

UNIVERSITY FOR DEVELOPMENT STUDIES, TAMALE

ASSESSING THE CAPACITY OF PROPERTY RATING INSTITUTIONS AND THE  
POTENTIAL OF PROPERTY RATES FOR LOCAL GOVERNANCE FINANCING IN  
THE WA MUNICIPALITY AND NADOWLI/KALEO DISTRICT

TIMOTHY DIEDEME

2016



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THE WA MUNICIPALITY AND NADOWLI/KALEO DISTRICT

BY

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(UDS/MDM/0237/12)

A THESIS SUBMITTED TO THE DEPARTMENT OF PLANNING AND  
MANAGEMENT, FACULTY OF PLANNING AND LAND MANAGEMENT,  
UNIVERSITY FOR DEVELOPMENT STUDIES IN PARTIAL FULFILLMENT OF  
THE REQUIREMENTS FOR THE AWARD OF MASTERS OF PHILOSOPHY IN  
DEVELOPMENT MANAGEMENT

MARCH, 2016



DECLARATION

I hereby declare that this thesis is the product of my effort under supervision and that it has not been presented anywhere as a whole or in part for the award of a degree. All references have also been duly acknowledged.

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I hereby declare that the preparation and presentation of the thesis was supervised in accordance with the guidelines on supervision of thesis laid down by the University for Development Studies.

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## ABSTRACT

This study explored the capacity of property rate valuation institutions at the level of Metropolitan, Municipal and District Assemblies (MMDAs) and its effect on the potential of property rates for local governance finance in Wa Municipality and Nadowli-Kaleo District. Methodologically, data was collected from the Municipal Valuation Office, Municipal Assembly, Nadowli-Kaleo District Assembly, Non-exempt Real Property Owners, and Rate Collectors. Intuitive method was relied upon for the sample size determination since records on the number of real property owners in the study areas were not available. Key informant interviews, surveys and focus group discussions were employed to collect the data. The findings included; a very low capacity of the rating institutions to execute their mandate when it comes to property valuations. Their incapacitation has been partly due to inadequate staffing and logistics. Political interference, lack of funds and non-cooperation from rate payers were also found to be challenges that confront the institutions. Couple with the low capacity and challenges of the mandated institutions, however, a high non-compliance rate were discovered to have downplayed the potential of property rates for local governance finance in the region. The high non-compliance rate or public disdain for property rates was attributed to lack of transparency and accountability, corruption, absence of basic infrastructure and services and non-enforcement of the Act 462 of 1993 against defaulters. The research found that these institutions could be effective and efficient in the execution of their mandate if more professional staff is employed and their logistics improved. Revenue generated through property rates should be used in visible projects and accounted for by officials of the assemblies in order to encourage future compliance.



## ACKNOWLEDGEMENT

My highest debt of gratitude goes to Dr. B. A. A Akanbang for supervising the work. I am indebted to him for going through all the work, in spite of his heavy work load. My gratitude also goes to the entire academic staff of the Faculty of Planning and Land Management for their encouragement and guidance since the time of my admission into the University. I wish to acknowledge the tremendous assistance received from Mr. Joshua Tuskler of the Municipal Land Valuation Division of the Ministry of Land and Natural Resources, staff of the two Assemblies, Mr. Charles L. Buombaa and Mr. Benedict Akpem who were of great help to me.

I am also grateful to my wife Miss Elizabeth Batuura, and all persons for their support and encouragement in the course of the study.



## DEDICATION

This work is dedicated to my Daughter Ellen A. Diedeme and my lovely mother Madam Catherine T. Nonkyel.



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## LIST OF ABBREVIATIONS

DACF	District Assembly Common Fund
DAs	District Assemblies
GDP	Gross Domestic Product
IGF	Internally Generated Funds
IGTs	Intergovernmental Transfers
IMF	International Monetary Fund
LVD	Land Valuation Division
MMDAs	Metropolitan, Municipal and District Assemblies
MVD	Municipal Valuation Division
NKD	Nadowli- Kaleo District
NKDA	Nadowli -Kaleo District Assembly

OECD	Organization for Economic Co-operation and Development
PHC	Population and Housing Census
PNDCL	Provisional National Defense Council Law
PR	Property Rates
UK	United Kingdom
US	United States
WM	Wa Municipality
WMA	Wa Municipal Assembly



## CHAPTER ONE

### GENERAL INTRODUCTION

#### 1.0 Background

Following failures by centralizing development administration at the central level and subsequent devolution of powers confer to local governments; local authorities across the globe are responsible for the development of their jurisdictions. These developments range from the provision of public goods and services to providing the enabling environment for the private sector to grow. Bird and Vaillancourt (1998), argued that the expected benefits of decentralization can only be realized when sub national governments have strong institutional capacity with adequate autonomy and discretion in raising their own revenues.

