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ABSTRACT

For a variety of reasons, many developing countries especially since the 1990s have embarked on programmes of democratic decentralization that are aimed at creating local self-governing systems that are democratic, relatively autonomous and effective in delivering services. Finding independent sources of financing for these emerging, locally based organs of governance has been one of the central challenges that confront these efforts in most countries. The literature suggests that sources of independent local government revenue are few in poor countries. As a result, most countries design decentralization programmes that depend heavily on intergovernmental transfers from national to local governments. Given widespread poverty that exists in most developing countries, this is a crucial strategy. However, the problem is that many central governments are engulfed in a systemic financial crisis and are desperately exploring strategies for reducing their expenditure commitments. One outcome is that revenue transfers are often irregular or fall much below the levels of expenditure decentralization, leading to serious fiscal gaps at the local level. Even where transfers are adequate and reliable, a fiscal regime which compels local actors to depend so heavily on central financial arrangements for practically all of their expenditure requirements undermines the development of lateral (local state-citizen) rather than vertical (central-local state) relations within the state, with serious implications for public participation and effective accountability.

In the meantime, cities of developing countries continue to grow phenomenally in a way that makes conventional strategies for financing urban infrastructures unsustainable. Many analysts view this rapid urbanization as fatally aggravating the problem of urban/local governance. This paper suggests a different and more positive view. It reviews the literature which concedes that property taxation remains largely untapped and might indeed be progressive in developing countries. This literature highlights mainly the technical constraints to progress-*assessment*, *valuation* and *collection*. In contrast, this paper contends that the tax suffers from a combination of political and technical factors where the latter are dependent not independent variables. The paper undertakes an analysis of the key stakeholders in implementing successful property taxation policies based on research conducted in four countries- India, Nigeria, Republic of South Africa and Zimbabwe in the early 1990s. The paper suggests that *willingness*, *opportunity* and *capacity* remain critical factors and demonstrates how opposition to the tax can be overcome by strategic

partnerships between central and local governments, public and private and domestic and external actors.

CONTENTS

1 DEMOCRATIC DECENTRALIZATION IN DEVELOPING COUNTRIES SINCE THE 1990S

Whether in terms of local governments (semi-autonomous bodies) or field administrations of the central government, industrialized countries are more decentralized than developing countries. Central governments in industrialized (OECD) countries engage twice the number of officials as the less developed countries (LDCs) of Asia, Latin America but they engage four times the number of local government employees (Schiavo-Campo 1998). The difference is equally reflected in total government expenditures as a ratio of local government expenditures.[1] Field administrations of central governments in developing countries are no different. Generally, a substantial proportion of central government employees in developing countries lives and works in the capital city. In contrast, only a small proportion of central government employees lives and works in the headquarters in most industrialized countries (ICs). The proportion of headquarter to field officials is 20% in the United Kingdom, 25% in France and only 12% in the USA. In contrast, more central government officials in LDCs live and work at the headquarters (Smith 1985; Olowu 1984). Moreover, the underlying theory of governance in industrialized countries is a reflection of the long struggle for the accountable use of power. This has led to deliberate checks and balance on central power most evident in the simultaneous exercise of power by autonomous entities: the church, municipalities, universities, trade unions, etc. This model of governance, *polycentricity,* is regarded as a crucial attribute of democracy (V. Ostrom 1987; E. Ostrom 1990). Different patterns of polycentricity are observable among western countries, with variations in form reflecting peculiar national cultures (Andrew and Magnusson 1998).

In contrast, political leaders in LDCs have generally preferred highly centralized modes of governance. This governance mode is reinforced by a culture of politics of patrimony in which all powers and resources flow from the ruler ('the father of the nation') to clients who shore up the regime. The pattern of power and resource distribution was strongly supported by both domestic and external actors until the late 1980s. Reasons adduced for adopting this approach included rapid economic and social development actualized through centralized planning, unity and

[1] Of the available statistics, local governments in industrialized countries are responsible for an average of 20-35% of total government expenditures while the average for LDCs is less than 15% (UNDP 1993:69).

national integration, containment of corruption and political stability. In fact, it was argued that if decentralization would be necessary at all it must be in the form of administrative decentralization or deconcentration (Riggs 1964, Wunsch & Olowu 1990). This *monocentric* governance model affected the manner in which decentralization was approached--administrative decentralization or deconcentration rather than political or democratic decentralization.

In the last decade, however, many developing countries have changed course dramatically. They have abandoned the monocentric political model and sought to replace it with its exact opposite – a polycentric structure of governance, the idea of multiple centres of power within a state – which was denied by the monocentric state (McCarney 1996, Olowu 2003). What is the evidence of this shift?

The evidence of a paradigm shift can be found in the increasing emphasis on local governance as a part of the programme of democratic governance reform. A number of scholarly and policy studies on the subject have documented this evidence. The extent of change has been massive and sustained over time than witnessed in the past with several of these countries defying the 'pendulum model' (Mawhood 1984:8) by which a decade of democratic decentralization is followed by another decade of centralization. Responsibilities and financial resources – revenue sourcing and transfers, powers to borrow – as well as human resources and accountability arrangements have been transferred from central governments to local communities in many countries. Four of these comparative studies are reviewed here. They can be further corroborated with specific national experiences from LDCs—the experiences of India, the Philippines, Colombia, Nigeria and Uganda have been particularly notable (see Mitra 2001, Fizbein 1997, Olowu 1990, Olowu & Wunsch 2003, Olowu 2003). The UNDP (2002) noted that 80% of developing and transition countries were experimenting with some form of (democratic) decentralization, a figure consistent with an earlier study of the UNDP/UNHCS/World Bank in the early 1990s that showed that only 63 countries out of 75 developing and transitional countries with population greater than 5 million have embarked on the transfer of power to democratically elected councils at intermediate and local levels (Dillinger 1993).

