ability to mobilize discretionary own-source revenues at the margin to allow truly local decisions—ones that are accountable to the local citizens—linking the additional local revenues to local services.

Furthermore, to improve on the capacity of valuers and tax administrators in these countries, there is need for Regional Co-operation (regional training facilities) that will liaise or extensively make use of the training opportunities at the African Tax Institute based in South Africa.

Moreover, the education of all stakeholders (i.e Local Politicians, Central Government Officials, and Taxpayers) on the nature of property taxation is essential and the link between increased tax revenues and improved levels of service delivery need to be emphasized. Taxpayer education is essential to ensure that the rationale for a property tax is fully understood (Franzsen and Olima 2003).

# Chapter 1: General Background to the Study

This chapter contains introduction to the study, objectives, scope, methodology, justification and statement of the problems relating to the study. These issues form the general foundation, direction and dimension of the study.

## 1.0. Introduction

Taxes on Land and property are among the oldest and most common forms of taxation. Although property taxes typically constitute a minor source of revenue at the central government level, they may constitute substantially to the financing of local public services throughout the world. Although comparative data are scarce, property taxes account for 40-80 percent of the local government finance, 2- 4 percent of total government taxes, about 0.5 -3.0 percent of GDP (Kelly Roy, 2000). In contrast to developed countries, developing countries tend to generate significantly less property tax revenue, with property taxes typically generating a maximum of 40 percent of local revenue, 2 percent of total government revenue, and about 0.5 percent of GDP ( Kellly Roy 2000).

The taxation of land and property may be justified on the grounds of both the benefit and ability to pay principles of taxation. Benefit considerations point to various kinds of in rem property taxes. One may argue that the protection provided by the state for private property through the maintenance of general law and order justifies the imposition of a tax; or more narrowly, one may argue that the construction of road adjoining the property confers a benefit for which a tax might be charged. Ability-to pay considerations suggest that the holding of property do not have the tax capacity since he is receiving property income but also implies an inherent form of potential consumption.

Property taxation relies extensively on active government participation to ensure that tax base information and property values are kept up-to date and that taxes are properly assessed, billed, collected, and enforced. Thus, any property tax reform strategy must recognise these administrative challenges –intensive nature and the importance of direct government administration for its revenue buoyancy.

### 1.1. Statement of the Research Problem

Developing countries everywhere are undertaking fiscal decentralizsation and local government reforms to improve economic efficiency and accountability. These reforms involve rationalizing expenditure and revenue responsibilities along with establishing intergovernmental transfer programs to enable governments to better fulfil their stabilisation, distribution, and allocation functions.

One critical prerequisite for sustainable local government reform is adequate financial resources. Thus, in addition to supplementing local resources through establishing central-local revenue transfers, governments are searching for ways to mobilize and improve existing local own-source revenue sources. Virtually all countries seem to be focusing on strengthening the property tax, the most common revenue source for local governments throughout the world (Kelly, 2000).

Developing countries in Sub-Saharan Africa are no exception. Despite the recognition that property tax is one of the most lucrative revenue sources, it continues to be plagued by problems. In several African countries, the central government is hesitant to devolve property tax policy and administrative authority to local authorities, while at the same time remaining indifferent in terms of promoting property tax reform. In other cases, even when authority is granted or when the central government is interested in reform, progress is slow because of perverse incentives, inappropriate property tax policy, and the lack of property administrative systems, trained personnel, and synchronisation of improved local service delivery with enhanced revenue mobilisation.

In an effort to address these various problems, policymakers, donors and Researchers are exploring ways to design and implement more effective property tax reform strategies. The first step is to undertake a thorough analysis of the existing property tax system, identifying the major constraints and opportunities for improvement, hence the need for this research work.

### 1.2. Objectives

The prime objective of this research is to do a comprehensive review of the property-related taxes in the five (5) Anglophone West Africa countries. Specifically the research sought to:

- Develop a comprehensive template to collect data regarding all forms of property taxation in the Anglophone West Africa that could be updated and maintained with relative ease;
- Report in a concise , uniform and comparable manner on property-related taxes levied in these Anglophone countries;
- Report on property tax systems as legislated in these countries;
- Establish the importance and extent of annual property taxes as sources of national and/or municipal revenue in the survey areas;
- Establish the importance and extent of property transfer taxes as sources of national and/ or municipal revenue in the countries under review;
- Comment on the future role of property taxation in these countries; and
- Discern general trends in the application of property taxation in Anglophone West Africa Countries.

### 1.3. Significance of the Research

A detailed comparative study on the administration of property taxation in the five Anglophone countries in West Africa has not yet been undertaken. This research will therefore contribute to a better understanding of the property tax systems and practices in the respective Anglophone countries in West Africa.

Meaningful comparisons are often difficult due to subtle differences between jurisdictions. The data captured in the country templates will assist the reader by pointing out common denominators and country specific peculiarities.

This study could provide policy advisors with basic data and information, as well as reflective views on property tax legislation and practices and provide possible guidance for best practice guidelines and future reforms in the context of general trends.

Furthermore, publications from the research will boost the research image and rating of the African Tax Institute and Lincoln Institute of Land Policy, as institutions that contribute to finding solutions to problems facing national and sub-national governments with particular focus on how to enhance the potentials of these Governments to generate more resources so as to effectively deliver on their mandates.

### 1.4. Methodology

Research methodology is usually shaped by a number of factors including; the nature of the problem to be investigated, finance, personnel, would-be respondents, and the type of information to be generated. The methodology used in this report recognized these factors. It comprised a number of steps and a combination of data collection techniques.

#### 1.4.1. Data Collection

Data collection in many developing countries is problematic. The researcher recognises the fact that, not only is there significant differences in how land and property are taxed across countries, there are often significant differences within countries. The greater is the degree of local discretion in establishing the tax base and setting the rates, the more diversity there will be in property taxes within a country. This is particularly true in Federal systems, in which the state or provincial government often provides the legal framework under which municipalities can operate.

The Researcher did extensive visits to the five countries and focused on the main cities. In addition, the Researcher also reviewed legislations, and conducted structured interviews with central and local government officials in the five countries.

A desk survey was also undertaken during which relevant documents, reports and literature in relation to property related taxation were reviewed. These provided the secondary data, some of which formed the background material to the report. Sources of information included: related web sites, World Bank Publications, Lincoln Institute of Land Policy and ATI publications, revenue agencies in the various countries.

### 1.4.2. Scope of the Data

Attempt was made to obtain accurate and up-to-date data on at least the following key areas in the five countries surveyed on the same key areas in each country visited:

- A brief country description providing appropriate background statistics (e.g geographic size, population, constitutional make-up, urbanization etc.);
- Property –related taxes : National and Sub- National;
- Property –related tax base provided by legislation and used in practice;
- Valuation and Assessment procedures and practices, including valuation cycles, objections and appeals;
- Tax rates;
- Exemptions and tax relief mechanisms;
- Collection procedures and practices;
- Enforcement procedures and practices and;
- Other relevant features

### 1.4.3. Data Analysis

The basic properties of the property tax systems in the five Anglophone West African countries were analyzed in the context of the following key areas:

- Coverage i.e the number of properties taxed as a percentage of the total number of properties;
- Tax base i.e event or condition that gives rise to taxation. It is defined in the law and in some cases is some economic event;

- Assessment as stated in the various legislations. The number of registered valuers and responsibility for valuation rolls were also ascertained. This gave an indication of the capacity to properly assess properties for property tax purposes;
- Tax rates: responsibility of setting rates; and
- Collection and Enforcement: array of enforcement procedures against defaulters as provided for in the legislation

In addition to the above ratios, descriptive statistics such as means, median, modes, frequency counts, percentages, and cross tabulation was also used in processing data collected. Analytical approach and deductive reasoning were applied because a detailed understanding of the complicated relations was required.

### 1.4.4. Structure of the Report

The report comprises background information on each country and further discussed implementation of property-related taxes in each country. In additional, detailed financial analysis was done on sub-national governments in the five countries in other to ascertain the importance of property tax in these countries.

This report concludes with a number of problems affecting local councils in the five countries and also identified what should be done.

# Chapter 2: Literature Review

## 2.1 Introduction

This chapter covers the conceptual framework and the Empirical Literature on the administration of property related Taxes. All these were useful for empirical analysis.

## 2.2. Review of Literature

Many developing countries have concentrated taxing authority and tax administration with the central government. The function of government can be divided into three, namely, allocation, distribution and stabilization functions (Musgrave 1959). Using this stratification, stabilization and distribution functions are expected to be under the periphery of the central government whilst lower government undertakes allocative functions. Hence any spending and tax decisions that will affect the rate of inflation, level of unemployment, etc. are better handled at the centre, whilst other activities that affect social welfare are more efficient if undertaken by sub national governments.

However, there is a spreading sense that local governments throughout the world are growing up (Bahl,1999), that they no longer require central government guidance and control for them to make a positive contribution to the provision and delivery of government services, that they can and should assume more responsibility for financing these services, and that bringing decisions closer to the people, the voters, will improve government efficiency, effectiveness, and responsiveness. One critical prerequisite for sustainable local government reform is adequate financial resources. Thus, in addition to supplementing local resources through establishing central-local revenue transfers, governments are searching for ways to mobilize and improve existing local own-source revenue sources.

The importance of the property tax as a source of financing tends to be overlooked because fiscal analysis normally focuses on central government or state finances, and in that context the property tax is a relatively minor source of revenue (McCluskey,1998).

Despite the relatively low contribution of property taxes to national revenue, virtually all countries seem to be focusing on strengthening the property tax, the most common revenue source for local governments throughout the world (Kelly, 2000).

One reason that taxes on land and property have been considered to be especially appropriate as a local revenue source is that real property is immovable- it is unable to shift location in response to the tax.

Another reason why property taxes are considered to be appropriate as a source of revenue for local governments is the connection between many of the services typically funded at the local level and the benefit to property values (Bird and Slack 2002).

Fischel (2001) for instance argued that the property tax in the United States is like a benefit tax because taxes approximate the benefits received from local services.

Contrast to the benefit view, many see the property tax as a tax on capital or, to the extent it falls on housing, as a tax on housing services. Zodrow (2001), for example argued that the property tax in the United States results in distortions in the housing market and in local fiscal decisions. Homeowners who improve their houses for example, will face higher taxes as a result and will thus be discouraged from doing so.

Property tax is believed to be a major contributor to annual budgets of many local authorities in the developed countries. Property tax accounts for 24.1 percent of the annual budget for the metropolitan cities in South Africa (Parker 2000). In Europe, property tax contributed average of 35-50 percents of their total tax revenue (OECD revenue Statistics 1998). This has not been the case with local authorities in less developed countries.

With reference to property taxation in the context of developing countries generally, (Dillinger 1995) stated that ‘ the low yield of the property tax is, in an immediate sense, the combined result of inappropriate policy and poor tax administration’ and also stated (Dillinger, 1991:34) that ‘given the extremely low level of collection efficiency in developing countries , much of the effort spent in mapping and valuation is likely wasted if corresponding efforts are not made to improve collection administration: newly discovered and valued property does not yield revenue if the system of collection administration is dysfunctional’.

Property is a heterogeneous good. It value reflects economic, social, physical, and legal factors. Accurate assessment is the benchmark of a good property tax administration. The purpose of assessment is essentially to determine the ‘fair market rental’ or ‘fair market value’ of the property.

Some countries tax only land. A few tax only buildings. Most tax both land and buildings (or ‘improvement’) usually together but in some countries separately. Taxation of land only (also known as site value taxation’) potentially may improve the efficiency of land use. One problem with taxing land alone, however, relates to the administration of the tax. On the other hand some authors have argued that valuation of land alone is probably easier than valuation of property (Netzer,1998).

Another problem has to do with the potential revenues that can be collected from a site value tax. Since the tax base is considerably smaller than the value of land improvements combined, site value taxation can only produce comparable revenues at high rates of tax. This is a problem both because higher rates create greater distortions and because it is likely to be politically easier to levy a lower property tax rate on land and improvements than a higher tax rate on the land portion only (Bahl,1998)

Another critical issue in property taxation has to do with exemption. In every country some properties are exempt from the property tax base. Exemption may be based on factors such as ownership (such as government-owned property), the use of the property (such as properties used for charitable purposes), or the characteristics of the owner or occupier (such as age or disability). In some countries, exemptions are granted by the central or state government; in other countries, exemptions are granted locally; in some, both levels can grant exemptions (Bird and Slack 2002). It should be noted that exemptions have been criticized on a number of grounds:

- First , to the extent that people working in government buildings or institutions use municipal services just as workers do in other buildings, they should be taxed (Bahl and Linn, 1992 p.100)
- Second, the differential treatment means that owners/managers in payment in lieu or taxed properties face higher costs than owners/managers of exempt properties. This differential will have implications for economic competition among businesses and between businesses and government (Kitchen and Vaillancourt ,1990)
- Third, differential tax treatment affects location decisions, choices and about what activities to undertake, and other economic decisions.