Fiscal decentralization is thus important to making sub-national governments self-sufficient and as Davey (2003) cited in Petio (2013) suggests, it involves two interrelated issues: (i) the division of spending responsibilities and revenue sources between national, regional and local governments and (ii) the amount of discretion given to regional and local governments to determine their revenue and expenditure. If effective fiscal decentralization requires meaningful revenue autonomy in regional and local governments, then it is apt to question which taxes should be allocated at these levels (Bahl& Martinez-Vazquez, 2006 cited in Petio, 2013).





Youngman and Malme (2001) noted that, property tax (rates) can offer a stable revenue source particularly well suited for local government and a valuable appendage to land reform initiatives. At the same time, it requires administrative capability, legislative support and political acceptance that are often lacking in highly developed and long established systems as well as in transition economies.

Economist Harold Graves (1948) once noted that, the virtue of the property tax was that, it was the best available independent source of local revenue and made it possible for citizens to spend their own money as they collectively saw fit. The property tax has been successful because for the last century it has been used almost exclusively by local governments, and does not have to be legislated, administered, or collected by the state or federal governments (Harris, 1974; Knapp, 1999). Attempts to adopt statewide property taxes have been rejected or, when implemented, have caused significant political controversy (Brunori, 2001).

From 1902 to the present day, no other source of revenue came close to matching the amount of money raised by local governments from the property tax (Brunori 2003) and as stated by (Bird & Slack, 2003), it forms a greater component of local government revenue in developed countries than in developing countries where property tax revenues form an insignificant element of local government revenue.

Youngman & Malme, (2001) further noted that, immovable property is unique in the sense that, by definition it cannot be relocated to escape tax. Partly for this reason, real

property taxes have been designated as local revenue sources in Hungary, Poland, Romania, Bulgaria, the Czech and Slovak Republics, the Russian Federation, the Baltic nations and Armenia. On the African continent, countries in East Africa such as Kenya are undertaking a variety of local government reforms aimed at improving local service delivery and revenue mobilization efforts. One key reform priority is improving the role of the property tax as a source of dependable local own revenue (Kelly & Musunu, 2000).

Despite the enormous contribution of property tax in developed nations, its potential is generally under-exploited in developing countries (Lall & Deichmann, 2006 cited in Boamah, 2013). Property tax revenue constitutes less than 4% of all tax revenues in developing and transitional countries, and averages 0.42% and 0.54% of Gross Domestic Product (GDP) of developing and transitional countries respectively (Kaiser, 2005; Bahl, 2009). That culminated in extremely low rate of property tax collection and that, enforcement for non-compliance was virtually non-existent. The limited buoyancy of property taxation in developing and transitional countries may arguably be due to an under-developed fiscal decentralization regime, incomplete and out of date Fiscal cadaster information, and an over-reliance on individual parcel valuation without any use of simple mass valuation techniques (Bahl & Martinez-Vazquez, 2008; Kelly, 2000). For example, the physical, financial and human resources required for effective property taxation is a major challenge in East and Southern African nations (Bird & Rodriguez, 1999; and Franzsen, 2002 cited in Boamah, 2013). Despite the central role of property assessment to the success of any property rating regime professional expertise are generally lacking in most developing countries (Boamah, 2013).



In Ghana, the **District Assemblies Common Fund (DACF)** is the main form of national fiscal transfer to District Assemblies. The assemblies are also empowered to mobilize internal revenue to support development and to undertake community projects to meet local needs. Under the Constitution and the Local Government Act 1993 (Act 462), assemblies are mandated to generate their own revenue through levying fees and fines, basic rates, and property rates within their jurisdictions, and may also undertake investments. Statistically, it has been assessed that the contribution of property tax to GDP in OECD countries averages 3% as against an equivalent of 0.7% in developing countries. The poor performance of property rates in developing countries is therefore disturbing, highlighting the need for an examination of the capacity of the institutions involved in its administration.