Other scholars like Crook and Manor (1998) studied four countries (Ghana and Cote d' Ivoire in Africa and Bangladesh and the Indian State of Karnartarka in South Asia) and showed that the transfer of responsibility, resources and accountability to local communities led to considerably enhanced levels of participation by citizens in governance, when measured by both electoral and non-electoral indices and in some cases these were much higher than levels of participation in several western countries' local governments (p. 271). As to the key question whether democratic decentralization (DD) increased level of participation led to improved performance of local governments in delivering basic community services, they returned an affirmative response although African cases generally performed poorly compared to the South Asian cases. This is quite different from the past reluctance of LDC national governments to empower local or municipal governments and complements a long line of research in Latin America that has demonstrated this pattern since the late 1970s. Asian and African cases came later (OECD 1997; Litvack et al. 1998, Olowu & Wunsch 2004).

Similarly, two comparative studies on health sector decentralization used the novel approach of 'decision space' allowed to local governments by the national government. The concept of decision space analyses the range of choice that municipalities were allowed to exercise over different functions in financing, service delivery, human resources, targeting and governance. The studies on three Latin American countries – Chile, Colombia and Bolivia – found that there was a tendency for the decision space to be wide initially and to reduce over time. Moreover, greater choice was allowed local government decision-makers with respect to contracting for private services and internal governance while financial allocations were moderate but their choices over human resources, service provision and targeting of priority programs were much limited and remained centralized. Generally, local governments were able to make innovative decisions and one of the notable effects of decentralization was its positive impact on equity, a tendency for wealthier and poorer municipalities to have similar per capita expenditures. An important explanation for differential performance was varying institutional capacities—where institutional capacity was weak as in Bolivia, the achievements of decentralization were weak. The same patterns were observed in the second set of studies which included – the Philippines, Ghana, Uganda and Zambia. The Philippines had the highest degree of decision space partly because of the country's institutional capacities as well as the form of decentralization – devolution (not deconcentration nor managerial delegation as in the other countries) (Bossert 2000; Bossert et al. 2000).

A number of other international organizations have conducted studies on the issue. First, the World Bank (1997) in its landmark *World Development Report 1997* reports the fact that 'developing countries which went through a nation-building phase in the 1950s and 1960s were becoming more decentralized in terms of expenditures and revenues since the 1970s' (p 121). Local revenue and expenditure decentralization had increased in several LDCs, especially Latin American countries (table 1).

TABLE 1
Changes in subnational finance in selected countries
(Percentage of expenditures or revenues for all levels of government)

	SUBNATIONAL EXPENDITURES			SUB NATIONALREVENUES		
Country	**1974**	**1994**	**Trend**	**1974**	**1994**	**Trend**
Argentina	25	45	↑	25	37	↑
Australia	47	49		20	27	↑
Brazil	30	38	↑	23	25	
Canada	61	60		39	44	↑
Chile	2	9	↑	2	5	
Colombia	25	33	↑	16	18	
France	18	19		6	13	↑
Germany	44	40		34	30	
India	45	49		27	25	
Indonesia	11	15		3	3	
Iran, Islamic Rep. of	1	5		1	6	↑
Malaysia	18	14	↓	13	8	↓
Romania	16	10		12	6	↓
South Africa	24	41	↑	4	12	↑
Spain	10	34	↑	5	12	↑
Sweden	44	34	↓	28	32	
Thailand	17	8	↓	5	5	
United Kingdom	33	28	↓	15	8	↓
United States	45	44		33	36	
Zimbabwe	26	25		24	15	↓

Note: Data are for all levels of government other than central government. Data include transfers from central government to subnational governments. Arrows indicate changes of 5 percentage points or more.
Where data for 1974 or 1994 were unavailable (indicated by italics), data for the closest available year were used. Data for Germany for 1974 refer to the preunification territory.
Source: World Bank, 1997 (Calculated from IMF records for various years).

Similarly, a study conducted by the International Labor Office (ILO 2001) found that devolutionary decentralization was a reality in developing countries in the management of many municipal services (education, health, transportation, waste management). It also noted that employee size increased at the sub-national levels in many countries for which data was available (Mauritius, Philippines, Botswana, Uganda, South Africa and Costa Rica). In the Philippines, 73% of all the health sector staff was transferred to local governments. Ethiopian regional states have today ten times more staff than the federal government (Beyene 1999). The World Health Organization also documented for countries similar patterns for countries like Colombia, Nigeria, Uganda, and South Korea (WHO 2002). Finally, the Danish

National Association of Local Authorities (NALAD) together with a consortium of other bilateral and multilateral donors on six African countries (Ghana, Senegal, Swaziland, Uganda, Zambia and Zimbabwe) found that 'the countries in the sub-Saharan African Region are all at different stages in the decentralization process...as a group these countries comprise a virtual continuum of the steps necessary to build strong municipal governance and infrastructure delivery systems' (Steffensen and Trollegaard 2000:14). Responsibilities, resources and accountability are being moved from the central to local governments and the report notes that local government (LG) expenditure and revenue levels increased between 1994 and 1997 in all six countries.

2 MAJOR PROBLEMS OF LOCAL SELF-GOVERNANCE IN LDCS

Implementation of local governance has confronted four major problems in LDCs, when sufficient political commitment has been found to support devolution at the national level. First, there are problems of recentralizing decentralized powers; second, weak capacity of local governments (and often times of the central governments to manage decentralization) is also a frequently cited issue. Thirdly, inadequate financing of local governments is a perennial problem as is the problem of effective accountability of local governments for the use of powers and resources devolved to them. I will argue in this paper that the financing issue is the most important for most developing countries because once resolved, it provides the clue for the resolution of all other problems.

Political—a critical problem of local self governance in many developing countries is the idea of shared sovereignty as decentralization defined spheres and limits of each level of governance. For countries long used to dominance of the central authorities, often with little opportunity for opposition voices, this is a tough challenge. Two serious problematic emanating from this problem are: –a) imbalance between transferred powers and resources and b) the tendency towards recentralization of powers earlier granted to local sub-national entities. For instance, in Rwanda, three major revenue sources (property taxes, trading and tax on rental income) were devolved to local governments as a part of post-genocide rehabilitation and governance reform in May 2002. But the most important of these three – property tax – was suspended shortly afterwards in August 2003 because of poor design of the tax laws (Karamaga 2004). But this is not peculiar to this country, other national experiences – especially for the Philippines, Argentina and other African countries – are well documented (Eaton 2001, Wunsch 2001).