## 2.3. Conceptual Model of Property Tax Revenue

A property tax system involves six major functions: which include : tax base identification; tax base valuation; tax assessment; tax collection; tax enforcement; and dispute resolution and taxpayer service (Kelly 2000). Each of these functions is linked to four critical ratios of coverage, valuation, tax, and collection. The conceptual model of property tax revenue illustrates the relationship between total revenue collection and these various ratios. As the formula indicates, tax revenue is a function of two variables related to policy choices, namely tax base definition and tax ratio (TR), and three variables related to administrative action, namely increasing the coverage ration (CVR), valuation ration (VR), and collection ratio (CLR):

**Tax revenue = tax base * TR*CVR*VR *CLR**

1. The tax base variable is defined by government policy in terms of what is and what is not taxed. The property tax base is typically defined broadly to include all land, all buildings, or both, with exemptions listed separately in legislation. The property tax under an ad valorem system is the total value of the properties that are defined as liable for taxation. The property tax base for an area-based tax would be the total area of property that is defined being taxable (Kelly, 2000)
2. The tax ratio (TR) variable is defined as the rate struck for the taxing jurisdiction, measuring the tax amount per value of the property that is to be paid as tax under an ad valorem system or as the tax amount per unit under an area rating system. In simplest term, the tax rate structure would be an average uniform rate applied to the potential tax base.
3. The coverage ratio (CVR) variable is defined as the amount of taxable property captured in the fiscal cadastre divided by the total taxable property in a jurisdiction. This coverage ratio which measures the completeness of the tax roll information, is determined by the administrative efficiency of identifying and capturing data on all properties by using either field surveys, secondary property information, or taxpayer-provided information
4. The valuation ratio (VR) variable is defined as the value on the valuation rolls divided by the real market value of properties on the valuation roll. This measures the accuracy of the property valuation level. The valuation ratio level is determined primarily by the frequency of property valuations and can be improved by using simple and cost effective mass valuation techniques
5. The collection ratio (CLR) variable is defined as tax revenue collected over total tax liability billed for that year. This collection ratio measures the collection efficiency on both current liability and tax arrears. It is largely determined by political will and the effective use of incentives, sanctions, and penalties.

As this simple conceptual model indicates, tax revenues depend on both tax policy choices and administrative efficiency. tax policy choices affect tax base definitions, exemptions valuation standards, tax rates, and collection and enforcement provisions; whereas, tax administration choices affect the fiscal cadastre completeness, property valuation accuracy, tax billing and collection efficiency, and the ability to enforce compliance

# Chapter 3: Presentation of Research Findings

## 3.0. Introduction

This chapter covers presentation of findings of this research. It covers all the data needed to fulfil the objectives of this study**.**

## 3.1. Basic Country Information

Table 1 below indicates that there are vast differences between the West African Countries; not only in size and population figures, but also in GDP per capital at current prices with Nigeria having a higher GDP per capital (Wealthiest) followed by Ghana and Liberia the least. The wealth of Nigeria is attributed to the oil revenue as it contributes about 80 percent to the Federal Government's resources. The high dependence on commodity taxation is unsustainable as prices of these commodities are very volatile. Other countries in the region are also natural resource based economies. For instance, Ghana exports Gold and Timber; Sierra Leone is rich in Diamonds, Bauxite and Rutile; and Liberia is also rich in Diamond and Rubber. Unlike these countries, The Gambia relies more on the service sector, specifically, tourism.

Three countries out of the five (i.e. Sierra Leone, The Gambia and Ghana) have a rate of urbanisation less than 40 percent. The high rate of urbanisation in Liberia is attributed to the insecurity still prevalent in most parts of the country.

Gambia is the smallest country in terms of size and population though has a higher GDP per capital when compared with Sierra Leone and Liberia.

**Table 1: Basic Country Information**

| Country | Size ($KM^2$) | Capital | Population (millions) | GDP per capital at current prices US$ (2007) | Urbanization (%) | Date of independence |
|---|---|---|---|---|---|---|
| **Ghana** | 239,460 | Accra | 21.29 | 681.967 | 36 | $6^{th}$ March,1957 |
| **The Gambia** | 11,295 | Banjul | 1.5 | 382 | 37 | $18^{th}$ Feb. 1965 |
| **Sierra Leone** | 71,740 | Freetown | 4.9 | 340 | 37 | 27 April, 1961 |
| **Liberia** | 111,369 | Monrovia | 3.5 | 234 | 47 | $26^{th}$ July,1847 |
| **Nigeria** | 923,768 | Abuja | 138 | 1,200 | 45 | $1^{st}$ October,1960 |

### *3*.2 The National Government Structures

All the Five countries are constitutional republics with directly elected presidents. Three of the countries (Sierra Leone, Ghana and the Gambia) have a unicameral legislature. The President in these countries is the head of the state, the head of government and commander-in-chief of the Armed Forces. He is assisted in the performance of his functions by a Vice President. The President appoints and heads a cabinet of ministers, which must be approved by the Parliament or House of Representatives. The President is elected by popular vote to a maximum of two five-year terms. The President's power is checked by the representatives, a unicameral body called the parliament in the case of Sierra Leone and Ghana or National Assembly in the case of The Gambia.  Liberia and Nigeria have a Bi-camera legislature- the Senate and the House of Representatives

### 3.3 The Local Government Structures

Unlike the Federal Republic of Nigeria that has three distinct tier systems of government (i.e. Federal, State and Local Councils); the other 4 countries covered have two-tier system of government.  Sierra Leone has a central Government, 19 local councils (5 city councils and Bonthe Municipality and 13 District councils). Below the 19 local councils is the chiefdom administration which comprises 149 chiefdom councils (Local Government Act 2004). In principle, the chiefdom councils are not recognised as a level of government but there are provisions in the Local Government Act of 2004 and the guidelines issued by the Ministry of Local Government and Community Development for the chiefdom councils to collect some key revenues and share with the local councils.

The Gambia also has a Central Government but 7 local government areas each subdivided into districts and wards for the election of council members (Local government Act 2002).

Ghana is administratively divided into 10 regions. The political administration of the region is through the local government system. Ghana current programme of decentralization was initiated in 1988 when the PNDC government introduced the Local

Government Law (PNDC law 207), through which the number of local authorities, then 65 was reviewed and reorganized into 110 district assemblies.

Also in 2004 the government further reviewed the number of assemblies, creating 28 new ones in order to advance decentralisation. Thus as at 2007, there were all together 138 assemblies. The Government in the 2008 Budget is proposing the creation of additional District Assemblies. In total, it is anticipated that Ghana will have 166 Assemblies in 2008.

Liberia is administratively divided into 15 counties, which are subdivided into districts, and further subdivided into clans. At present, there are 215 Chiefdoms, with 476 Clans, across the 15 counties.

Nigeria is divided administratively into the Federal Capital Territory (Abuja) and 36 states. The states are subdivided into 774 local government areas, each of which is governed by a council that is responsible for supplying basic needs.

### 3.4 Land Use and Land Tenure System

Institutions for defining the rights of ownership and use of land (tenure) have been a concern of every organised human society and have frequently been interwoven with fundamental social structure and religious beliefs. It often plays a critical role in the individual's sense of participation in a society, as well as in the investment of labour and capital likely to be made on any parcel of land. Land tenure is a basic instrument of overall development policy, performing both an indirect facilitating role and a direct and active one. It interacts strongly with other elements of the urban economy being closely linked to the mortgage market, which takes a substantial proportion of borrowed funds in most countries; it is a major determinant of the local tax base and significantly affects the quality and return of investment undertaken in land and structures.

The prevalent forms of land tenure in any area have a profound effect on the physical urban patterns and their flexibility in adapting to the pressures of rapid growth tenure system largely determine the ease or difficultly of land acquisition and assembly. They make expansion of the urban area difficult and raise transfer cost to level that poor group cannot afford.

Customary law and practices, a bulk of ‘received’ or ‘imported’ legislation and some locally enacted legislation govern the administration of land in Sierra Leone. There is also a range of categories of land ownership in Sierra Leone, including State Land, Private Land, Communal Land and Family Land (National Land policy,2005).

There are three categories of land ownership provided for in the 1992 Constitution of the Republic of Ghana, namely:  Public Land i.e. state land and land vested in the president in trust for the people of Ghana; Stool/Skin lands (Community lands vested in the traditional/other community leaders on behalf of the community; and Private and family lands (owned by families, individuals and clans in the community)

Similarly, in The Gambia there are basically three types of land ownership namely, Customary Land, State Land and Private/family land tenures.  Payment of land rent and rates are done on a yearly basis. Land rent is minimal and is indicated on lease document where property purchased is leasehold

In 1984 almost all land in Liberia was the property of the state. Moreover, where land was held in free-hold, it could be held only by Liberian citizens. An exception to the latter proscription allowed ownership by non-citizen educational, missionary, and benevolent institutions as long as the holding is used for the purposes for which it is acquired.

The Nigerian Land Use Decree of 1978 nationalised all land in the country and notionally handed over its administration to committees constituted at state and local government levels. One justification given for the Decree was the rationalisation of customary land tenure systems which were held to be a constraint on agricultural development.

The Decree envisaged that ‘rights of occupancy’, which would appear to replace all previous forms of title, would form the basis upon which land was to be held. These rights were of two kinds: statutory and customary. Statutory rights of occupancy were to be granted by the Governor and related principally to urban areas. In contrast, a customary right of occupancy, according to the Decree, ‘means the right of a person or community lawfully using or occupying land in accordance with customary law and includes a customary right of occupancy granted by Local Government under this Decree.’

**3.5 Property Market**

What happen to a given piece of urban land is a product of three basic forces; the market land use controls and form of tenure. This is the market where property rights are sold and bought with the price being determined by the interaction of the forces of demand and supply.

The operations of the land and property markets are largely informal in the five countries under review. That is, most transactions take place outside a formal registration process and the operations of the land and property markets are not regulated or transparent. As a result there is considerable confusion and differences in transactions and the value and methods of payment used to buy and sell land and property in these countries.

In Nigeria for example, there are two parallel land markets - Government and private corporate landowners. It is easier to acquire land from government but there is a lack of prime land locations held in the state’s hands. Purchasing from private sector is more expensive and apparently prone to problems such as litigation. The land tenure is described as bureaucratic and property buying process requires about 14 procedures.

**3.6 National Tax Structure**

The national tax system in the five countries is relatively comprehensive and comprises taxes on profits and on individual incomes, taxes on domestic goods and services, international trade taxes, and capital gains on profits from the sale of business assets or investments

With the exception of Ghana that levies a much structured Value Added Taxes at the rate of 12.5 percent, Sierra Leone and The Gambia are currently imposing Sales Tax at the rate of 15 and 10 percents respectively. Liberia is administering the Goods and Services Tax of 7 percent with its cascading effects which is similar to the Sales Tax administered in Sierra Leone and the Gambia. Nigeria is implementing VAT at 5 percent.

The Gambia levies Sales Tax of 18 percent on taxable supply of telecommunication services, 15 percent for construction materials, manufacturing and shipping agency services and 10 percent for all other goods. Sierra Leone has rescheduled the implementation VAT from September 2008 to the July 2009.

### 3.7 Tax Reforms

The Major tax reform that is common to three countries out of the five(i.e. Sierra Leone, The Gambia and Ghana) is that of administrative reform. i.e the creation of an integrated tax system that brings the administration of different revenue agencies under a single parent body to improve the efficiency of tax administration and to tackle issues of equity within the system. In Line with this, the National Revenue Secretariat (NRS) in Ghana was formed in 1986 with Ministerial status charged with the duty of overseeing the Customs, Excise and Preventive Services and the Internal Revenue Service in the country.

In 2002, the Revenue Authority Act, 2002 (Act No.11) created a much more integrated system in Sierra Leone known as the National Revenue Authority. The Authority is currently made up of four main revenue collection agencies, namely: - The Income Tax Department, the Customs and Excise Department, the Gold and Diamond Office (GDO) and the Non-Tax Revenue Department. Each of these agencies with the exception of the Non-Tax Revenue Department is headed by a Commissioner and assisted by a Deputy Commissioner. These revenue agencies are all answerable to a centralized system of tax administration under the direct supervision of the Commissioner- General who is assisted by a Deputy Commissioner-General

Similar structure was created in The Gambia in 2004. The Gambia Revenue Authority Act,2004 transferred all rights and obligations which immediately before the commencement of the Act were vested in or imposed on the Central Revenue Department or the Department of Customs and Excise to the Revenue Authority.

In Liberia, all tax policies and revenue administration are done by the Ministry of Finance; however, transformation to a Revenue Authority is way ahead.

Another Radical tax reform undertaking by Ghana and is in the process of Implementation in Sierra Leone is the Value Added Taxation. In Ghana, VAT was introduced in 1995 but withdrawn due to widespread public opposition. It was however reintroduced in December,1998.

### Property Related Taxes

**Table 2: Property Related Taxes Levied in the Five Countries.**

| Country | **VAT** | **Property Transfer Tax** | **Capital Gains Tax** | **Estate Duty & Donations Tax** | **Urban Property Tax** |
|---|---|---|---|---|---|
| Ghana | **Yes** | **Yes** | **Yes** | **Yes**[2] | **Yes** |
| The Gambia | **No** | **Yes** | **Yes** | **Yes** | **Yes** |
| Sierra Leone | **No**[1] | **Yes** | **No** | **No** | **Yes** |
| Liberia | **GST** | **Yes** | **Yes** | **No** | **Yes** |
| Nigeria | **Yes** | **Yes** | **Yes** | **Abolished** | **Yes** |

1. A Unit to prepare the implementation of VAT is already up and working, funded by DFID. It is now hoped that this tax will be fully operational in July,2009 instead of September 2008 as earlier scheduled due to the change of Government.
2. No Inheritance or Death Tax but Gift Tax

The table above indicates that Ghana and Nigeria are implementing VAT at the rates of 12.5 and 5 percents respectively. Sierra Leone is in an advanced stage of implementation. The new time table for the full implementation of this tax in Sierra Leone is July, 2009 instead of September, 2008 as initially planned. The change in the time of implementation has to do with the change of government in August 2007 which resulted to the delay in the enactment of the VAT legislation. Liberia is implementing the Goods and Services Tax with its cascading effects similar to that of the Sales Tax implemented by Sierra Leone and the Gambia.

All the five countries levy Property Transfer and Urban Property Taxes. In some countries the property transfer tax is levied as a stamp duty on the deed of alienation (e.g a contract of sale) whereas in other instances it is levied as a transfer tax with reference to the acquisition of property. However, in all of these countries it is an ad valorem tax.