### 1.1 Problem Statement

**Despite the various revenue streams available to MMDAs, they still grapple with serious financial inadequacies.** Several assessments – including the Growth and Poverty Reduction Strategy II (2006-2009), the Ghana Shared Growth and Development Agenda (GSGDA) (2010-2013), the Municipal Finance report by Commonwealth Local Government Forum (CLGF) and ComHabitat (Dirie, 2004), and the Budget and Economic Policy Statement of Ghana (2011), have pointed to the inability of the assemblies to mobilize adequate local revenue and hence they remain over-dependent on central government transfers especially the DACF.

Bahl & Martinez (2006) underscored the importance of local taxes to the economies of developing countries. Sharma (2010) in their study on local financing in Ghana, blames central government in Ghana for the overdependence of local government on central government transfers, as it collects the elastic and easily paid taxes like customs and excise duties, income and value-added taxes, leaving the more difficult and regressive taxes such as property rates, basic rates and market tolls for local governments to administer. Boamah (2013) argued that since property rates are levied only on fixed property in Ghana, it should be relatively easy for the MMDAs to mobilize compared to market tolls. Also, the stock and quality of immovable properties continue to increase thereby continuously enhancing the revenue potential of property rates. It is therefore an irony that the MMDAs should leave such a huge and guaranteed revenue potential untapped and rather focus on the DACF (Boamah, 2013).

A plethora of studies conducted on the assemblies' revenue mobilisation questioned the capacity of mandated institutions and, for example, Farvarque-Vitkovic et al (2008) lamented the inability of district assemblies to generate sufficient revenue from property rates. Brosio (2000) observed the lack of enforcement of payment of property rates and it is however pathetic to note that several District Assemblies in Ghana do not collect property rates as a means to augment their revenue. Similarly, Martey and Tagoe (2012) attributed the ineffectiveness of property tax mobilisation to lack of a Geo-Property Information System. Boamah (2013) stated that, most properties have either not been valued or re-valued over a long period of time, local authorities are either unwilling or incapable of mobilizing property rates and tax payers are reluctant to pay. Kasanga and

Kotey (2001), Petio (2013) also noted that, a number of constraints faced the Land Valuation Board; now Land Valuation Division, including a severe shortage of qualified staff, lack of logistical support and vehicles, poor staff remuneration, and that most of the districts had no rating units as part of their administrative set-up. Several District Assemblies do not keep or have data on the number of developed and non-developed plots of land in the district. This therefore works against attempts to improve internally generated revenue especially property rates in the districts (McCluskey, 2003).

The contribution of property taxes to GDP in Ghana is 0.03% (2011 Budget Statement of Ghana). Though property rates were 27% of IGF between 2011 and 2012, it regrettably dipped to 15% of IGF in 2013 (MOF, 2014). At the regional level, between 1994-2004, the share of revenue accruing from property rates in the internally generated funds of the Western, Upper West and Upper East Regions were 21%, 15% and 9% respectively (Mogues, Benin & Cudjoe, 2009), which clearly shows that the Upper West Region is the second poorly performing region in mobilizing revenue through property rates.

Although the various studies explored property rating in various parts of Ghana, few focused on assessing the institutional and administrative capacity of the rating and collection agencies charged with providing expertise on property rates' administration in the Upper West Region (study area). This study contributes the perspective of the Upper West Region to Ghanaian literature on institutional capacity for property rates valuation and collection in Ghana.

## **1.2 Main Research Question**

To what extent does the capacity for property rates valuation and collection affect the potential of property rates as a viable source of finance for local government?

### **Sub-Questions**

What is the capacity of local government institutions in the valuation and collection of property rates?

What challenges affect the ability of property rating and collection agencies to effectively undertake their work?

Do property rates have the potential for enhancing local government financing ?

How does the public in a developing country context perceive property rating and rates?

## **1.3 Main Research Objective**

The core objective of this study is:

To assess the effect of capacity for property rates valuation and collection on the potential of property rates as a viable source of finance for local government of the two Assemblies.