Capacity—of all the capacities required by local governments, the most crucial is adequate human resource capacity to carry out decentralized powers, especially as it refers to the technical aspects of decentralized functions. This is because local government tasks are often labour-intensive, they require dealing with people. The transfer of skilled central personnel to LGs leads to conflict of loyalties for these officers between the central government where all personnel decisions are made and the locality where they serve. An exclusively locally managed personnel system may also be too narrow for professional development or may be heavily politicized. On the other hand, Friszbein shows that Colombian municipalities have been turned around by democratically elected political leaders who have brought about a wide range of positive innovations, a subject that is well covered in the local government reform literature in Latin America (Fiszbein 1997, Campbell 1997). Unfortunately, many decentralization programmes lack the detail human resource management analysis needed to sustain a successful attraction and retention of required skilled personnel in (to) local governments (see Kolemainen-Aitken 1998).

Finance—a crucial reason why many municipalities are not able to raise good quality personnel is often due to their parlous finances. Local governments are usually assigned low-yielding revenue sources backed up by substantial transfers from the central government. While this helps to provide a necessary boost for local governments, the problem with transfers is that they are tied to the limitations of central finances and procedures. Secondly, they serve in some cases to discourage local revenue sourcing and could work to limit local autonomous action. We return to the issues in greater detail in later sections of this paper.

Accountability—most LGs in LDCs are directly accountable to central governments and the principal instrument used by the national government to assert accountability is suspension or closure of councils. This issue was so widespread in Indian local government that up to 50% of local governments were under suspension at one time. Complaint against this practice led to the 1992 constitutional amendment which limited the powers of central over local governments (see Mitra 2001, deWit 2004). Municipal closure is also widespread in many African countries—Namibia, Botswana, Uganda, Zimbabwe and Nigeria to mention only a few. Only in a few countries are LGs accountable to the local citizens through direct and indirect accountability systems. The closure of even one local government because of alleged or actual demeanor by the central government denies local governments and the people an opportunity for self-learning but it is politically convenient. More effective local accountability arrangements can be found in some Latin American countries where substantial fiscal decentralization has taken place and a number of direct mechanisms such as the participatory budgeting have been developed to complement the generally weak conventional forms of local accountability (Santos 1998, Blair 2000). Such arrangements help in developing local self-governance as local governments build lateral relationships among other local organs for delivering services and of mutual accountability (Fiszbein 2001).

These problems are of course interrelated and mutually reinforcing. We argue in this paper that an effective intervention strategy for breaking this vicious cycle of local government poverty is via the development of effective local government revenue system (see below).

3 THE CHALLENGE OF FINANCING DEMOCRATIC LOCAL GOVERNMENTS IN DEVELOPING COUNTRIES

Conventional literature on fiscal decentralization – developed originally in developed countries to analyze multi-level governance systems – assumes that poverty condemns developing countries to highly centralized systems of local financing. The argument is supported on two grounds. First, the preponderant population in developing countries is poor and therefore services must be provided for them by central agencies. Moreover, distributive function – which is at the heart of poverty alleviation – is a central rather than local government function.

Prudhomme (1995:202) in an oft-cited article on the subject has summarized the classical position on this subject. According to him, the redistribution of income should remain the responsibility of the central government for two reasons. ‘First, attempts by local governments to redress income disparities are likely to be unfair. The poor in well-off regions will fare better than the poor in deprived regions…… Second, decentralized redistribution policies are self-defeating (as high taxes in one jurisdiction) will lead to the rich leaving for more lightly taxed areas while the poor will tend to move in from areas that offer lower benefits. The generous jurisdiction will soon be unable to sustain its policy’.

He then concludes that any reduction in national budgets in favour of sub-regional governments increases national disparities as national budgets tend to reduce regional disparities (ibid: 203). In contrast, Paul Smoke while conceding the core notion that distribution is a national government responsibility, contests this position in the light of the work of other analysts who have challenged the classical position on both theoretical and analytical grounds. He cites case literature that underscores the importance of **solidarity—**rich people in the same communities are willing to pay higher taxes to raise the incomes of poor people in their own areas. He cites some literature which show that state governments in the United States for instance play a more substantial role in distribution than was 'previously believed possible' (Smoke 1994:27). This evidence is not confined to the USA however. Indeed, the history of local government in Europe as Bob Bennett (1994) reminds us is tied to the development of ecclesiastical parishes and communes whose primary objective was to assist the poor. It is therefore not accidental that social welfare provision in most European countries were initiated by local governments before they were taken over by the state and even then local governments have played a major role as agents of the national government in administering welfare. But Smoke's original contribution with relevance to the application of fiscal decentralization in LDCs is to cast aspersion on the assumption of easy mobility by people, whether rich or poor. He then concludes that 'some decentralized redistribution occurs in many countries because local governments provide at least some basic services that benefit the poor, who may pay few or no taxes (ibid: 28).

The experiences of various countries in developed and LDCs lend credence to the idea that local governments can be effective agents in fighting poverty especially within their jurisdictions but also in correcting inter-regional inequalities. Some of the best cases are Kerala in India, Brazil, Nigeria (see Stohr & Fraser 1974, Crook & Manor 1998). But one important implication of the predominant position is that decentralization programmes in most developing countries have been based mainly on central government transfers to local governments as a way of correcting regional disparities rather than local government revenues. A World Bank (1998) report on the subject noted that transfers constitute the largest source of local revenue for local governments and suggested ways in which this can be further improved. The preference for transfers is based on a number of other factors, which include the relative ease with which national governments can collect personal and non-personal taxes, the perception that there exists no taxable capacity within local communities and the difficulties traditionally associated with collecting local revenues, by local authorities.