There is no separate Capital Gains Tax in Sierra Leone although capital gains arising from the disposal of a business or investment assets are included in the taxable income and subject to income tax.

Similarly, there is no separate Estate Duty levied in Liberia, however Section 901 (a) of the Revenue Code of Liberia makes provision for income from trust or estate with a total value of 5 million Liberian dollars to be included in the computation of gross income of the individual for taxation purposes.

In Nigeria, Inheritance tax is referred to as Capital Transfer Tax. Until 1996 when it was abolished, the capital transfer tax was largely ignored as it sat uneventfully on the statute books.

## 3.8 Annual Property Tax

### 3.8.1 Importance of Property Tax

Property taxation is widely viewed as a necessary instrument in any strategy to enhance local revenues and thereby ensuring a more efficient service delivery. In the five countries, property tax revenue to GDP is less than 0.5 percent and accounts for about 14 percent to the total resource envelop of Assemblies in Ghana, an average of 6.1 percent from 2006 -2008 to total receipt of local councils in Sierra Leone (i.e. 3% in 2006, 7.5% in 2007 and 7.9% in the first quarter of 2008) and less than 10 percent in The Gambia (Researcher’s computation). In Liberia, property tax accounts for about 1% of total resource envelopment of the central government. Local councils are not allowed to collect revenue.

### 3.8.2 Legal Basis for Property Taxation

The amount of revenue that is raised from any source depends on three things:

1. the tax base – what is being taxed;
2. the tax rate – how much tax is being charged per unit of the tax base; and
3. the efficiency with which the taxes charged are being collected.

The tax base and tax rate must have legal support, either through an Act of Parliament applicable to the nation, or through a bye-law applicable in the council area. The people must see that the tax is being legally imposed.

In Sierra Leone, all the Laws relating to Property Rates are held in Part VIII of the Local Government Act 2004. Similarly, the Local Government Act 1993 provides laws for the administration of property tax in Ghana. The Revenue Code Act 2000 of Liberia provides laws for the administration of all revenue including real estate in Liberia.

Unlike Ghana, Sierra Leone and Liberia, in The Gambia and The Federal Republic of Nigeria, laws relating to property tax administration are found in different Acts, namely, the Local Government Act 2002, Local Government Finance and Audit Act, 2004, and the General Rate Act 1992 in the case of the Gambia; the 1999 Constitution of the Federal Republic of Nigeria and the respective Tenements Rates across local governments in Nigeria.

**Table 3: Tax Bases provided for in Legislation and utilized in Practice**

| Country | Land Value | Capital Value | Land and improvement (separately) | Improvement only | Annual Value | Area based | Land and Improvement (jointly) |
|---|---|---|---|---|---|---|---|
| Ghana | | | | × | | | |
| The Gambia | | | | | | | × |
| Sierra Leone | | | | × | | | |
| Liberia | | | × | | | | |
| Nigeria | | × | | × | × | × | |

In Sierra Leone, property tax (known as City Rate in Freetown and Town Rate in other urban towns) is levied on buildings whether occupied or unoccupied (LGA 2004,Section 75(1)). Although tax base includes government buildings (whether owned or occupied), government has not been paying property tax over the years for buildings it owns. Ideally, councils agrees not to levy tax on Government owned buildings in return for councils not having to pay whatever the may owe to central government. A 'knock-for knock' agreement. The Local Government Act 2004 makes provision for a uniform property rate to be charged on the assessed annual value of assessed buildings. *Assessed annual value* (AAV) is not defined in the Act but was defined in the repealed Freetown Municipality Act 1973 and similar Acts for the other urban areas as: '***the amount at which the premises can reasonably be expected to be let in the open market in an average year.***

In practice, however, Freetown City Council continues to use the classified area based system, which is based on square meter, but takes into account classification such as location, use etc. this method is certainly outdated though simple to administer. Vacant lands are not taxed.

In Ghana, property tax is levied on premises comprising buildings or structures or similar development (Local Government Act 1993). Vacant lands do not attract tax. However, with effect from January 2008, different rates-(flat rates) are assigned to undeveloped plots located in different areas in the Accra Metropolitan. The depreciated Replacement Cost is prescribed by the present Act on Rating (Act 462) of the 1993 Local Government Act. The Act prescribed that the rateable value of an owner-occupied property should not be more than 50 percent of the replacement cost whilst others should not be less than 75 percent of their replacement cost.

In the Gambia, property tax (known as Compound Rate) is levied on premises which include: any building together with all lands occupied therewith which is a distinct or separate holding or tenancy; any land whether developed or underdeveloped; or any wharf pier or ramp (Section 2, General Rate Act 1992). The rates are levied on the basis of an assessment in respect of the **capital value** of property in the rating areas.

In Liberia, Land and improvement are taxed separately, whilst Nigeria has a multiple property tax bases.

### 3.8.3. Valuation

**Table 4: Capacity to Value Properties**

| country | No. of registered valuers | In house valuers | Govt valuars | Private valuers | External quality control | Training facilities for valuers | Period legislated for valuation |
|---|---|---|---|---|---|---|---|
| Ghana | <250 | YES | YES | YES | YES | YES | 5 |
| Sierra Leone | 16 | YES | NO | NO | NO | NO | NONE |
| The Gambia | NO DATA | YES | YES | YES | NO | No | 5 |
| Liberia | 34 | NO | YES | YES | NO | NO | 5 |
| Nigeria | NO DATA | YES | YES | YES | YES | YES | 5 |

Table 4 shows that the capacity to properly assess properties for property tax purposes is often-non-existent. Though Ghana and Nigeria may be said to have more trained registered valuers (some on their own while some are in the public sector), when compared with the other countries, but the number of professional valuers for instance with the Land Valuation Board (55) in Ghana (which is legislated to be responsible for property valuation), is not adequate to cope with the task of valuation of the ever growing number of Assemblies and properties. The Worse case scenario is found in Sierra Leone where the number of valuers is about 16 and the professionalism of these valuers is even doubted considering the move from area based valuation to a market based valuation method as mandated by the Local Government Act 2004. In Liberia, before the civil War in 1989 there were about 84 Valuers but as at April 2008 available statistics show that there are only 34 Government Valuers and 17 registered private firms involved in valuation.

Furthermore, there are no institutions in three out of the five countries surveyed (i.e. Sierra Leone, Liberia and The Gambia) to train valuers in these countries. Unlike the three countries stated, Ghana and the Federal Republic of Nigeria have Institutes that train Surveyors and Valuers. Many of these end up as professional valuers.

Although data on the number of valuers in The Gambia was not available, but there was evident of lack of capacity in the Land Valuation Unit to value property in the country. The last revaluation was done by foreign consultants in 2005 after about 20 years without such exercise.

Table 4 also indicates that 5 years is normally required by councils to do revaluation but in practice due to the huge cost requirements the exercise is often done after every 15 years minimum. The Local Government Act 2004 of Sierra Leone, however, has not put any time line for revaluation, and revaluation has not taking place in almost all councils in the country for the past 20 years.

Clearly a property tax system that prescribes a discrete value for each rateable property, as is currently the case in the five countries, is neither practicable, nor sustainable. Such a system presupposes sufficient accurate property data as well as necessary capacity and skills to analyze that data (Franzsen et.al 2003). Moving away from discrete values should not be viewed as a step backward, but rather a quantum leap forward (Franzsen et. al 2003).

### 3.8.4. Tax Exemptions

The respective legislations/ Acts in the five countries exempt the following from property rates:

1. any church, chapel, mosque, meeting-house or other building exclusively used for public religious worship;
2. buildings used for public hospitals and clinics;
3. buildings used for charitable purposes;
4. buildings used for public educational purposes, including public universities, colleges and schools;
5. buildings on burial grounds and crematoria; and
6. buildings owned by diplomatic missions as may be approved by the Ministry responsible for foreign affairs.

With the exception of Sierra Leone where the Act provides for taxing of Government properties, in the other countries Government properties are exempt from taxation.

In addition, there are provisions in the respective Acts of The Gambia, Ghana, Nigeria and Liberia that give relief on the basis of poverty. In Sierra Leone, however, this provision is not very clear in the Local government Act 2004. This Act however, provides no definition of building and Councils are therefore free to come to an agreed definition that their Valuers and Assessment Committees should apply. It is thus within the powers of the councils to define buildings so as to exclude the temporary and makeshift structures mostly used by the poor.

### 3.8.5. Tax Rate

**Table 5: Rate Setting**

| Country | Responsibility for setting tax rates | | Entitlement to revenue from property tax | | Limitations on rates by central government |
|---|---|---|---|---|---|
| | Central | Local | Central | Local | |
| Ghana | | × | | × | × |
| The Gambia | | × | | × | × |
| Sierra Leone | | × | | × | × |
| Liberia | × | | × | × | |
| Nigeria | | × | State | | |

With the exception of Liberia where the design and administration of property tax is done by the central government, in the other countries the Local Government is mandated by their respective Acts to carry out these functions. For instance, in Sierra Leone the Local Government Act 2004 states in Section 69(1) that ''The property rates provided for in the estimates of a local council in any financial year shall be a uniform rate on the assessed annual value of assessed buildings and shall be a single rate in respect of each class of assessed buildings''. This implies that each council can set it own rates on each class of assessed buildings, but such rates are subject to guidelines issued by government.

In Ghana, Section 95(1) of the Local government Act 1993 mandates the Local authorities to levy general or special rates of such amount as it considers necessary.

‘General rate’ means a rate made and levied over the whole district for the general purposes of the district. A special rate on the other hand, is a rate made and levied over a specified area in the District for the purpose of a specified project approved by the District Assembly for that area.

Like Sierra Leone, though the Assemblies in Ghana are mandated by law to make and levy rates, Section 100 of the Local Government Act 1993 stated that ‘the Minister may issue guidelines for the making and levying of rates. In reality, however, as at the time of the research no guideline was being giving to District Assemblies so far which leaves the assemblies to determine their own rate entirely.

Similar mandate is given to the Local Councils in The Gambia, though they also are required to work within the guidelines given then by the central government.

The 1999 Constitution of Federal Republic of Nigeria makes provision for state legislative authorities to determine the design and structure of property taxes while local authorities take charge of the administration of the said tax.

### 3.8.6. **Collecting the Tax**

The collection phase is an equally important step in revenue generation and much personal attention is required. Record keeping is a requirement in addition to an accounting function. Both encouragement and penalty (carrot and stick) should be used in the process of collection.

Administration of property taxes is largely deficient in Africa (see World Bank, 1996, and Farvacque-Vitkovi, Godin, 1997). The property tax base is inelastic, despite growth in the physical size or value of property, because old valuations are not updated and new properties not identified. The administration is costly and inefficient. In most cases, the system has been inherited from the colonial era and is poorly suited to present conditions. For example, cadastral systems work in areas with regular street patterns, named streets and numbered houses. In the absence of street addresses, tax bills are not deliverable, and penalties are unenforceable. Problems are compounded by the lack of skilled technical staff. Collection is often poor and many bills go unpaid, because taxpayers are not identified, or they resist payment because their housing conditions are too poor or urban basic services are not provided to their areas. Thus administration is the crucial problem of property taxation

The local Council Act 2004 of Sierra Leone and the Rating Act 1992 of the Gambia allow payment of property tax to be made in 'two or more equal instalments' if council decides to allow this. In the other countries surveyed, the respective Acts are silent on instalment payments.

In Liberia, real property tax covers the period from January 1 to and including December 31 of each year and is due on July 1 of the year in which it is levied. When the tax is due, a bill stating the assessed value and the tax due is sent to taxpayers for payment. Taxpayers are then expected to pay cash to the bank if the amount due is less than US$100 or prepare bank draft if the amount is more than US$100. Evidence of payment is then brought to the tax offices to update the taxpayer's file.

Unlike The Gambia, Sierra Leone and Liberia, in Ghana the Act mandates the hiring of private entitles to collect rates on behalf of the Assemblies. At the launch of new property rate bills in Accra in August 2007, the Mayor of Accra disclosed that private companies had been contracted to collect the property rates on behalf of AMA. This he reiterated is in line with the policy of private sector participation, and will give enough time to the Assembly to restructure its revenue collection machinery to improve revenue mobilisation.

In Nigeria, hiring of consultants to collect rates has been a controversial issue. Before 1998, the law allows each rating authority to appoint rate collectors. These rate collectors can be independent contractors or consultants and need not necessarily be employees of the Council. However, the provision which allows for the appointment of independent tax collectors was superseded in 1998 by Taxes and Levies (Approved List for Collection) Decree No. 21 of that year. Tax professionals, who are in support of hiring of independent Rate Collectors or Consultants, argue that with the coming into force of the 1999 Constitution, the Taxes and Levies Decree can only have limited application. The argued that for State and Local Government taxes, which are imposed by virtue of residual powers of states, method of administration should be determined as stipulated by the relevant State Law and therefore it is unconstitutional for the Federal government to specify the method of collection for taxes charged by State Houses of Assembly (Ipaye 2007).

The Lagos State Land Use Charge Law is predicated on the principle of mutual delegation of authority between the Lagos State Government and each of the Local Governments in the state. Whether a Local Government Authority can delegate its constitutional power to State Government is a matter of various litigations in Lagos State presently (Oserogho and Associates 2002). However, in the case of Knight, Frank & Rutley v. A.G of Kano State [1990] 4 NWLR (Pt 143) 210 the Nigerian Court of Appeal had expressed the view that it was not constitutional for a tier of government to delegate its constitutional powers to another tier. The Supreme Court affirmed this decision in [1998] 7 NWLR (Pt. 556) 1; [1998] 4 S.C. 251.