### **1.3.1 Specific Objectives**

To examine the capacity of local government institutions in the determination and collection of property rates

To explore challenges undermining the ability of property rating and collection agencies to effectively execute their work

To assess the potential property rates have for enhancing local government financing.



To assess public perception on property rating and rates collection in the Upper West Region.

#### **1.4 Scope of the Study**

Geographically, the study focused on the Wa Municipality and the Nadowli-Kaleo Districts of the Upper West Region of Ghana. The choice of the areas was triggered by the rate at which the real property sector is fast developing and thus presents an opportunity for local level revenue generation especially in the Wa Municipality (the Municipality).

More importantly, the places have been chosen because of the evidence of the phenomenon under investigation and the challenges the assemblies face with regard to revenue mobilization. The central location of the Municipality and its strategic role coupled with the rapid growth in population and economic activities made it a better place for the study. Also, the NKD being one of the deprived districts in the region present an opportunity for comparison with the Wa Municipality in terms of the practice of property rating and rates mobilization. Content-wise, the study focused on the capacity of state agencies charged with the responsibilities of valuing and collection of property rates in the two selected areas of the Region. It also concerned itself with the perception of the public about property rating as well as the potential of property rates in securing enviable financial standing at the sub national government levels. In earnest, the study highlights the potential of property rates to local governments that could make them independent of central government fiscal transfers for their developmental projects.



### **1.5 Significance of the Study**

This study sought to augment the body of knowledge on revenue generating opportunities for MMDAs in Ghana, particularly on property rates. First, it seeks to inform local authorities, policy makers and the government on the need to pay much attention to the mobilization of property rates in the MMDAs as a panacea to local financial dependence on central transfers. It brings to the fore, the institutional and administrative capacities of the rating and collection agencies responsible for the task and the challenges if any therein.

### **1.6 Structure of the Thesis**

This study has been organized into five chapters. Chapter one introduced the work and provided an analysis of the problem, research questions, research objectives, scope of the study and relevance of the study. Chapter two is dedicated to reviews of relevant literature from different sources on the issue being investigated into. Chapter three captured the research methodology adopted for the study. The fourth chapter highlights on the research data collected and the analysis and discussions made. The major findings, conclusion, and recommendations for the entire study have been presented in Chapter five.





## CHAPTER TWO

### THEORETICAL AND CONCEPTUAL FRAMEWORKS

#### 2.0 Introduction

This chapter is devoted to the review of literature on relevant theories and concepts relating to the research. It thus provides a theoretical and conceptual framework underpinning property rating within the context of local government finance in Ghana. Lundquist (1999) opined that a theory is a collection of concepts, which together provide an understanding of how a phenomenon is built up; and how it can be classified and used. Essentially, standard principles governing property rating or taxation and two main theories namely the Principal-Agent and Game theories were reviewed with a view to providing a perspective for the analysis of the associations holding among the key players in the property taxation process. Among the key concepts and issues reviewed are; cadastre, valuation rolls, property tax or rate, decentralization under the district assembly concept. The legal framework and the constitutional provision that support property rating under the local government system, revenue generation structure of the district assemblies as well as the need for property rating and collection in the district assemblies are among the principal issues discussed in this chapter. This chapter also reviewed empirical studies to enhance better understanding of the issues under study and to enable comparison of the findings that will emanate from this study with extant literature.



## 2.1 Theoretical Framework

### 2.1.1 Principles Governing Property Rating or Taxation

Across the world, taxes constitute the major source of local government revenue (Hyman, 1990). The essence of a tax is that the governing body demands a financial contribution towards the cost of its activities from a person or organization. There is no choice for the rate payer and there is sometimes no relationship between the amount paid and the form of benefit received. Underlined here is that revenue collection, be it at national or local government level, should be guided by the general theory of tax design, namely that tax design and revenue collection should be based on principles of administrative convenience, economic efficiency, equity and transparency (Goode, 1984; Musgrave and Musgrave, 1984; IMF, 2011).

Administrative convenience calls for special consideration to both the enforcement aspect of the taxes and convenience to the taxpayers. A good tax system should be as simple as possible to administer for both taxpayers and the tax collector. Property taxation is unique such that one cannot conceal a plot or a building. It thus calls for a simple tax regime so that the taxpayers can understand it and its administrative and compliance costs are kept as low as possible.