There are however serious problems with this approach. The first is that many central governments are themselves revenue short, as a result of high debt servicing, excessive employee sizes and payments, global economic downturn, war, mismanagement or graft. Secondly, the approach is not likely to enhance their effectiveness or sustainability as it opens them up to the vagaries of and instabilities of central government funding. Indeed many developing countries – especially the highly indebted poor countries (HIPC) such as Uganda or several of the Francophone states of West Africa – central governments depend on donor funds to finance development projects (see Doe 1998). Thirdly, the resulting high dependency on central funds (which in many cases are unpredictable) reinforces and sustains the paternalist attitudes of the central government of the pre-devolution era.

Fourthly, it leaves local government taxes underdeveloped. Whereas outstanding results have been achieved in central government tax reforms, local tax systems have remained, as they were in many countries in the colonial period. The poll tax or octroi belong to this category. As presently organized, these taxes raise problems of horizontal and vertical equity; large numbers of beneficiaries from public services are excluded. The octroi is like a city-based import-export tax and therefore a constraint to trading while the poll tax has been determined as inefficient on an input-output basis in the country where it is most developed (Livingstone & Charlton 1998, Mathur 2003). Fifthly, the continuing dependence on central government transfers weakens the accountability of local governments as the elites who could ensure that local governments are accountable have little moral or legal motivation to do so under a regime of high fiscal dependence on central grants (Guyer 1992, Moore 1998). Finally, it inhibits the development of independent local government capital financing. This is because most private sector financial institutions are not like to regard (usually) unreliable transfers as collateral for loans in the way that real property is regarded (Dillinger 1989).

The problem of developing alternatives to these crude local taxes mentioned above are also well known. There are severe limits to using user charges to finance general services such as basic education and basic health. Central organs often better collect most other possible tax sources such as the business or valued added taxes and in some countries these are shared with local governments. The idea of local income taxes is not an attractive one as national governments still confront serious difficulties to collect other direct taxes. It seems clear then that there are few alternatives to the property tax and, as shown below, the fact that some countries collect substantial sums from this source to finance infrastructure projects suggests that much more is possible in developing countries than has been seen.

However, the most serious objection to local taxation is the idea that local tax capacities do not exist. The fact of the matter though is that only a few large corporate operators and mainly public operations and employees fall into the tax net. The mass of others pay no taxes whatever. Yet, as table 2 shows, the problem of the poor distribution of economic resources in developing countries is a serious one. There is a need for effective systems of transfers from the rich to the poor via the tax system. And since the national tax systems have reached their highest possible levels – given the capacity of the national governments – the informal economy represented by real estate represents one of the most effective ways of mobilizing resources locally for financing infrastructure development in developing countries. In the latter countries, public action led to public policies that transferred resources via the tax system to reduce inequalities (Wuyts et al. 1996). This instrument is hardly available to many developing countries since many are so heavily dependent on indirect rather than direct taxes (although public officials and a few large private enterprises bear a heavy burden of taxation) and aid (see World Bank 2000: 29-30).

TABLE 2
Average Gini Index by region in the 1990's

CONTINENT	AVERAGES (NO OF COUNTRIES)			
	<40%	40-49%	>50%	Av
Africa	34% (8)	42% (10)	55% (9)	44%
Asia	34% (7)	43% (5)	0% (0)	39%
East European	28% (12)	45% (3)	0% (0)	37%
O.E.C.D.	30.1% (18)	41% (1)	0% (0)	36%
South / Latin America	0% (0)	47% (3)	57% (9)	52%

Source: World Bank, World Development Indicators, 2002
Note: Gini Coefficient measures the extent to which the distribution of income among individuals or households deviates from a perfectly equal distribution. It thus varies from 0 (perfectly equal distribution) to 100 (perfectly unequal distribution.

In the absence of effective transfer systems, two types of responses have emerged in several LDCs. First, in many local communities, some form of community action has been used to set up informal structures of governance. These have become the effective local government systems. They raise resources by encouraging the rich to contribute in terms commensurate with their incomes and status. Town unions have been documented in Nigeria and in many communities they are the de facto local governments (Barkan et al. 1991, Olowu et al. 1991). In the same vein, the Kenyan government has instituted this into the policy of *harambe* (Barkan 1994). Alternatively, informal trust cooperatives are created and the tontines of Cameroon are the best known (Adamolekun et al. 1990). Failing these, the result has been various forms of bad governance – corruption, warfare, banditry and other forms of violent responses – whether in Sri Lanka, Colombia or parts of West Africa (Reno 1998).

Contrarily, the fact that poor people are able to raise revenues for services they regard as essential is borne out by a number of studies. A recent global study of participatory poverty appraisal conducted by the World Bank in 60 countries in 1999 shows that most of the formal state and non-state institutions are neither trusted by the poor nor do they prove helpful to them. They regard these institutions as oppressive and poverty aggravating. In contrast, community based organizations were regarded as the most effective and most trusted organisations whether in rural or urban areas (Narayan et al. 2001). It also reinforces other national studies that show that local governments are more trusted by citizens than higher level governments—India (Mitra 2001).

4 PROPERTY RATES AS AN EFFECTIVE REVENUE BASE FOR MUNICIPAL GOVERNMENTS IN LDCS

The key question is what should constitute the base for a local revenue system for local governments. For urban centres, of the three possible bases—property, sales and income, the most widely used and the most highly recommended is property tax.[2] But it is also the one that is yet to be fully utilized in many LDCs.

Many years ago, Ursula Hicks (1961:347) argued that property taxes were the most appropriate for municipal governments. She gave five reasons: automatic localization, clear jurisdiction, ability to pay, steady revenues for local governments

[2] In the British tradition, local government taxes are 'rates'.

and its suitability for budget balancing. Bahl and Linn (1992) have added two further reasons for a fuller exploitation of the property tax in developing countries. First, the property tax is the most important local government revenue, responsible for one-third of the local tax in cities where substantial responsibility and revenues are allowed municipalities. On the basis of the wealth of data, which they gathered, they argue that where local government taxes play a major role in financing urban public services; the property tax will be an important source of revenue.