In the five countries visited, it was reported that the Assemblies or Councils are losing substantial revenue because most houses in these cities have no numbers and cannot be identified to be served with demand notices.

### 3.8.7. Enforcement Procedure and Practices

Enforcement is another most critical area in all three countries surveyed. If the tax billed is not collected, the investment in property coverage and assessment is largely wasted (Franzsen et. Al 2003).

The very high political interference in the enforcement of tax laws in the five countries coupled with serious deficiencies in property tax administration practices has accounted to a larger extent the low revenue generation from property taxations in these countries. Although the respective legislations provide for an array of enforcement procedures against defaulters which in all cases included seizure of property, in all the five countries, enforcement remains a difficult problem in their administration of property taxation. Municipalities often lack the financial resources to take civil action against defaulters in addition to the social and political factors. A relationship which may take the form of family, school/class fraternity, colleague, friends, or tribal sentiments in many cases greatly affects tax collection and prosecution of defaulters.

The Local Government Acts of Ghana and The Gambia made provision for aggrieved persons to appeal to the court having jurisdiction in the rating area in the case of the Gambia, or the Rating committee and High court in the case of Ghana. The Local Government Act of 2004 in Sierra Leone is not very clear on appeals or rejections to assessment raised or valuation done by council valuers.

In Nigeria and the Republic of a Liberia, the rate payer has the right to file an appeal against the assessment to the Assessment Appeal Tribunal on the precondition that he/she pays 50% of the amount assessed and the fees that would prescribed by the Appeal Tribunal for the filing of the appeal. This condition has limited the number of appeal cases in these countries and in the case of Nigeria tax experts are now challenging this clause on the grounds that it is violating Section 36 of the 1999 Constitution of the Federal Republic.

### 3.9. Analysis of the Financial Position of Local Authorities

Broadly, there are three main sources of revenue to sub national governments namely, own revenue, ceded revenue and central government grants. Table 6 shows the proportion of total receipt of Sub National Government's revenue generated internally.

Table 6: Percentage share of total receipt

| Country | % share of total receipt | |
|---|---|---|
| | Own Revenue | Transfers/grants |
| Ghana | 31 | 69 |
| Sierra Leone | 25.8 | 74.2 |
| The Gambia | 35 | 65 |
| Liberia | 0 | 100 |
| Nigeria | 22.2 | 77.8 |

From Table 6, it is clear that transfers and grants constitute the biggest share of total receipts to the Local Councils in all the five countries surveyed. In Liberia, Local councils rely 100 percent on transfers from the central government since revenue collection is centralised. In the other four countries, councils are mandated by law to generate their own revenue. However, all of them rely more on transfers, with local councils in Nigeria receiving 77.8 percent of their revenue from transfers, councils in Sierra Leone receiving 74.2 percent of their revenue from transfers, Ghana (69%) and The Gambia (65%). The low revenue generation of Local councils have affected their potential to fully implement their development plans. In Ghana for example, Government transfers to District Assemblies is highly volatile as there are instances when Assemblies receive their first quarter allocation of the Common Fund in the third or fourth quarter of the year, with the rest of the three quarters overlapping into the following year and so on.

### 3.9.1. Revenue Performance of Sub-national Governments- By Country

**1. Sierra Leone**

The Local Government Act 2004 stipulates that the Councils shall be financed from three sources: their own revenue; Central government grants for devolved functions and transfers for services delegated by central government ministries.

Table 7 below shows that overall revenue collected by local councils in the country increased by 10 percent from 2005 to 2006 but declined in 2007 by about 5 percent. The decline in revenue generated in 2007 was due to the uncertainties that were attributed to the Local Government election which took place during the year. On average however, revenue generated internally by councils increased significantly (47.5%) in the first half of 2008.

**Table 7 : Own source revenue generation in million of Leones from 2004 - 2007**

| | 2005 | % Cont | Actual 2006 | %cont | 2007 | % cont. | 2008(Q1) | %Cont |
|---|---|---|---|---|---|---|---|---|
| Local Tax | 333 | **8.7** | 366 | 8.7 | 304 | **7.62** | 120 | **8.1** |
| Property Tax | 817 | **21.4** | 899 | 21.4 | 990 | **24.82** | 628 | **42.7** |
| Market Dues | 1,411 | **36.9** | 1,552 | 36.9 | 1,325 | **33.22** | 356 | **24.2** |
| Business Registration | 14 | **0.4** | 15 | 0.4 | 23 | **0.58** | 17 | **1.2** |
| Licenses | 327 | **8.6** | 360 | 8.6 | 181 | **4.54** | 166 | **11.3** |
| Fees/Charges | 383 | **10** | 421 | 10 | 349 | **8.75** | 122 | **8.3** |
| Mining/Royalties | 451 | **11.8** | 497 | 11.8 | 517 | **12.96** | 8 | **0.5** |
| Other Income | 85 | **2.2** | 94 | 2.2 | 300 | **7.52** | 54 | **3.7** |
| **Total** | **3,821** | **100** | **4,203** | 100 | **3,989** | **100** | **1,471** | **100** |
| **Growth** | | **10** | | **-5.0916** | | | | |
| **Quarterly Ave.** | 955 | | **1051** | | **997.25** | | **1471** | |
| **Growth in Quarterly Ave** | | **10** | | **-5.11418** | | **47.5056** | | |

Property tax also followed similarly trend though the contribution of this tax to internally generated revenue of councils have been on an increase i.e from 21.4 percent in 2005 to 42.7 percent in 2008.

#### 3.9.1.1. Revenue analysis for the 19 councils

Table 8a and 8b below shows that on average, about 55 percent of income available to the city councils from 2006 to the first quarter of 2008 was from grant/Government transfers and the remaining 45 percent was generated internally by the City Councils. Individually, councils like Makeni City received about 71 percent of its resources from grants while wealthier (diamond ferrous) councils like the Koindu/Sembehun City Councils got slightly over half of its income from grants. As shown in table 8(a,b &c), both internally generated revenue and grant available to local councils declined in 2007 due to the local government election that took place in the said year.

In the case of District Councils, on average, about 89 percent of income received from 2006 to the first quarter of 2008 by these councils was from grant. In the first quarter of 2008, some District Councils generated no revenue and therefore relied 100 percent on transfers.

| Table 8a: | Resource Envelop available to Local Councils in millions of Leones | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **City Council** | **2006** | | | **2007** | | | **2008** | | |
| | **Own Revenue** | **Grant** | **Total** | **Own Revenue** | **Grant** | **Total** | **Own Revenue** | **Grant** | **Total** |
| Bo City | 583.20 | 902.48 | **1,485.68** | 383.67 | 295.92 | **679.59** | 154.29 | 203.41 | **357.70** |
| Makeni City | 232.20 | 596.69 | **828.89** | 236.36 | 379.43 | **615.79** | 107.62 | 119.91 | **227.53** |
| Freetown City | 1,583.00 | 3,324.52 | **4,907.52** | 1,482.99 | 980.43 | **2,463.42** | 788.30 | 861.44 | **1,649.74** |
| Sembehum City | 432.85 | 449.74 | **882.59** | 292.91 | 171.13 | **464.04** | 204.59 | 325.42 | **530.01** |
| Kenema city | 416.08 | 679.73 | **1,095.81** | 442.49 | 266.45 | **708.94** | 8.15 | 156.98 | **165.13** |
| | **3,247.33** | **5,953.16** | **9,200.49** | **2,838.42** | **2,093.36** | **4,931.78** | **1,262.95** | **1,667.16** | **2,930.11** |
| own revenue as % of total Income | **35.30** | | | **57.55** | | | **43.10** | | |
| Grant as % of total income | **64.70** | | | **42.45** | | | **56.90** | | |
| | | | | | | | | | |

| Table 8b: | 2006 | | | 2007 | | | 2008 | | |
|---|---|---|---|---|---|---|---|---|---|
| **District Council** | **Own Revenue** | **Grant** | **Total** | **Own Revenue** | **Grant** | **Total** | **Own Revenue** | **Grant** | **Total** |
| Bo District | 207.81 | 1,511.63 | **1,719.44** | 168.41 | 1,166.60 | **1,335.01** | 36.19 | 287.70 | **323.89** |
| Bombali District | 46.18 | 1,163.95 | **1,210.13** | 71.62 | 675.51 | **747.13** | 7.60 | 336.61 | **344.21** |
| Bonthe District | 117.57 | 665.58 | **783.15** | 115.00 | 692.28 | **807.28** | - | 145.83 | **145.83** |
| Kailahun District | 204.18 | 2,009.58 | **2,213.76** | 24.22 | 533.53 | **557.75** | 8.71 | 469.60 | **478.31** |
| Kambia District | 74.40 | 1,379.26 | **1,453.66** | 15.29 | 381.27 | **396.56** | 5.81 | 366.76 | **372.57** |
| Kenema Disrict | 131.26 | 1,960.32 | **2,091.58** | 42.49 | 607.19 | **649.68** | - | 387.35 | **387.35** |
| Koinadugu District | 60.00 | 1,166.61 | **1,226.61** | 114.33 | 342.43 | **456.76** | 37.63 | 439.95 | **477.58** |
| Kono District | 1,364.73 | 1,467.15 | **2,831.88** | 158.03 | 356.08 | **514.11** | 17.34 | 256.24 | **273.58** |
| Moyamba District | 289.90 | 1,421.71 | **1,711.61** | 245.26 | 710.26 | **955.52** | - | 404.88 | **404.88** |
| PorkLoko District | 38.60 | 1,547.64 | **1,586.24** | 16.47 | 649.11 | **665.58** | 33.93 | 698.88 | **732.81** |
| Pujehun District | 46.18 | 1,163.95 | **1,210.13** | - | 336.77 | **336.77** | 24.70 | 328.40 | **353.10** |
| Tonkolili District | 122.50 | 1,546.08 | **1,668.58** | 20.90 | 390.07 | **410.97** | 7.23 | 485.91 | **493.14** |
| Ward C | 325.18 | 827.06 | **1,152.24** | 158.19 | 259.58 | **417.77** | 26.15 | 184.79 | **210.94** |
| | **3,028.49** | **17,830.52** | **20,859.01** | **1,150.21** | **7,100.68** | **8,250.89** | **205.29** | **4,792.90** | **4,998.19** |
| own revenue as % of total Income | 14.52 | | | 13.94 | | | 4.11 | | |
| Grant as % of total | 85.48 | | | 86.06 | | | 95.89 | | |

| Municipal Council | 2006 | | | 2007 | | | 2008 | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Own Revenue** | **Grant** | | **Own Revenue** | **Grant** | | **Own Revenue** | **Grant** | |
| **Bonthe Municipal Council** | 47.06 | 255.1 | 302.16 | 115 | 227.3 | 342.3 | 3.26 | 126.04 | 129.3 |
| | | | | | | | | | |
| own revenue as % of total Income | **15.57** | **84.43** | | **33.60** | **66.40** | | **2.52** | **97.48** | |
| Grant as % of total income | | | | | | | | | |

Such substantial variations in revenue collections amongst individual councils indicate increasing inequalities in fiscal capacity. From 2006 to the first quarter of 2008, the wealthiest local councils among the city/town councils were able to collect twice more than the resources per person than the poorest local councils whilst for the District Councils, the wealthiest local councils in terms of their collection ratio, were able to collect more than 5 times the resources per person than the poorest local councils.

Furthermore, available data show that from 2006 to the first half of 2008, property tax was collected only in the cities, with Freetown the capital, accounting for over 80 percent of the total amount collected from the said tax by all councils and about 47 percent of internally generated revenue of the Freetown City Council. In 2006, no district council reported revenue in respect of property tax which is reflective of the low level of tax education and the poor nature of property as defined by the Local Government Act 2004 in these district councils. The major sources of revenue for the District Councils are non-tax revenue which includes: Market dues, Licenses Mining royalties, Fees and charges.

The figures below show that from 2005 to 2007 almost all the councils did not meet their revenue targets. In 2006, only Kono District Council exceeded its mining revenue target hence its overall own revenue target. The reason being the unanticipated revenue received from diamond mining and this accounted for about 82 percent of total revenue collected from the district. Bonthe Municipal Council surpassed its revenue target in 2007, and 45 percent of revenue internally generated came from property tax.

In terms of the gross domestic product, the revenue effort of the councils declined from 0.25 percent in 2005 to 0.18 percent in 2007.

**3.9.1.2. Budget vs Actual**

Four (4) Local Coucils (Bo City, Bonthe municipal Council, Koidu New Sembehun City and Western Area Rural District council) collected on average 70 percent of their revenue targets for FY 2005. Freetown , Kenema, Moyamba and Makeni City Councils were able to collect on average 50 percent of what they estimated to collect in 2005. All other LCs fell short of their revenue target by about 60 percent.