Administrative costs include costs of determining tax liability, as well as costs for auditing and enforcement functions. Conversely, compliance costs are indirect costs borne by the taxpayer. A complex tax system tends to have a higher Administrative and



compliance cost. As noted by James & Nobes, (2000) under a complex tax system more resources would be required for administering special provisions, differential tax rates and deterrent instruments. Likewise Kayuza (2006) stated that the taxpayer would spend more on understanding the tax structure and subsequently on attempts at tax avoidance and evasion. For example the costs borne by the taxpayer in attempts to avoid and evade tax would create corresponding administrative cost to the taxing authority in trying to hinder the process (James & Nobes, 2000). Given the increased administrative and compliance costs resulting from a complex tax system, it is vital that a simple tax system is in place so as to minimize the tax administration costs.


A tax system is regarded as economically efficient if it causes little or no interference in the functioning of an economy. They also required varied amount of time and money in their collection, compared with their yield. If a tax is difficult to assess and collect, if the cost of collection consumes large part of the amount collected, or if too many special reliefs and exemption are permitted, then, the tax will not be efficient.

While it is important for a government to institute a tax system that is efficient, requirements for such a system are hard to achieve. As noted by James & Nobes (2000), the conditions required for economic efficiency are unlikely to be found in what is referred to as the 'real world'.

Sound local authority rates/tax systems are also sensitive to issues of equity. Tax systems that are viewed as unfair are prone to be resented, which in turn causes huge compliance



costs. The equity principle states that persons who are similarly situated should be taxed equally. Tax burdens should be fairly and justly distributed but the concept of fairness is complex and in many cases it poses difficulties in defining precisely what a fair tax is and what it is not. Illustrating how complex the concept of fairness is, Slemrod and Bakija (2001) cited in Kayuza (2006) point to situations where a progressive tax system is regarded as fair while a flat rate tax system is considered not fair because middle class people would bear more of the tax burden than the rich compared to what they would pay under the progressive tax system. Others consider a tax system to be fair if the poor pay nothing, the middle class pay something and the rich pay the highest percentage. However, the common approach used by economists is to describe fairness of a tax system in terms of vertical equity and horizontal equity.



The principle of vertical equity requires that the appropriate tax burden be assigned according to different levels of the well-being of the taxpayers. That is, individuals with a higher level of economic well-being should pay higher taxes than others should do. In property taxation, the allocation of tax burdens on local residents should be viewed as comprising the income classes, the property classes, the producer classes and the consumer classes. Specifically for property rates, equity demand that the cost of providing local services should be equitably shared between all classes of property owners, and should be fair as between property owners within those classes. An equitable tax takes cognizance of the benefits received by the property owner as well as his /her ability to pay.

Fairness in taxation is also considered under the principle of horizontal equity, which demands equal treatment of individuals who are equal in all relevant aspects. Thus, the tax liability should be the same for taxpayers with equal taxable capacity. Although equal treatment may appear as simple to achieve, the problem with the principle of horizontal equity is, should the equal relevant aspects be judged in terms of age, sex, marital status, employment, expenditure, income and many others? As a consequence the principle of horizontal equity provokes more questions for which answers may be difficult to obtain practically. The varying perceptions about what constitutes a fair and equitable tax system are a clear indication that fairness in taxation is an elusive concept

Legitimacy is another principle and has a direct bearing on both their sustainability and capacity to enlist local participation in local authority activities and programmes. Even though the legitimacy of levying taxes is usually supported by legislation and that a government can force people to pay taxes, response to the taxpayer's needs for public services has a role to play in taxation. It is important therefore that the amount and quality of the supply of public goods is also considered as an aspect that justifies the imposition of taxes to the citizens for a more efficient tax system. If a tax system is not seen as legitimate, then this can also lead to direct economic costs, for example higher administrative costs in enforcing compliance. Local communities and residents (as ratepayers) should also be involved in the formulation of budgets, reviewing of tax rates, fees, and fines, among others.

The need to promote democracy and representativeness at local levels demands that transparency and accountability should be upheld with regards to revenue mobilization. Transparency and accountability, as closely related principles oblige locally elected or appointed officials to be answerable for their policies, actions and use of public funds. Transparency (achieved through the provision of public information about financial transactions) entails openness in which local funds are handled and in this way serve as a reliable deterrent to corrupt practices (ICHR, 2005).