Second, they contest that contrary to the conventional position, property taxes are not regressive in developing countries. Even though there is need for urgent reforms – especially with respect to its multiple objectives, management and exemptions – the tax was largely progressive in developing countries and also has the potential to serve positive allocative goals. The experiences of both developed and developing countries with the tax generally confirm these positions.

4.1 Experiences of developed and developing countries

The history of the property tax has been so closely tied to the development of local government in the developed countries to merit repetition here. The Layfield Local Government Finance Commission Report in the United Kingdom (1976:151) noted that: 'taxes on property form part of the taxation system of most developed countries and feature very frequently as local taxes'. Similarly in a review of several (mostly developed countries) local government finance systems, A. H. Marshall (1969:20) reports that 'taxes on owners and occupiers of real estate remain the most general kind of local tax. Almost all countries use them'. The tax is regarded as:

a) Operating for several centuries and are generally accepted as an integral and necessary part of local government;

b) Generally accepted as the ideal base for local taxes, being visible and stable;

c) Difficult to avoid;

d) Providing a realistic and stable base from which a local authority can make reasonable forecasts of likely future income, with a substantial certain and predictable yield;

e) Relatively easy and inexpensive to collect, and are administered at less than 2 per cent of yield;

f) Obtained locally and unique to local government, thus enhancing local authorities' status;

g) Stimulates occupier interest in local government;

h) Non-excessive for the majority of the payers; and

i) Tends to encourage fuller occupation of property.

The experience of developing countries with the property tax is more varied. Yet, in a global review of the experience of developing countries, Bahl and Lin (1992: 81) offered a hypothesis that was largely confirmed by their data on 49 cities in 22 countries. It is that where local government taxes play an important role in financing urban public services, property tax will be an important revenue source. Financing pressures on local governments and other problems of the tax have made the search for alternative revenue sources necessary since 1980 but the thesis is generally regarded to be consistent with the experiences of many developing countries and data provided by others who have worked on the subject (e.g. Dillinger 1988, Keith 1993).

On the whole, property tax reforms are considered important in developing countries for several reasons. First, they are regarded to be generally under- explored and under- exploited even in those municipalities where they generate a substantial proportion of the total internally generated revenue. Second, they provide opportunities for the strengthening of local governments, since the development of the tax will not eat into central government's own revenue sources, a major problem confronting financial decentralization in the Third World. Third, in the wake of economic crisis and adjustment, central governments have been forced to reduce the transfers they provide for local governments. Several, shortfalls in revenue which these mean for local government can only be met by developing new revenue sources such as property tax or increasing its yield where they are already being collected.

Fourthly, as noted earlier, analysis by economists have demonstrated beyond reasonable doubt that this tax is in fact inherently progressive rather than regressive, other things being equal, in developing country circumstances. Features which are found to increase the progressivity of the urban property tax are; progressively graduated tax rates, exemption of low value properties, higher than average tax rates on vacant lots or commercial properties, lower tax rates on improvement than on site (land) value and better than average collection efforts for high value properties. (Lin 1983, Bahl & Lin 1993).

Fifthly, using the tax enables central grants to be used exclusively in for less wealthy (rural) localities. It is also thought to encourage a more productive use of urban land space as well as appropriate fertility behaviours (Bird 1990:285, Mabogunje 1973). Several cities in developing countries have been found to be ‘parasitic’ on their respective rural economies. Mabogunje for instance found that 143 (49%) of a total number of 293 urban centres (200 and above) in Nigeria can be classified as ‘parasitic’ and another 100 others were marginally so (Mabogunje 1968:316). This skewed concentration of government investments tends to promote fertility behaviours which are oblivious of the costs of urban life.

Finally, in the absence of a good local tax such as the property taxes, local government become hopelessly dependent on the central government transfers which are not always reliable, buoyant or paid regularly. An important danger as shown above is that central government revenue sources are heavily dependent on taxes on international trade, which are subject to sudden and major swings of the international market. In contrast, the services for which local governments are responsible are constant and increasing as the urban population increases phenomenally.

The findings from two research projects on this issue is presented below. The first is from a comparative survey of nine (9) cities in four countries and the other was to document and explain variations in one country (Nigeria) to further buttress the above observations.[3]

5 EMPIRICAL EVIDENCE –FOUR DEVELOPING COMMONWEALTH COUNTRIES

Nine local governments were selected from four countries, all from the Commonwealth and hence having been exposed to the same legal and local government tradition. Whereas three of these countries had developed their property tax systems, one had not—except in one city. Even in the countries with well-developed property tax legislations, some cities rely on other local revenue sources (see table 3). The research sought to compare and explain the differences. The findings showed that all the nine cities received a portion of their revenues from the

[3] Both researches were sponsored by the International Development Research Centre (IDRC), Canada. The first study is already published while the other is still in mimeograph (see Olowu 2000, Olowu et al. 1994).

TABLE 3
Basic financial information on selected cities / countries
1993 / 1994

	Total Urban Population (million)	Total Revenue (US$)	Per Capita Revenue (US$)	Revenue Property Tax	Other Revenue Sources	From Central Transfers	Largest Revenue Source	Per Capita Nat. Income (US$)
City / Urban Class								
Harare I Zimbabwe	1.2	81.4	81.5	26.7	71.4	9.4	Property Tax (41.9)	520
Kariba I Zimbabwe	0.27	3.0	114.8	22.7	67.9	9.4	Property Tax (22.7)	520
Cape Town South Africa	2.3	689	299.8	26.6	70.4	3.0	Sales of electricity / water (52.2)	298 0
Durban South Africa	3.3	963	292.1	25.34	54.7	20	electricity (40.4)	298 0
Delhi III India	8.419	290.6	35.1	3.6	8.4	55.6	Transfers (29.1)	300
Bombay I India	12.596	84.9	6.9	7	91.4	1.6	Octroi (28.2)	300
Hyderabad II India	4.3	327.1	76.1	38.9	31.9	29.1	Property Tax (38.9)	300
Lagos II Nigeria	3.1	2.81	0.9	15.5	20.4	63.8	Transfers (63.8)	300
Kano III Nigeria	1.6	0.72	0.5	0.4	8	91.6	Transfers (91.6)	300

Source: field and various city budgets; and International Bank for Reconstruction and Development (IBRD), *World Development Report* 1995 (New York: Oxford University Press, 1995).
Key: I-Decentralized Governance; III-Centralized Governance; III-Mixed (see Olowu 2000).

property tax. Cities with high property taxes are also those with strong democratic local government traditions (the cities of Zimbabwe, Republic of South Africa (RSA) and India and Lagos State in Nigeria). The obverse was the case for the other cities (e.g. Kano, Delhi in Nigeria and India respectively) even though other cities in the same countries.