Figure 1a: Budget Vs Actual for Sierra Leone local councils 2005

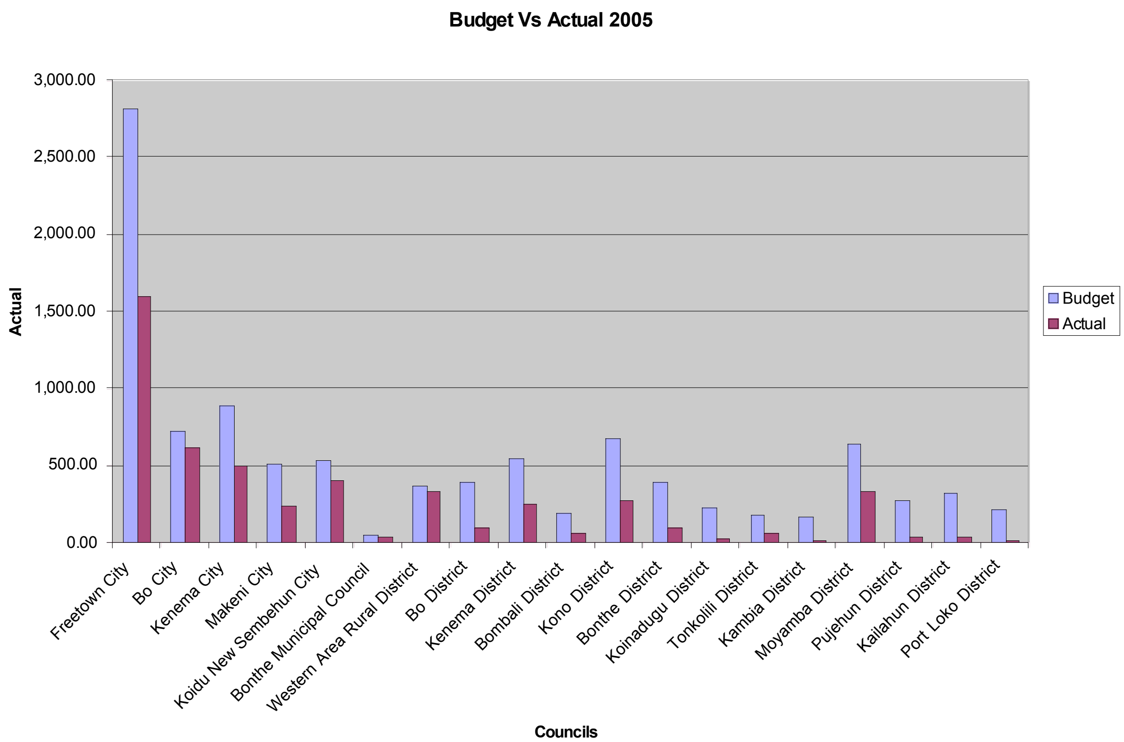


Figure 1b: Budget Vs Actual for Sierra Leone local councils 2006

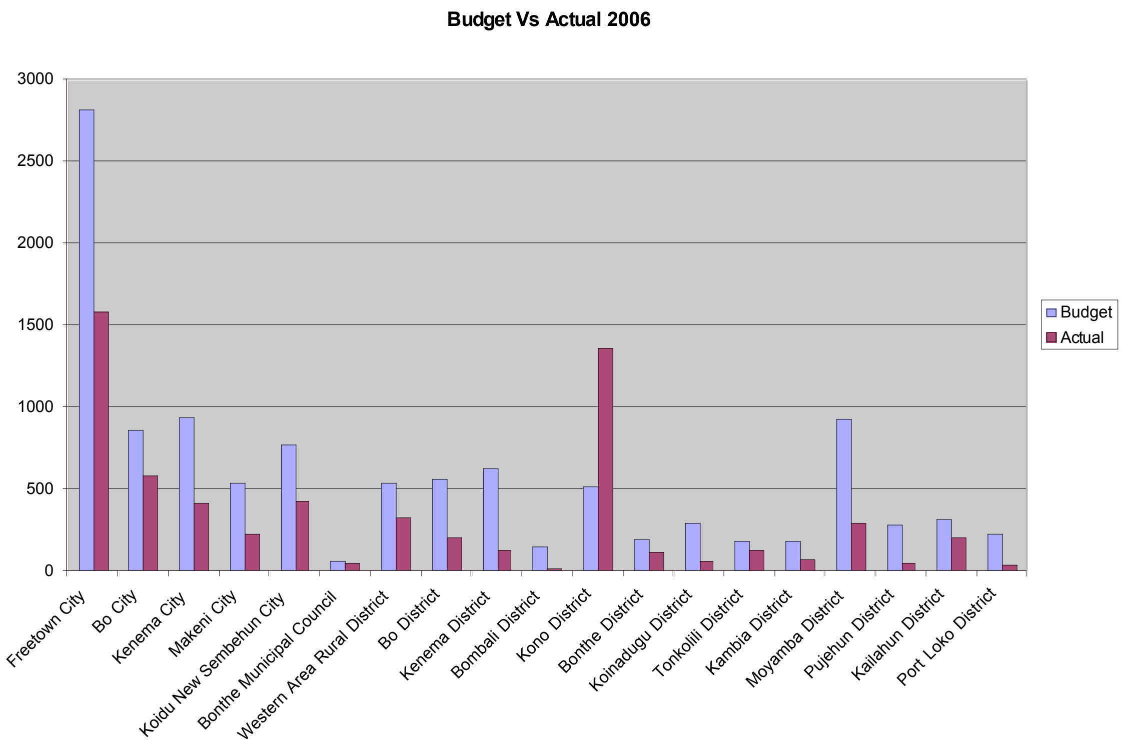
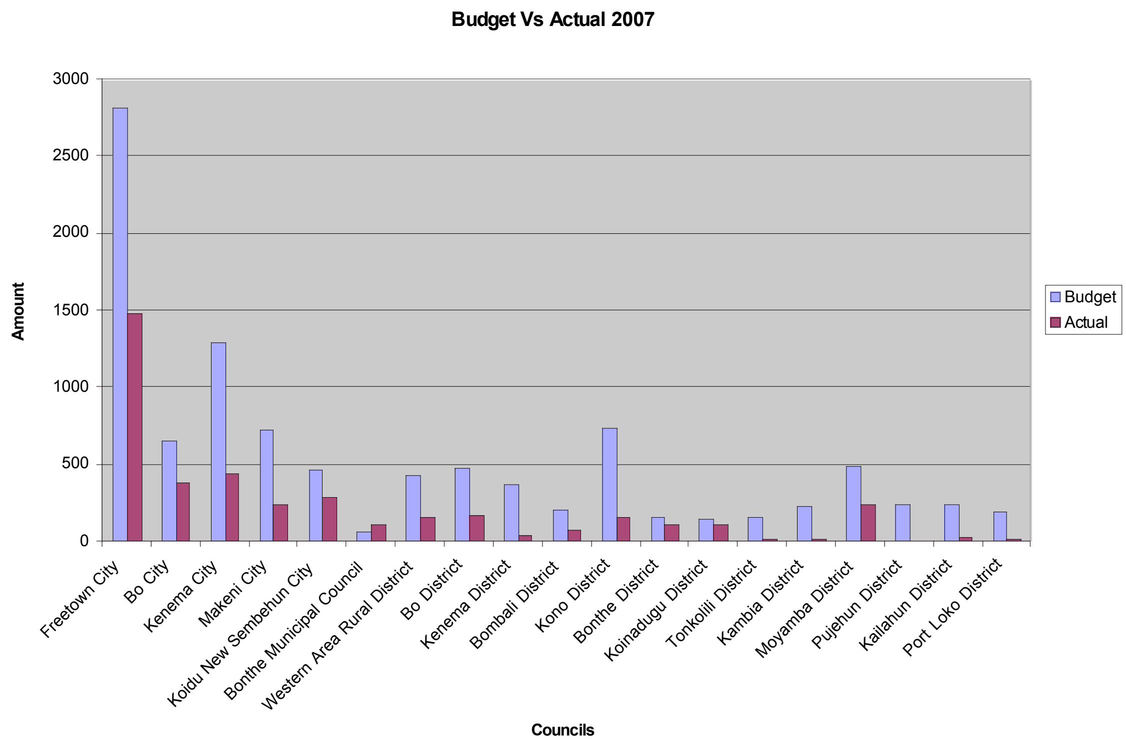


Figure 1c: Budget Vs Actual for Sierra Leone local councils 2007




## 3.9.2 GHANA

### 3.9.2.1. An Overview of Local Council Revenue Sources

District authorities have three sources of revenue: The District assemblies' Common Fund (DACF), ceded revenue and own revenue raised through local taxation. The DACF is the main source, providing a constitutionally guaranteed minimum share of government revenue (no less than 5%, proposed to increase to 7.5% in 2008) and thus some, but nonetheless limited, financial independence. Payment of all staff working in the district currently under the line ministries is drawn from those ministries' budgets. Ceded revenue refers to revenue received from a number of lesser tax fields that the central government has ceded to DAs. It is collected by the Ghanaian Internal Revenue Service, and transferred to DAs via the Ministry of Local Government. Finally, there is the collection of own revenue through property tax, local taxes, fees and licenses.

#### 3.9.2.2. District Assemblies Revenue Performance

Local revenue generation has been the bane of District Assemblies nationwide since the inception of Ghana's decentralization programme about two decades ago (Issahaq, 2006).

The distress is even more profound in the Northern, Upper East and Upper West Regions as well as some rural areas down south where poverty levels are exceptionally high, and where a greater number of the districts are without any sound revenue footing (Issahaq 2006). The outcome is a total dependence on the District Assemblies Common Fund (DACF ) and other grants/ transfers for the implementation of development programmes.

The introduction of DACF is, undoubtfully, the best thing that ever happened to local governance in Ghana. It has offered a lifeline to Assemblies that would otherwise not have had any significant development for a very long time. That is not to suggest however, that Assemblies should continue to live entirely on the dole, as such a laid-back attitude stifles initiatives at the local level in addition to having adverse effects on the sustainability of development plans generated from within.

#### 3.9.2.3. Analyses of Revenue for Selected Assemblies

##### a). Accra Metropolitan Assembly (AMA)

##### Introduction

The Accra Metropolitan Area is Ghana's biggest, most diverse and most cosmopolitan city. Apart from being the country's biggest city, it is also the second largest industrial centre in Ghana. The size of the city relative to others is matched by its comparative affluence. About half of all the motor vehicles in Ghana are located in the city. The city has population of about 3 million.

Importantly, Accra is well connected to the outside world by an international airport, as well as a modern harbour, located about 30 kilometres to the east in the neighbouring city of Tema.

**Revenue**

Revenue generated by the AMA by source in 2006 in shown in the table below:

Table 9: AMA Revenue Performance in 2006

| | **Accra Metropolis** | 2006 | | |
|---|---|---|---|---|
| **Revenue Source** | **Annual Budget** | **Actual** | **Variance** | **% contribution** |
| Rates | 19,627,999,999.92 | 15,351,001,781.52 | - 4,276,998,218.40 | 8.6 |
| Lands | 520,000,000.00 | 151,592,000.00 | - 368,408,000.00 | 0.1 |
| Fees & Fines | 29,576,000,000.00 | 25,453,798,680.00 | - 4,122,201,320.00 | 14.2 |
| Licences | 25,950,500,000.00 | 21,136,917,313.00 | - 4,813,582,687.00 | 11.8 |
| Rents | 6,935,000,000.00 | 10,116,034,000.00 | 3,181,034,000.00 | 5.6 |
| Grants | 88,748,050,999.92 | 71,433,979,658.00 | -17,314,071,341.92 | 39.8 |
| Common Fund | 15,483,000,000.00 | 33,483,088,478.00 | 18,000,088,478.00 | 18.7 |
| Investments | 2,602,483,000.00 | 30,440,722.00 | - 2,572,042,278.00 | 0.0 |
| Miscellaneous | 3,105,000,000.00 | 2,108,835,835.00 | - 996,164,165.00 | 1.2 |
| | **192,548,033,999.84** | **179,265,688,467.52** | **-13,282,345,532.32** | 100.0 |

**Source AMA Trial Balance as at 31st December 2006**

In 2006, the Accra Metropolis was expected to receive ¢192,548 million but actual revenue received for that year amounted to ¢179,266 million. Out of the actual revenue received, owned revenue accounted for about 41.5 percent while grants or transfers from Government accounted for 58.5 percent. Specifically, the highest revenue was received from grants (39.8%)- i.e Salary subvention, Local Government Grant, World Bank Project (UESP II), HIPIC relief and Sanitation Grant; followed by transfers from the common fund (18.7%). The major owned revenue source was from Fee &Fines (14.2%) followed by Licenses (11.8%). Rates accounted for only 8.6 percent of the total revenue received by the Assembly or 0.01 percent of GDP at current prices.

The Assembly was unable to mobilise as much revenue receipts (total Receipts) as they budgeted in 2006 (see figure below). Total Receipts of ¢179,266 million fell short of budget by ¢13,282 million representing a shortfall of 6.9 percent. The poor performance of total receipt relative to target was due to the non-release of the Local Government

Grant and the World Bank project grant. Also in 2006, Government Grant to AMRD was estimated at about ¢45 billion but only about ¢2.6 billion was actually received (AMA trial Balance 2006).