While individuals have the obligation to pay taxes to the government, they similarly have entitlement to being informed about their tax burden and other relevant aspects related to the taxes they pay. In view of this, it is important that a taxing authority operates in a transparent manner in that it is clear who is benefiting and who is paying (Stiglitz, 2000). Moreover, it would be ideal for a tax system if the taxpayers were made to see the relationship between their contributions to the support of public goods and the supply of the same. Walker (1970) is of the view that:

*“It is probably most desirable to make clear in people’s minds the association between the taxes that they pay and the benefits they receive from the government expenditure. The more apparent this link is, the greater the likelihood that people will be willing to pay taxes” (pg. 208).*

Walker’s argument is in line with the need for transparency for a tax system because if people are clearly informed about the paying of taxes and what these taxes can do for

them, they are likely to cooperate more. On the other hand, the taxing authority is likely to be accountable as their actions will be observable by the informed taxpayers.

These tax design principles have far reaching implications on the governance of local tax revenue collection particularly the property rates or tax. The discharge of duties by local authorities should go a long way in strengthening local authority and social legitimacy (ICHR, 2005). As noted by Kayuza (2006), unlike other taxes, the complexity and costly administrative procedures in property taxation renders the tax unable to achieve all the fundamental criteria for taxation. For instance, Sullivan et al (1995,cited in Kayuza 2006), argue that the property tax has failed to satisfy both horizontal and vertical equity criteria, the failure that is sometimes due to difficulties in administering the tax. The payment of property rates in Wa Municipality and other Districts across the nation should be anchored on the above principles though Walker (1970) claims that there is no such a thing as an ideal tax or an ideal tax system because objectionable features are found in all taxes. Public contempt for taxes could emanate from the public dissatisfaction for services provided. Hence, the unique features of the property tax are to a considerable degree responsible for the failure to satisfy the criteria of a good tax. In the following sections the discussion is focused on the need for property taxation.

### **2.1.2 Arguments for Property Taxation**

Two basic considerations for property taxation are benefit and ability-to-pay. Available literature on property taxation argued that the tax burden needs to be apportioned according to the benefits that the individuals gain from the government expenditures,





which are funded by the taxes (Slemrod & Bakija, 2001; James & Nobes, 2000; Musgrave & Musgrave, 1976 in Kayuza, 2006). In a buttress, James & Nobes (2000), and Musgrave & Musgrave (1976, in Kayuza, 2006) make reference to Locke's theory of the state as a protector of property, which suggests that property owners whose property is protected by the state should pay more in tax for the state expenses than those who do not receive such protection. Tax on real property is also justified in that public services increase the value of real properties and therefore the owners should pay for the services (Kayuza, 2006). But there is little consensus for the benefit approach as some theorists argue that there is hardly a trace of individual properties benefiting directly, and not all real property benefit equally from the public services (Musgrave & Musgrave, 1976 in Kayuza, 2006). Even though the benefit approach is challenged on account of the benefits not being traceable to individual property ownership and the fact that the bulk of property tax revenue is spent on provision of general public services such as education, property owners view property taxes and public services as closely linked. There is likely to be more willingness to pay where property tax revenue is spent on public services. Thus, besides the criticisms, the benefit approach is seen to gain some support. For instance, critics (McCluskey, et al, 1998) point out that in the long run the majority of people in a democratic society will not be willing to tolerate a fiscal system from which they did not benefit directly. In this regard, a tax that did not support the provision of public services will be subjected to limited taxpayer acceptance. On the other hand the ability-to-pay approach is based on the situation of the earliest taxation times when real estate and other personal property were the most convenient index of ability to pay (Musgrave & Musgrave, 1976 cited in Kayuza, 2006).



Subsequently, the holding or ownership of land presented a good index of ability to pay. The Poor Relief Act passed in 1601 in England is illustrative of the ability-to-pay concept. According to McCluskey, et al (1998), the Poor Relief Act was in essence a redistributive tax, whereby those owning property had to contribute in the form of a tax based on the value of the property to those less fortunate within the community, that is, for the relief of the poor. In this regard, a person owning real property is seen to be in better economic situation than the one not owning. This can be addressed by choosing criteria that are important at a given time so as to accomplish the tax objective or priority. While the performance of a property tax system is judged on the basis of satisfying numerous criteria, other factors are also important for consideration. In this study, the principal-agent theory and the game theory have been used to analyse relationships between levels of governments, and also how their relationship with taxpayers influence property taxation. The theories are discussed in the following sections.