Second, property tax topped the revenue source in three cities: Hydebrad, 39% (India), Harare (27%) and Kariba (23%) in Zimbabwe. But in four other cities the property tax was responsible for over 16% of total revenue of the municipal governments. In each of these cities, property tax was the second largest revenue earner: Cape Town (27%, after Electricity and Water Sales 52%), Durban25%, after electricity sales, 40%), and Lagos (16%, after Transfers 64%). Generally, cities – with strong transfers as their major revenue sources such as Delhi, (56%) and Kano (912%) – have not developed their property tax systems. Bombay belongs to a different category. It generates a high proportion of its revenue (up to 91%) from a controversial local revenue source, the Octroi.

Finally, the cities with high property taxation as a proportion of local revenue had access to higher revenue per capita compared to those that were dependent on transfers or other local sources of revenue such as Octroi or poll tax. The problems of Octroi and the poll tax have are well discussed in the literature (see World Bank 1995, Ikhide 1995, Livingstone & Charlton 1998).

In sum then, there is a strong association between property revenues and democratic local government and stronger revenue generation. Of course, the paucity of our data makes generalizations extremely difficult but the same ideas were confirmed by the much larger samples of Bahl and Lin (1992:81). In order to pursue the variations between cities reliant on property tax and those reliant on other revenue sources, the Nigerian case presented a good case study.

6 EMPIRICAL EVIDENCE—TEN CITIES IN ONE COUNTRY: PROPERTY TAXATION AND MUNICIPAL GOVERNANCE IN NIGERIA

Of the four countries cited above, the Nigerian case was particularly insightful and led to a further study of ten cities in the country. First, even though there is a long history of this tax in Nigeria's major urban centres, the tax has remained underdeveloped and under-exploited outside of the major city of Lagos. This was in spite of a government policy of 1976, which, as a part of the nationwide reform of local government, supported the development of this tax for the purposes of financing the increasing array of services which local governments were mandated to provide.

Second, though local government revenues had increased phenomenally as a result of the 1976 reforms, Nigerian local governments have become heavily dependent on federation account transfers. Table 4 shows that local government revenues increased phenomenally since the nation-wide reform of the local government system, effectively arresting the decline in total local government revenues. Whereas the federal government made no transfers to local government before the reform, federal transfers to local governments rose steeply from 3% in 1977 to 20% in 1992. Moreover, when Value Added Tax was introduced in 1994, local government received 30% of the proceeds (see IMF 2001). Hence, while local

TABLE 4
Composition of local government's revenue in Nigeria
1962 – 1999(Current Naira)

Sources (in %)	1962	1972	1978	1983	1993	1996	1999
Internal Revenues	76	94.1	30	20.8	10.0	9.1	5.8
Transfers from Regional Government	24	6	17	12	1.0	--	0.1
Transfers from Federal Government	--	--	53	76	89	91	94
Total	100	100	100	100	100	100	100
N Million	52.2	49.66	264.9	1,334	18,525	23,790	54,124

Total naira figures for 1972, 1978 and 1983 estimated on the basis of actual totals of sample states and local governments.
Sources:
World Bank, Nigeria: *Options for Long-Term Development,* (Baltimore: John Hopkins University Press, 1974), p.159.
G. O. Orewa and B. Adewunmi. *Local Government in Nigeria: The Changing Scene* (Benin: Ethiope Publishers, 1983).
Federal Military Government of Nigeria, *"Local Government", Report of the Committee* (1984), p. 59-63.
Central Bank of Nigeria, *Annual Report and Statement of Account* 1983 – 194, Lagos.

governments raised 94% of their revenues in 1972; they raised less than 6% some 27 years later (1999). In the meantime, their total revenue rose phenomenally between 1962 and 1999. This is further compounded by the fact that the public revenue system is heavily dependent on a single product sold on a volatile world market, oil. As the responsibilities of local governments grew it has meant that local governments financed predictable and basic services relied on by the public – especially the poor – from unpredictable revenue sources. Thirdly, partly as a reaction to this fact, a number of state governments initiated bold reforms on property rating.

This study selected ten cities from 7 of Nigeria's 21 states (1994, they are now 36 states) representative also of the different regions of the country. Key actors – local government council members (33), employees of the councils (36) and ordinary citizens (10) of the local governments and citizens – were interviewed and the records of these councils were analyzed by the research team. A rough count of actual housing properties was also taken in all these ten cities. The following were the highlights of the findings from this major research (see table 5):

- In absolute terms, local government revenue has increased more than thirty-fold within a four-year period: 1986 – 1990. Even making allowance for inflation this is considered a significant increase. However, within the same period, local government's internally generated revenue (IGR) as a share of total revenue (TR) fell from 40.3% to almost a half (22.5%). Even when allowance is made for inflation, this was considerable. Explanations for the