Figure 2a: Budget Vs Revenue- Accra Metropolitan Assembly

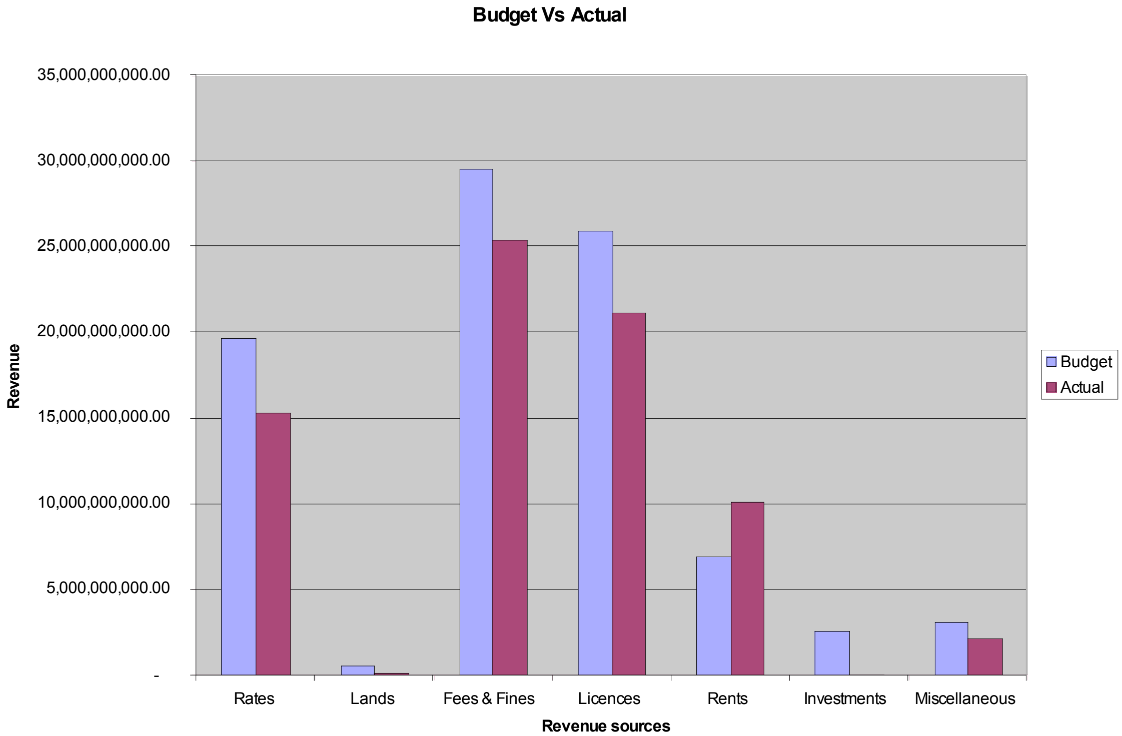



Table 10: **Composition of Own Revenue collected by AMA-2006**

| **Source** | **Budget** | **Actual** | **Variance** | **%contribution** |
|---|---|---|---|---|
| Rates | 19,627,999,999.92 | 15,351,001,781.52 | - 4,276,998,218.40 | 20.6 |
| Lands | 520,000,000.00 | 151,592,000.00 | - 368,408,000.00 | 0.2 |
| Fees & Fines | 29,576,000,000.00 | 25,453,798,680.00 | - 4,122,201,320.00 | 34.2 |
| Licences | 25,950,500,000.00 | 21,136,917,313.00 | - 4,813,582,687.00 | 28.4 |
| Rents | 6,935,000,000.00 | 10,116,034,000.00 | 3,181,034,000.00 | 13.6 |
| Investments | 2,602,483,000.00 | 30,440,722.00 | - 2,572,042,278.00 | 0.04 |
| Miscellaneous | 3,105,000,000.00 | 2,108,835,835.00 | - 996,164,165.00 | 2.8 |
| | 88,316,982,999.92 | 74,348,620,331.52 | -13,968,362,668.40 | 100 |

Property Rate constitutes 20.6 percent of total own revenue whilst fees and licensees constitute 34.2 and 28.4 respectively. The table above shows that AMA is not committed to making financial investment (0.04%) as it sees itself a facilitator of development rather than a profit making institution. This is consistent with Central Government policy where profit-making investment is left in the hands of the private sector.

Property Tax effort of AMA defined as the degree to which AMA as an authority actually uses its property tax base to generate revenue to support its fiscal is extremely low. In 2006, on average, the rate impost is 0.00592; with a rateable value of ¢38,679,302,247,000 for 120,339 properties in Accra, it is estimated that AMA would have generated ¢228,812 million from property rates but actual collection from this source amounted to ¢15,351 million given an estimated tax effort of 6.71 percent. The very low tax effort of AMA is explained by the over dependence on Central Government for its fiscal needs. The Central government provided 58.5 percent of AMA revenue in 2006. This jeopardizes the financial autonomy as well as the statutory authority of Assembly.

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**3.9.2.4. Tema Municipal Assembly**

**Introduction**

Tema is a coastal city, situated about 25Km East of Accra, it has a land of 368.3 square kilometers and an estimated population of 0.6 million people. From 1960s to date Tema has been transformed rapidly from a small fishing village into an industrial nerve centre of Ghana's economy. With deep seaport, Tema handles about 70 percent of all shipment to Ghana and some land locked countries in West African Sub-region. Tema accommodates over 200 small, medium and large industries which include aluminium smelter, an oil refinery, and food processing plants.

**Revenue**

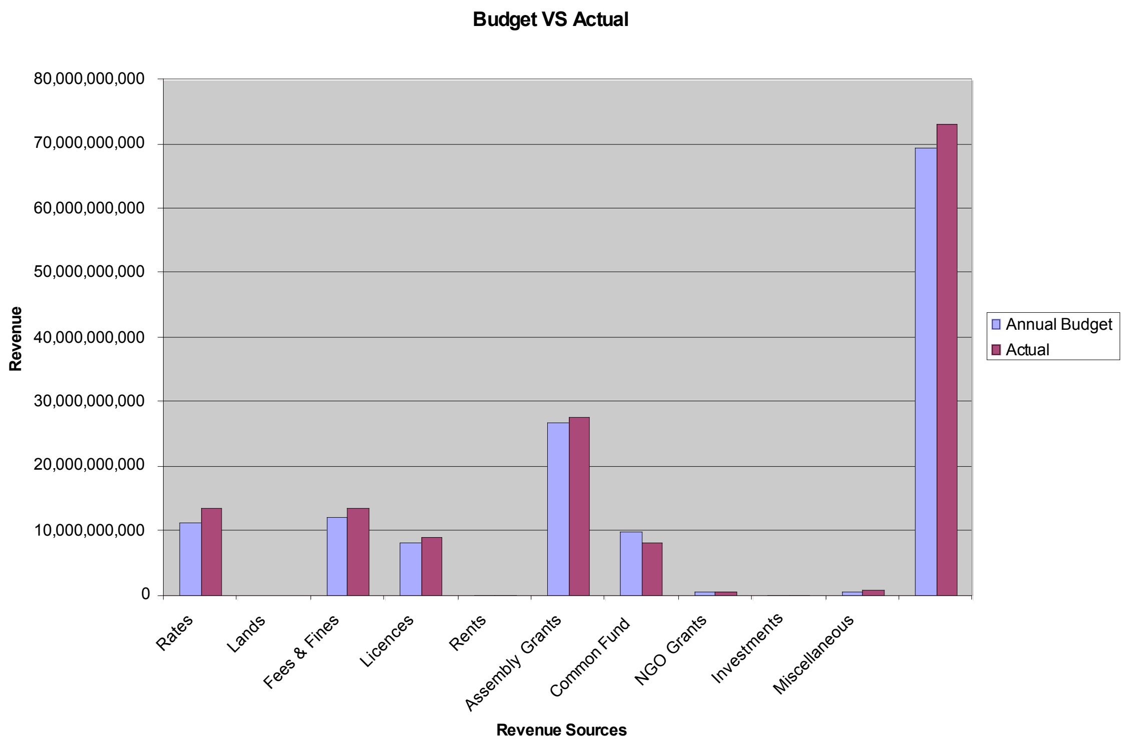
Like AMA, Tema Municipal Assembly receives revenue from Government and NGOs grants and from internally generated revenue.

**Table 11 : Tema Municipal Assembly Revenue Performance 2006**

| Revenue Source | Annual Budget | Actual | Variance | % contribution |
|---|---|---|---|---|
| Rates | 11,270,300,000 | 13,503,020,463 | 2,232,720,463 | 18.5 |
| Lands | 0 | 0 | 0 | 0.0 |
| Fees & Fines | 12,083,172,000 | 13,508,187,612 | 1,425,015,612 | 18.5 |
| Licenses | 8,046,888,520 | 8,995,205,805 | 948,317,285 | 12.3 |
| Rents | 57,000,000 | 46,462,840 | -10,537,160 | 0.1 |
| Assembly Grants | 26,700,000,000 | 27,664,754,061 | 964,754,061 | 37.8 |
| Common Fund | 9,875,000,000 | 8,102,175,612 | -1,772,824,388 | 11.1 |
| NGO Grants | 650,000,000 | 581,493,040 | -68,506,960 | 0.8 |
| Investments | 55,000,000 | 57,457,002 | 2,457,002 | 0.1 |
| Miscellaneous | 629,000,000 | 724,914,820 | 95,914,820 | 1.0 |
| **Total** | **69,366,360,520** | **73,183,671,254** | **3,817,310,734** | **100.0** |

Unlike AMA, actual revenue received by Tema Municipal Assembly in 2006 exceeded the budgeted revenue by about ¢3.8 billion. This over performance relative to target came about from over performance in revenue collected from rates, fee& fines and Licenses. Effort to collect rates in Tema is impressive as this source contributes about 18 .5 percent of total revenue received or also 0.01 percent of GDP.  With the exception of revenue from rent, all other locally generated revenue sources recorded a positive variance, indicating over performance relative to target.

Figure 2b: Budget Vs Revenue- Tema Metropolitan Assembly




### 3.9.2.5. Composition of Own Revenue

Table 12 below shows that property rates are very significant internally generated revenue in the Tema Municipal Assembly (TMA). Like Fees& Fines it contributes about 36.7 percent to the internally generated revenue of the assembly. The high revenue from rates could be attributed to the nature of property- industrial and commercial properties predominant in this municipality. Commercial property owners are usually more tax compliant than private property owners.

**Table12: Composition of Own Revenue**

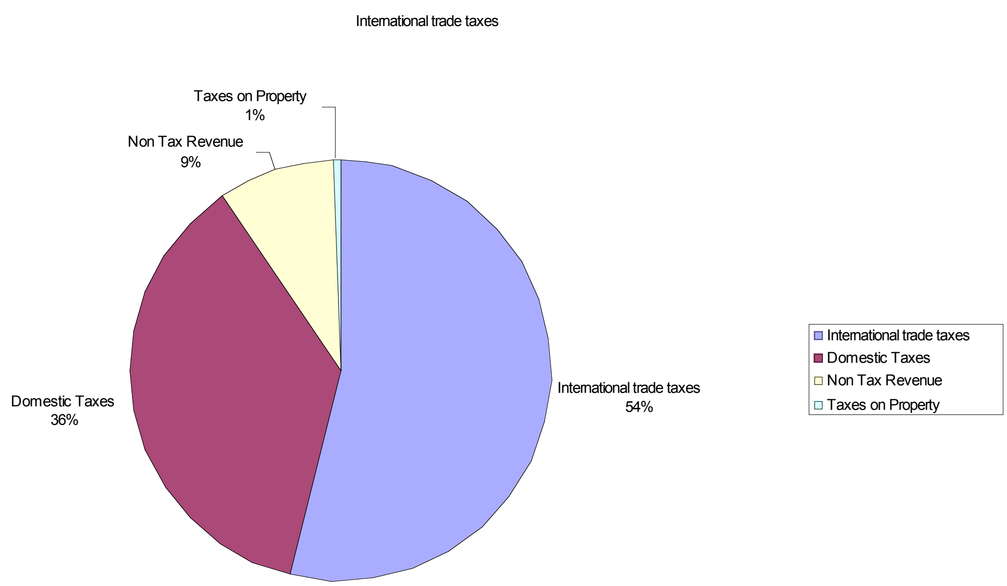
| TEMA | Annual Budget | Actual | Variance | % Contribution |
|---|---|---|---|---|
| Rates | 11,270,300,000 | 13,503,020,463 | 2,232,720,463 | 36.7 |
| Lands | 0 | 0 | 0 | 0.0 |
| Fees & Fines | 12,083,172,000 | 13,508,187,612 | 1,425,015,612 | 36.7 |
| Licences | 8,046,888,520 | 8,995,205,805 | 948,317,285 | 24.4 |
| Rents | 57,000,000 | 46,462,840 | -10,537,160 | 0.1 |
| Investments | 55,000,000 | 57,457,002 | 2,457,002 | 0.2 |
| Miscellaneous | 629,000,000 | 724,914,820 | 95,914,820 | 2.0 |
| | **32,141,360,520** | **36,835,248,541** | | |

### 3.9.3. Republic of Liberia

The revenue performance of Liberia for the two most recent fiscal periods (i.e July 2006 –June 2007 and July 2007 to June 2008) shows that the country, like many other countries in the sub region, relies more on international trade taxation to support their national budget. This category of revenue accounted for 54 percent of internally generated revenue in 2006/2007 fiscal year. The second highest revenue was generated from domestic taxation (36.4%), followed by non-tax revenues (8.9%). Revenue from property taxation i.e both movable and immovable properties account for only 0.7 percent in 2006/2007 fiscal year and 0.6 percent for July 2007 to April 2008 to the total internally generated revenue in the country. Of the total revenue generated from property taxes, immovable property accounted for about 99.9 percent and the remaining 0.1 percent was from movable property. Similarly, out of the total revenue collected from immovable property, revenue from building contributed 90.5 and 93.8 percents in 2006/2007 and 2007/2008 respectively.

Although revenue contribution of property taxation to the entire national resource envelop appeared to have declined, but in nominal terms this source of revenue actually increased significantly. The average monthly revenue from this source increased from US$ 75,736 in 2006/2007 fiscal year to US$ 89, 784 or by 18.6 percent. When compared with 2005/2006 annual revenue from this source has grown by about 34 percent.