TABLE 5
Municipal Government Revenue in selected cities 1986-1991

MUNICIPAL GOVT	1986	1987	1988	1989	1990	1991
*ABEOKUTA SOUTH**						
PR/IGR %	20	28	26	19	12	20
IGR/TR%	34	28	26	19	12	8
TR (Nm)	5.0	6.4	9.0	12.5	32.3	32.6
*ADOODO/OTA**						
PR/IGR	58	46	48	35	35	37
IGR/TR	51	38	28	30	18	29
TR	4.8	5.8	9.3	10.8	19.6	14.4
*IKEJA**						
PR/IGR	45	43	32	44	44	58
IGR/TR	55	40	36	32	33	17
TR	17.0	23.6	23.9	27.0	27.2	67.0
*ENUGU**						
PR/IGR	N/A	11	13	16	20	27
IGR/TR		51	23	20	30	18
TR		8.1	23.1	18.1	15.0	53.6
*ONITSHA**	(1985)					
PR/IGR	15	11	13	12	18	21
IGR/TR	38	35	34	43	46	24
TR	17.4	17.9	23.1	17.3	16.8	30.7
JOS NORTH						
PR/IGR	8	8	6	12	6	--
IGR/TR	25	21	23	21	11	9
TR	10.1	9.5	11.7	14.5	30.2	28.0
LAFIA						
PR/IGR	38	00	--	--	--	--
IGR/TR	27	52	12	12	8	8
TR	4.2	1.3	9.8	9.9	20.8	13.5
KADUNA						
PR/IGR	61	49	59	44	54	54
IGR/TR	28	21	17	16	5	4
TR	11.8	16.2	23.5	24.9	57.3	55.9
ZARIA						
PR/IGR	13	11	6	9	11	13
IGR/TR	13	8	6	7	1	1
TR	9.4	13.7	17.4	13.2	17.3	18.6
KANO						
PR/IGR	N/A	5	5	8	--	--
IGR/TR	--	62	58	35	12	15
TR	23.0	15.6	19.4	9.2	11.5	14.1

Source: Olowu et al. 199, based on fieldwork.
Note: Cities with PR policy in asterisks. Kaduna suspended PR in 1992.

decline in IGR when TR is increasing hinges on the huge increase in the share of the federation account going to local governments—and the poor accounting for the use of these resources by powerful local government chairmen who operate as governors and presidents at state and federal levels respectively.

- Property rates as a proportion of local government internally generated revenues has also fallen for most of the sample LGs within the period. Factors which are responsible include the relative ease with which other revenue sources can be tapped, the fission of several local governments within the period, the downturn in the economy which led a number of small scale enterprises which pay tenement rates to close down, the difficulty of increasing the rate of the tax and the poor and archaic organisational set up for managing property tax.
- On the other hand, a few local governments especially – all of Lagos state and some others in the south west – successfully introduced the property tax, with strong support from the state government and in most cases, the World Bank. For instance, property rate was only 0.3% in Port Harcourt (a large oil-city) but 44% in Ikeja (Lagos) in 1989, rising to 58.3% of the city's revenue in 1994 in the latter city. Reason: the latter city was in a state that had a strong pro-property tax policy. Property rates also tended to boost overall municipal finances (see for instance the contribution of property rates to internally generated and total revenues in the asterisked cities on table 6).
- Most of the LGs have no good and up-to-date records of the total number of properties in their jurisdiction. What exists is either dated or is estimates that have very little bearing with reality. Things were generally different in LGs that had just introduced or modernized their property rating system.
- The staffing of finance departments generally and of tenement rating departments leaves much to be desired. But generally in making decisions in respect of fiscal matters, LG officials had more input into this process than the political class (councillors). This is the case whether we are talking of the budget exercise, fund allocation among various sectors although councillors play a more visible role in raising additional or new revenue sources.
- Contrary to popular beliefs, councillors believe that property rate was generally acceptable to the people. It was regarded as equitable and ensured that municipal government (MG) infrastructure was improved. They do not regard its introduction as an unmanageable political risk but then most of them

have not given serious support in their councils to the idea of generating more revenues from this source. 80% of interviewed ratepayers signified their willingness to pay the property rates if there was demonstrable benefit in the form of better services.

- The six most serious financial problems confronting MGs were mandated costs from federal and state governments, e.g. for primary education, pressures from employees for increased salaries, loss of federal revenue (especially in the field of primary education), rising service demands from citizens, loss of state government revenues (10% of Internally Generated Revenue) and inflation.
- Municipal governments (MGs) rely on the following strategies to generate more revenues are: additional intergovernmental transfers (Onitsha, Jos and Kaduna); new local government revenue sources –of which the property tax was the most successful (Onitsha, Ota, Abeokuta and Ikeja); deferring some payments till the following year (Enugu, Onitsha, Jos and Kaduna); increase user fees and charges (Onitsha and Ikeja). Other minor strategies include sale of some assets and short-term/long term borrowing. Since many of them confront increased expenditure demands, they resort to the following expenditure improvement strategies--in order of importance: better management; adoption of labour-saving techniques, reduction of capital expenditures; contracting out services to the private sector; control of new construction; across-the-board cut in all the departments; cutting budget of least efficient departments; laying off personnel; shifting responsibilities to other unite of government; reducing overtime.
- None of the MGs had made a survey of how economic development impacts on the LGA but occasional project analysis were conducted to test the feasibility. Generally, the advent of huge resources into local governments has also been associated with higher cases of financial malpractices and citizen apathy towards the local government system. Their citizens perceived many councillors and in particular LG chairmen as corrupt. On the other hand, there were also some that distinguished themselves by serving their communities, especially in Lagos, Ado-Odo and Jos. Most ratepayers will be willing to pay higher property rates if there is a clear linkage to service delivery.

- All MGs except Lafia and Kano Municipality were collecting property rates (PR). PR confronts 6 major obstacles, according to their chief finance officers. These are: lack of formalized support from councillors; poor house numbering (and street naming); lack of personnel – in quantity and quality; public criticism; lack of incentives to tax payers; lack of support from State Government. As it is to be expected, the extent of these problems varied from one MG to another. In some MGs, the responsibility for collecting PR has been passed on to Urban Development Authorities (Jos) which may or may not share proceeds with MGs.
- On the whole, successful MGs (in terms of property rating) tended to engage more staff than their less successful counterparts. This is the most outstanding difference between these two sets of MGs. The latter had an average of 16 staffers while the latter had only 6. Some of the less successful MGs (Kaduna and Lafia) have no separate department charged with property rating.
- The federal and state governments (especially state governments) and private wealthy individuals – with substantial properties – tended to have large arrears of unpaid rates. None of the MGs has succeeded in imposing sanctions because of their weak legal position (enabling law, legal staff, and inadequate or non-existing revenue courts). None of the MGs has an incentive system for encouraging ratepayers to pay promptly or to pay at all.

It became evident from the findings that if property rating is to become a major revenue source for Nigerian municipal governments, a number of important *policy* and *administrative* measures must be undertaken by each of the various governmental levels: federal, state and local. Some of the policy measures would include the promulgation of model legislation on property taxation, which each state can adapt to suit its own peculiar conditions. The model law should apply to all urban and semi-urban centres in Nigeria and a result, a definition and classification of Nigerian cities will be necessary. The model law must also identify local governments as property rating authorities, indicate the assessment base, liability, valuation and revaluation procedures, exemptions as well as the enforcement mechanisms. Citizen representatives (based on community or civil structures) should also be actively involved in property assessments.

The administrative measures involve political, technical and institutional matters. Political executives must be persuaded of the need to develop the tax and must be ready to ‘sell’ it to their electorate. The most important technical issue is the development of a land cadastre which incorporates the identification, registration mapping of land titles. Land policy – in the direction of full marketisation – should be pursued in the cities, while the case for redistribution might be strong in the rural areas. New or modified institutional mechanisms may also be required especially in setting up and effectively staffing a rating office.

Finally, 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 (up to 20% of the amount distributed) for disbursing allocated revenues to local governments.

7 DISCUSSION AND CONCLUSIONS

In summary then, a paradigm shift has occurred in many developing countries in favour of local governance especially since the 1990s. The most intractable problem confronting this experiment has been to find a suitable and reliable local revenue base. Central government transfers in many countries have been relied upon to finance local government revitalization. While this is a welcome development, this paper suggests that there are some dangers as well. Of the possible forms of local taxes that are possible in many developing countries as we can see the property tax is the most highly recommended. Other alternatives such as the poll tax in East and West Africa, or octroi in India have been abused and are regressive in terms of their impact (see World Bank 1995, Livingstone & Charlton 1998).

On the other hand, three major problems are usually emphasized concerning property tax in developing countries. These emerged in the Nigerian study as well as in other studies and writings on the subject. These three problems are valuation, assessment and collection (see for instance (Prudhomme 1989, Gboyega 1990). All three problems are compounded by the fact that land titles and cadastre are poorly developed in most of these societies. The idea that land is government– or communally-owned have only aggravated the problem, seriously constraining economic growth (De Soto 2002).

The fact that the big political players in politics at the centre are also the substantial property owners and are likely therefore to be the ones to pay the tax when levied further aggravates the situation. One can understand why there will be strong opposition from this group to the tax in many developing countries. Nevertheless, this paper suggests that these problems are not insurmountable. For instance, at the national level, some breakthroughs have been recorded in improved revenue mobilization through the creation of revenue authorities in many LDCs. The few such experiments in developing countries aimed at property taxation have been quite outstanding – as in Indonesia, the Philippines and Accra in the 1970s and 1980 – besides the Nigerian cases described above (Bahl & Lin 1992, Keith 1993).

The task of raising substantial revenues from the property tax turns on three critical considerations. These are firstly, political *willingness* of the crucial stakeholders, *opportunity* as presented by the economic base and size of urban centres. The third consideration is the *capacity*. The capacity to implement the tax is dependent on the other two variables. If there is a willingness on the part of the key stakeholders – the political players at the central and local levels, private and civil society actors and donors – and a country has cities of substantial size and economic base, all the problems associated with the tax valuation, assessment and collection can be tackled with the conventional technologies but new technologies promise to enhance this capacity further.

Political willingness can only materialize if there are real incentives to those who wield power. There has to be an acceptance that the property tax represents an important investment over time to finance urban infrastructures, which are presently in crisis in much of the developing world (Fuchs et al. 1994, Stren & White 1989). Given the problematic of financing urban infrastructures in many cities and the breakdown in social cohesion, real threats to security of the rich and powerful, a program of civic engagement on this subject can help to bring about a sea-change in attitudes towards the tax. Donors can make the development of the property tax a condition for grants and loans. A close look at table 3 again shows that inequality is particularly high in Latin America and Africa. But Latin America has embarked on strong programmes of decentralization that has led to huge increases in property tax revenues in many cities (Campbell 1997). Even then, the contrast between the developing countries generally and the OECD countries for instance remains stark. The linkage between infrastructures and development is well established in the literature and it is not surprising to note that Africa's status with respect to poverty, equity and effective local taxation levels is consistent.

On the other hand, LDCs cities are growing in leaps and bounds. United Nations' (1990) estimates for year 2020 is that Africa, Asia and Latin America will be 54%, 56% and 83% urbanized respectively. A substantial number of the large cities will also be found in these regions. These urban centres remain the preponderant centres of opportunity and growth in the developing world. And, urban land is a major source of investment in these countries and it is therefore a veritable source of mobilizing resources for declining infrastructures in many developing countries.

The combination of *political willingness* and *opportunity* makes resultant *improvement in capacity* to value, assess and collect property automatic. The property tax will not be the only tax to finance urban development in LDCs but it will be one of the most important ones. This is not only in terms of its own independent contribution to MG revenues but because it will also stimulate other sources such as loans for capital development, especially in countries such as Africa where capital development projects are heavily dependent on donor funding. Finally, we have shown that the development of this tax contributes to the programme of poverty alleviation in two ways. First, it will make possible the diversion of more revenues to the development of rural areas away from urban areas where the property tax will be taxed primarily. Second, the successful introduction of the tax will lead to greater progressivity of the tax systems in these countries, thus relieving the poor of the unfair heavy burden they bear presently of financing the development of their countries.

As the cities of the developing countries grow in their economic and political importance, it will no longer be possible for the central governments to dominate the financing of these municipalities. Not only has this policy proven unsustainable, it is also likely to undermine the process of accountable governance, democratization and poverty alleviation, economic growth or poverty alleviation.

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