Figure 3: Revenue Performance in Liberia



| Table 13: Revenue Performance of Liberia in thousands of US$ | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Jul.06 to June 07 | | Jul. 2007 to April 08 | | | |
| | **Revenue Type** | **Act** | **% cont. to total Revenue** | **Act** | **Proj** | **Var** | **% cont. to total** |
| A. | **International trade taxes o/w:** | | **54.0** | | | | **46.5** |
| | Import duties | 62,405,155 | | 60,134,211 | 50,551,832 | 9,582,379 | |
| | Surtax on Import | 5,527,992 | | 4,964,429 | 5,031,959 | - 67,530 | |
| | Export Duties | 1,297,890 | | 1,170,259 | 2,504,053 | - 1,333,794 | |
| | Excise | 2,816,859 | | 3,377,538 | 1,925,157 | 1,452,381 | |
| Subtotal | | **72,047,896** | | **69,646,437** | **60,013,001** | 9,633,436 | |
| B. | **Domestic Taxes o/w:** | | **36.4** | | | - | **36.2** |
| | Taxes on Income Profits | 19,200,949 | | 19,297,216 | 15,759,643 | 3,537,573 | |
| | Corporate Taxes on Income | 11,486,740 | | 25,525,050 | 24,874,057 | 650,993 | |
| | unallocable income &profit | 11,547,952 | | 2,505,281 | 3,267,161 | - 761,880 | |
| | Other taxes on income & Profit | 306,717 | | | | - | |
| | Taxes on specific services | 75 | | 707 | 383,200 | - 382,493 | |
| | Goods and Services Taxes | 6,059,252 | | 6,841,168 | 5,181,056 | 1,660,112 | |
| | | | | | | | |

| | Revenue Type | Act | % cont. to total Revenue | Act | Proj | Var | % cont. to total |
|---|---|---|---|---|---|---|---|
| Subtotal | | **48,601,685** | | **54,169,422** | **49,465,117** | 4,704,305 | |
| C | **Non Tax Revenue o/w:** | | **8.9** | | | - | **16.7** |
| | Stumpage &related charges | 85,429 | | 534,042 | 1,950,552 | - 1,416,510 | |
| | Property Income owned by Gov't | 1,250,451 | | 635,759 | 1,094,379 | - 458,620 | |
| | Sales of fixed capital | 105 | | | | - | |
| | Dividend | 539,436 | | 346,147 | 2,950,000 | - 2,603,853 | |
| | Motor vehicle operations licenses | 1,856,042 | | 1,830,591 | 2,455,753 | - 625,162 | |
| | Business & Professional licenses | 3,523,382 | | 4,266,022 | 2,984,277 | 1,281,745 | |
| | Administrative Service charges | 4,022,658 | | 2,922,518 | 2,940,610 | - 18,092 | |
| | others | 541,736 | | 10,533,466 | | 10,533,466 | |
| | Special County development fund | | | 3,994,521 | 3,000,000 | 994,521 | |
| Subtotal | | **11,819,239** | | **25,063,066** | **17,375,571** | 7,687,495 | |
| | | | | | | - | |
| D | **Taxes on Property o/w:** | | **0.7** | | | - | 0.6 |
| | | | | | | | |

| | Revenue Type | Act | % cont. to total Revenue | Act | Proj | Var | % cont. to total |
|---|---|---|---|---|---|---|---|
| | Buildings | 821,855 | | 841,767 | 1,001,440 | - 159,673 | |
| | Land | 85,852 | | 56,078 | | 56,078 | |
| | total of immovable property | **907,707** | 0.7 | **897,845** | | 897,845 | |
| | taxes on movable property | 1,130 | | | | - | |
| Subtotal | | **908,837** | | **897,845** | **1,001,440** | - 103,595 | |
| Grand Total | | **133,377,657** | **100** | **149,776,770** | **127,855,129** | 21,921,641 | 100 |

**Source: Republic of Liberia National Budget July 2007 to July 2008**

The key strategies underpinning the improved performance included focusing reassessments on private properties leased to foreign governments, private properties leased to NGOs, properties leased to Government of Liberia (GOL), and all other properties valued above US$20,000.

During FY2006-2007 the GOL granted an amnesty on overdue property taxes, and called for voluntary registration. Since the amnesty took effect in March 2007 over 3,000 properties have been registered, of which 1,570 constitute voluntarily re-registration and reassessment (Annual Fiscal outturn report 2006/2007). Of the 3,000 properties 1,413 have made payments to date.

### 3.9.4. Federal Republic of Nigeria

Table 14 below shows that over 90 percent of resources available to local councils in Nigeria are from external sources, of which share of Federal revenue accounts for about 80 percent, followed by share from VAT,(about 10%) and the least is from State allocation. Internally generated revenue, though has being increasing in nominal terms, its contribution to total resource envelop available to local governments have declined continuously since 2003 (see figure 2). The abysmally low revenue generated by local councils in Nigeria could be attributed to the obsolete database and valuation employed by most council over the years. With low values, assessed revenue is much lower than they should. Furthermore, the administration and collection of the rates are riddled with inefficiency and corruption in most cases (Ipaye 2007). The over reliance by Local Governments on statutory allocations and grants from state and Federal government, for the execution of its functions, has reduced the need for the development of the administration of property tax which is expected to be the major source of revenue for them.

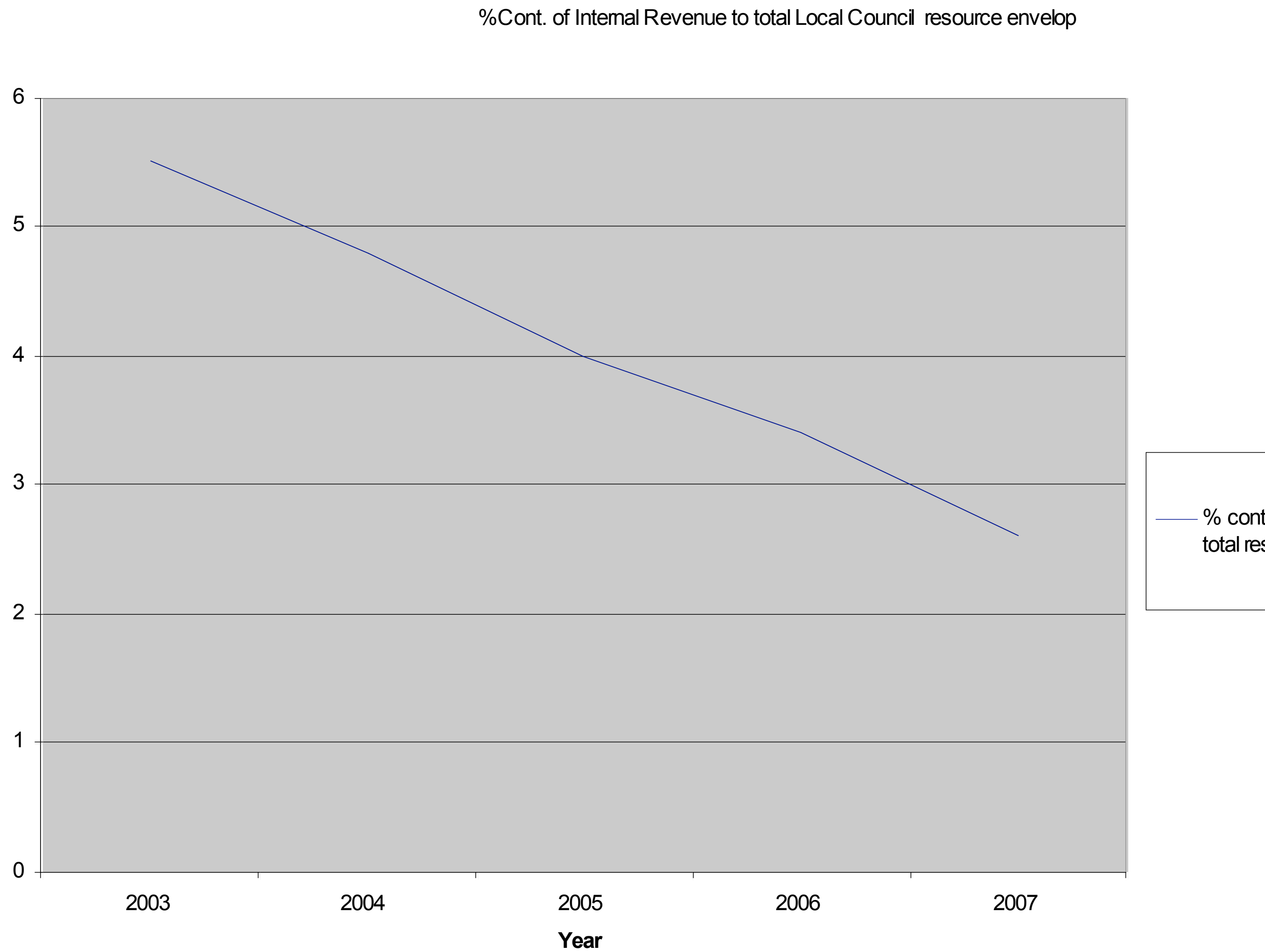
| Table 14: Local Government Finances (2003-2007) (Naira Billion) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Rev. Source** | **2003** | **% cont. to total** | **2004** | **% cont. to total** | **2005** | **% cont. to total** | **2006** | **% cont. to total** | **2007** | **% cont. to total** |
| Share of Federal Account 1/ | 291.4 | 78.7 | 375.7 | 80.2 | 493 | 82.6 | 550.8 | 81.7 | 568.3 | 68.3 |
| Share of VAT | 39.6 | 10.7 | 46 | 9.8 | 55.8 | 9.3 | 75.9 | 11.3 | 105.1 | 12.6 |
| Internally Generated Revenue 2/ | 20.2 | 5.5 | 22.4 | 4.8 | 24 | 4.0 | 23.2 | 3.4 | 21.3 | 2.6 |
| Grants and Others | 12.2 | 3.3 | 14.5 | 3.1 | 15.1 | 2.5 | 14.8 | 2.2 | 3.8 | 0.5 |
| Share of Stabilization fund | 4.6 | 1.2 | 6.1 | 1.3 | 6 | 1.0 | 6.1 | 0.9 | 3.7 | 0.4 |
| State Allocation | 2.1 | 0.6 | 3.6 | 0.8 | 3.2 | 0.5 | 3.4 | 0.5 | 3 | 0.4 |
| Share of Excess oil revenue | | 0.0 | | 0 | | 0.0 | | 0.0 | 127.1 | 15.3 |
| **Total Revenue plus Grant** | **370.1** | 100 | **468.3** | 100 | **597.1** | 100 | **674.2** | 100 | **832.3** | 100 |

Source: Federal Ministry of Finance

**1/ Net Statutory Allocation**

**2/ Covers 774 Councils but figure for 2007 is provisional**

Figure 4 : **Percentage Contribution of Internal Revenue to total Resource Envelop**



### 3.9.5. **The Gambia**

**Analysis of the Financial Position of Local Councils**

Unlike the other countries discussed above, detailed financial analysis of revenue performances of local councils in the Gambia is very difficult because of lack of adequate data. The non-transparent operations of these councils prevented the Researcher from accessing comprehensive financial data from the councils visited. Even though the Local Government Finance Audit Act,2004 requires Councils to publish their audited accounts, Financial documents continue to remain as a sacred document in the Gambia.

Analysis is therefore based on the available statistics, publications and the Legislations. The Local Government Finance and Audit Act, 2004 Section 4(2) states that the revenue and funds of a Council shall consist of:

- moneys derived from rates imposed by the Council
- Money derived from licences, permits, dues, charges, fees or royalties
- Receipts derived from any public utility concern, or any service or undertaking belonging to or maintained by a Council either in whole or in part.
- Rents derived from the letting or leasing of any building or land belonging to a Council
- Project funds, donations and grants, other than from general revenue;
- Sums appropriated by the National Assembly
- Any sums of money which may lawfully be assigned to a Council by any public corporation;
- Returns on investment; and
- Such other sums of money as may be granted to a Council by any other Council.

Section 6(1) further states that 'The President may, in accordance with the Constitution of the Republic of The Gambia, cause to be presented to the National Assembly proposals of moneys to be paid out of the Consolidated Fund to the Councils for each financial year, as- a general grant, which shall not exceed 10 per centum of the capital budget of each Council and be the minimum grant paid to a Council to operate decentralised services'.

The prescribed transfer of financial responsibility and resources to councils implies the assumption of ownership by councils of existing Local government assets in their jurisdictions.

The Local Government and Finance Act section 7 states that 'the Council shall allocate at least 60 percent of the budget for development activities, excluding the recurrent costs of those activities'. This therefore requires that the budget for administrative costs plus the cost of provision of council services plus the recurrent costs of development activities accounts for less than 40 percent of the total council budget. Realistically this target is not feasible for the Area Councils for some considerable time, given their high administrative overheads and low revenue base. Furthermore conditions vary between councils example, one would expect the city and municipal councils to spend a greater proportion of their budget on the provision of day to day services such as maintenance of roads, cleaning services etc whilst the provincial area councils focus more on development of the local community.

Based on their operational constraints if a balanced budget was set by the councils based upon realistic revenue forecasts and realistic recurrent expenditure forecasts, currently most councils would only be able to set aside at most 20 percent of their budget for development purposes. To ensure compliance with legislation the Councils would be forced to set an unrealistic budget either underestimating non-development spending or overstating revenue. This is very unhelpful for the following reasons:

- ♦ It eliminates the prospect of proper budgetary control where councils set unrealistic budgets there is little expectation of achieving the budget
- ♦ It deters the council from budgeting for the provision of services to the area; and
- ♦ It encourages non-compliance with the legislation on the grounds that it is unrealistic thereby weakening the legislation as a whole (Country Financial Accountability Assessment)

The Local Government and Finance Act require that every council shall publish an Annual Financial statement and the report of the auditor thereof. Council financial statements are not however currently published although in principle the public are entitled to attend the offices and see the financial statements on payment of fee. This has hardly taken place in reality. Ward meetings are open to the public and a nominated ward representative is eligible to attend full council meetings.

The accountability to the electorate and the native administration for moneys received is yet to take effect and this would largely be due to: lack of awareness of the general public of this right; and delays in updating accounting records to facilitate preparation of up to data financial statements.

The risk of dishonesty is high as low paid council executive and finance staff has access to large and poorly controlled revenue sources. Instances of fraud detected in Local Council revenue collection has led to staff dismissals or demotion to positions without direct access to revenue collection.

# Chapter IV: Summary and Recommendations

## 4.1. Key Problem Areas

The main problem areas that are common to the five countries discussed could be summarized as:

- **Poor Governance:** One major problem affecting Local councils in the five countries is governance. The root causes range from the lack of political will on the part of the councils, poor institutional network and collaboration, inadequate data base/logistics, poorly motivated staff and political interference. As a result of these, two major effects are identified, i.e inadequate revenue mobilization or low financial resources as well as low institutional and financial capacity of the Assembly.
- The inadequate revenue mobilization and financial resource base of Councils/Assemblies has resulted in inadequate sanitary facilities, low health institutional capacity, inadequate market and poor road infrastructure.
- Low institutional and financial capacity of assemblies have led to poor service delivery by the Assembly, non-enforcement of bylaws and regulations and the lack of public knowledge about the Assemblies' policies and laws. These have in turn led to poor development control adding to the issue of negative public attitude on the environment and development.
- Furthermore, legislation in all five countries mandates an ad valorem property tax system with discrete values for each rateable property. This method is fraught with a lot of constraints in these countries which range from lack of adequate data, dearth of knowledge of the property market, property market not well developed and mostly informal and social behaviours.
- All five countries, more so Sierra Leone, The Gambia and Liberia, lack appropriate practical training programmes for municipal valuers and property tax administrators. As a result statutory valuation cycles are often not adhered to and re-valuations postponed. The outcome is valuation rolls are hopelessly outdated (e.g Sierra Leone and Liberia with valuation rolls over 20 years).

- Apart from human resource capacity, there is also a lack of physical and financial capacity to undertake sustainable property tax administration system, as is clearly shown in Sierra Leone and Liberia. With very limited access to technical support, one computer hardware (at Freetown city council), no software on valuation, and very limited number of vehicles for the councils.
- Low taxpayer education: the inculcation of a culture of tax compliance depends on changing attitudes and perceptions. Even though the Councils in the respective countries have embarked on public education programmes either in the media or on posters and billboards the approach is ad hoc and piecemeal. Therefore, a more concerted and sustained approach needs to be put in place for the sensitization of the public on assessment, rating and the provisions in the Local government Acts and other legislations guiding the implementation of property taxes in these countries.
- Collection and enforcement continue to pose serious problem in these countries due to social and political factors. Collection is often poor and many bills go unpaid, because taxpayers are not identified, or they resist payment because their housing conditions are too poor or urban basic services are not provided to their areas.

- The accountability to the electorate and the native administration for moneys received is yet to take effect and this would largely be due to: lack of awareness of the general public of this right; and delays in updating accounting records to facilitate preparation of up to data financial statements.

## 4.2. Summary of Recommendations

### 4.2.1. General Recommendations

Local councils need to be empowered and strengthened with the capacity to more effectively manage and collect their locally generated revenues. Although the central government, is and will be transferring financial resources through an intergovernmental fiscal transfer system (based on **EQUITY**), it is essential for local councils to enhance their own source revenues in order to ensure local autonomy, promote accountability, enhance economic governance and local ownership and realize the decentralization efficiency gains by linking their revenue and expenditure decisions. It is essential that local councils have the power and ability to mobilize discretionary own-source revenues at the margin to allow truly local decisions—ones that are accountable to the local citizens—linking the additional local revenues to local services.

Furthermore to improve on the capacity of valuers and tax administrators in these countries, there is need for Regional Co-operation (regional training facilities).

Moreover, the education of all stakeholders (i.e local politicians, officials, and taxpayers) on the nature of property taxation is essential and the link between increased tax revenues and improved levels of service delivery need to be emphasized . Taxpayer education is essential to ensure that the rationale for a property tax is fully understood (Franzsen and Olima 2003).

#### 4.2.2. Specific Recommendations

These recommendations are based on country specific problems or constraints identified

### A. Sierra Leone

- ❖ Centralize the valuation system rather than allowing each council to hire its own valuers. This will help unify the valuation system in the Country and help minimize cost.
- ❖ Property tax administration capacity within the local councils must be strengthened**.** Priority must be placed on enhancing the councils' capacity to manage all aspects of property tax administration—including property registry maintenance, billing, and collection, enforcement, and taxpayer service. Development of simple, yet effective systems and training are prerequisites to improved local capacity.
- ❖ Priority must be placed on improving the collection, coverage and valuation ratios—in that order**.** Collection and enforcement seem to be the weakest link in the property tax administration—thus, deserving special attention. Without a system of effective collection and enforcement, there is little to be gained from increasing the coverage and valuation components. Using a computer based

system will ensure that the senior local management has the information necessary to undertake compliance, coverage and valuation related action.

- Strict enforcement against non-compliance is essential. Amend relevant by-laws if any, or make by-laws to facilitate enforcement (e.g. through allowing for the issuance of tax liens, tax clearance certificates, cancellation of leasehold titles, foreclosure on the property of defaulters, seizure and auction, etc.). Guidelines should be issued to local councils on the various enforcement provisions to clarify the options and procedures.
- Regulations and procedures for constructing the property tax registers should be issued. Keep the register requirements simple—and focus only on property tax-related information. The local councils should ensure separating the functions of data collection and maintenance from valuation per se.
- Mass valuation approach should be adopted for rating purposes**.** To minimize valuation for rating costs and time, it is recommended that a "mass valuation" approach to rating valuation be adopted. Individual property valuations should be limited to special high value properties—all other properties should be valued under the mass valuation approach.
- An independent rating appeals board must be established. To ensure equity and accountability in the valuation process, Sierra Leone must establish an independent appeals board rather than relying on the current system especially with the kenema city council of allowing the valuer to deal with his own valuations.
- Councils should be given training on the new procedures for property taxation. The councils need training and capacity development support since property taxation will be a new source of revenues. Training should be focused on the rationale and practice of property taxation, the policy and administrative procedures and approaches to improving taxpayer service. Councils with prior knowledge in property taxation should be given a refresher course with special attention on taxpayer service, collection and enforcement provisions.
- Public relations campaign should be undertaken. In light of the relatively new decentralization policy and the elected councils, the government should embark

on a public relations campaign to fully inform the citizens on their rights and obligations. Brochures, posters, the mass media and citizen meetings should be used to provide information on the various property tax reforms. Successful public relations will facilitate the ability of the local councils to construct accurate and comprehensive property tax registers. This public awareness campaign is especially necessary for the district councils which to date have never implemented a property tax system.

❖ Include vacant land in the property tax base of Sierra Leone

## B. Ghana

### Recommendations

The following are recommendations that would help improve the revenue generation capacity of the Assemblies in Ghana:

- The Land Valuation board and the assemblies generally should help minimize valuation complexity by improving data quality and accessibility and should create a sound property data system to provide uniformity and clarity in the open market value for the property market. Some efforts are being made by the Ghana Institute of Surveyors to standardize and improve on the data quality through the establishment of data bank. This effort needs to be encouraged for a good interpretation and analysis of market data to draw meaning valuation conclusions.
- Train more technical officers and valuers who would be able to cover all localities in detail and complete valuation programs on schedule. The more valuers, the better, since that will facilitate regular reviews of valuations and thereby enable rates to relate realistically to current costs of building.
- The Government should strengthen the Valuation office by making significant additional resources available to it to carry out full range of statutory standards. Alternatively, the government should empower the valuation office to charge rates for its services and thereby become self-financing.
- Local authorities should educate ratepayers on completed and planned developments. In many cases, ratepayers do not appreciate either the need for

their contributions to the economy or the economic benefits that accrue to them as a result of these projects.

- Motivate and pay staff well. High performance must be rewarded
- Curb falsification through procedural and personnel controls. The problem normally arises from inadequate salaries and wages. Entities involved in handling of money should be reduced; this can reduce high cost
- The central government should pay grants in lieu of rates to the local authorities promptly.
- Development plan/programmes supported

## C. Republic of Liberia

- Considering the long term over centralization of revenue administration in Liberia and given the fact that capacity among the local administration is weak, the process of fiscal decentralization should be gradual and phased. The first and most important phase has to do with legislative amendment and capacity building among staff of the local authorities. Second phase should be piloting the programme in few cities under the direct supervision of the ministry of Finance.

- A lot of training in fiscal decentralization is need before full transition is done. The Ministry of Finance may link with the African Tax Institute in this respect for technical support.

- The Ministry of Finance should help minimize valuation complexity by improving data quality and accessibility and should create a sound property data system to provide uniformity and clarity in the open market value for the property market. Efforts should be made to standardize and improve on the data quality through the establishment of data bank for a good interpretation and analysis of market data to draw meaning valuation conclusions.

- Train more technical officers and valuers who would be able to cover all localities in detail and complete valuation programs on schedule. The more valuers, the better, since that will facilitate regular reviews of valuations and thereby enable rates to relate realistically to current market values.

- The Ministry should strength the Real Estate Department by making significant additional resources available to it to carry out full range of statutory standards.

- Local authorities should educate ratepayers on completed and planned developments. In many cases, ratepayers do not appreciate either the need for their contributions to the economy or the economic benefits that accrue to them as a result of these projects.

- Motivate and pay staff well. High performance must be rewarded. Revenue Administration generally in Liberia needs total reform consistent with internationally trend. It is very necessary for the central government to create a Revenue Authority, which is autonomy and paid fees as agents of government. The ministry of Finance functions should be restricted to policy issues and not tax administration.

- The rate amnesty granted in 2007 was the right step in the right direction. It must, however, be made clear to beneficiaries that this was a stop -gap measure to cushion their revenue position after the long civil war to avoid moral hazards.

## D. Federal Republic of Nigeria

- Recognises the fact that operating in a manual system has high risk of fraud since it will be difficult to pursue a logical audit trail in such circumstances, and fraud will take months and sometimes years to detect and also the fact that a lot of setbacks are attached to the manual system of revenue administration, such as subjectivity, omissions, discrepancies, slowness and data redundancy, it is recommended that major councils modernize their operations by re-engineering their processes and procedures and also automating their operations. The use of Geographical Information System (GIS) which provides the required data management capabilities for land administration may be recommended. This report, however, recognizes the cost implications of such computer based programme but would recommend that there should be an expenditure line in the both Federal and State accounts meant for the modernization of local council operations.

- It is important to note that central to the effective administration of a property tax is land registration and the availability of a fiscal and legal cadastre denoting the land and property holding situation in urban towns. This implies that in order to ensure constant service of revenue from property tax, there is need for the development of a land cadastre which incorporates the identification, registration mapping of land titles. Furthermore land policy-in the direction of full marketisation should be pursued in the urban towns, while the case for redistribution might be strong in the rural areas
- Furthermore, federal and state governments must adopt a policy on the payment of grants-in-lieu of rates for their properties. Furthermore, the compliance by urban and semi-urban local governments with efforts to develop the property tax should form important criteria for disbursing allocated revenues to local governments.
- The issue of corruption among Councillors should be addressed both by punitive measures and at the same time by allowing full community participation in project implementation. In addition, timely audit of financial statements of councils must be done and published data made available to community.
- The staff of councils should be the focal point of changes in revenue mobilization. This calls for in-debt knowledge of property tax administration, and enforcement techniques. Some critical areas where training is needed must include Valuation, Assessment and collection and intelligence gathering. To make these trained personnel effective, they must be put on performance contract and paid competitive salaries and promoted on merit, free from favourism, corruption and political pressures. In short, technical staff of local councils should be seen as contracted who are paid based on their performance.

- Local authorities should educate ratepayers on completed and planned developments. In many cases, ratepayers do not appreciate either the need for their contributions to the economy or the economic benefits that accrue to them as a result of these projects.
- Remove the 50 percent payment condition for appeal to enable a fair and transparent system in the administration of the said tax

## E. The Gambia

- Inter-Governmental transfers to Local councils should be done on a more scientific basis- i.e. formula base rather than on an ad hoc manner. This type of expenditure must be honoured and prioritized by the Department of state, Finance and Economic Affairs of the Gambia as a statutory expenditure of the Government.
- To improve on voluntary compliance among rate payers there is need for the councils to be updating their accounting records and making it public as mandated by the Local Government and Finance Act 2004.
- The system of value banded could be considered as an option of valuation rather than the capital value which is market based and relies more on an organized property market and good data base.
- Intensify taxpayer education in the various rating areas.
- Government to be much more serious about the decentralization process in the country. Councils to be given free hand to generate their own revenue and spend this revenue on their rating areas with very little central government inference.
- Councils to be publishing their audited accounts consistent with the law. This will inform rate payers and improve on voluntary compliance.

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Appendix 1: Property Related Tax Assignment and Administration in the three Countries

| | VAT | | | Property Transfer Tax | | | Capital Gains Tax | | | Estate Duty & Donation | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Country** | Who set the base | Who Set the Rate | Administration | Who set the base | Who Set the Rate | Administration | Who set the base | Who Set the Rate | Administration | Who set the base | Who Set the Rate | Administration |
| Gambia | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't |
| Ghana | Central Gov't | Central Gov't | Central Gov't | Distrcit Assembly | Distrcit Assembly | Distrcit Assembly | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't |
| Sierra Leone | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't | Central Gov't |
| Liberia | Central | Central | Central Gov | Central | Central | Central | Central | Central | Central | Central | Central | Central |
| Nigeria | Federal | Federa/ | Federal/State | Federal | Federal | Federal/State | Federal | Federal | Federal/State | NA | NA | NA |

| Country | **Immovable Property Tax** | | |
|---|---|---|---|
| | Who set the base | Who Set the Rate | Administration |
| Gambia | Central Gov't | Local Councils | Local Councils |
| Ghana | Central Gov't | District Assembly | District Assembly |
| Sierra Leone | Central Gov't | Local Councils | Local Council |
| Libaria | Central Government | Central Government | Central Government |
| Nigeria | State Government | State Government | Local Councils |