## **2.2 Relationship between the Principal-Agent and Game Theories**

### **2.2.1 The Principal-Agent Theory**

This theory expounds social relations involving a delegation of authority (by a principal to an agent or superior to a subordinate), and starts from the observation that the relationship generally results in problems of control. The most important problem associated with this is difficulty in motivating an individual or organization to act on behalf of another. Moreover, the problem of motivation is a result of difficulties

associated with the inability of the principal to observe and control the actions of the agent. Milgrom and Roberts (1992) assert that:

*“Principal-agent problems are situations in which one party (the principal) relies on another (the agent) to do work or provide services on his or her behalf. When agent’s actions cannot be easily monitored and their reports easily verified, the agents have greater scope to pursue their interests rather than the principal’s. Then, to provide incentives for the agents to behave in the principal’s interests, it is necessary to arrange for them to bear some responsibility for the outcomes of their actions and therefore to bear more risk than would otherwise be desirable” (p. 240)*

The principal-agent approach has wide application in analyzing hierarchical relationships in organizations or relationships under contracts. Relating to taxation especially properties, the approach has been used in tax compliance studies.

Unlike the theoretical study, the principal-agent theory was used to help the understanding of relationships among the key actors in property taxation. The property tax practice presents relationships of central government, local authority, tax administration system and taxpayers at different levels. Given the situation of property tax in this study, how can the current situation be changed under a principal-agent framework? The principal-agent framework is not only of interest for understanding the relation between various administrative levels within the taxing authority but is also

useful for understanding the relation between citizens (property owners) and the political leaders. How can the citizens create incentives so the leaders act in accordance with the wishes of the citizen? In this study political leaders at the grass root play an important role in property taxation.

### 2.2.2 The Game Theory

Game theory is a decision making tool that has wide application in making decisions in various complex situations that confront legal persons and organizations as well as natural persons (Kayuza, 2006). A game represents a situation involving players with at least partly opposing interests and where each player is assumed to act from their own interests. According to Davis (1983 cited in Kayuza, 2006):

*“In a game there are others present who are making decisions in accordance with their own wishes, and they must be taken into account.....In a game each player must assess the extent to which his or her goals match or clash with the goals of others and decide whether to cooperate or compete with all or some of them”*  
(p. xiv)

Thus, on the bases of these views, any decision made in a conflict environment must take into account the position and the likely behaviour of the opposing side.

In a tax environment, tax authority has a distinct set of goals representing one side and the taxpayer on the other. In this study, tax compliance was partly viewed as a game involving interaction of a tax authority and a taxpayer, each adopting strategies with the



view of winning as rounds are played. Putting principle-agent problems aside in agreement with Kayuza (2006), in a tax game the tax authority is assumed to seek to maximize net tax revenue while a taxpayer seeks to minimize expected tax payments and therefore maximizes his net income. Each of the players adopts different strategies in accomplishing the intended motive. The taxpayer takes advantage of the information he possesses about his income and might evade taxes at the declaration stage.

However, where cheating is detected, tax evasion penalties are instituted to the taxpayer. Thus, if evasion is not detected the outcome is a gain to the taxpayer because his expected tax payments will be lower, associated with high net income. Conversely, the outcome is a loss to the taxpayer if he is found guilty of evasion and is punished as his expected tax payments increases plus penalties and subsequently receives lower net income.

Tax compliance can be viewed as a repeated game because property taxes are paid each year. Where cheating has been detected and taxpayer convicted of evasion, the taxpayer's decision about tax evasion in future is likely to take into account the consequences of the previous evasion. It is presumed that taxpayers who have been convicted of evasion will become more compliant in the subsequent periods of the game due to the threat of being detected and punished.

Another look into tax compliance game indicates existence of both competitive and cooperative elements. According to Davis (1983 cited by Kayuza, 2006), this kind of a game portrays a situation where the interests of the players are opposed in some respects

and complementary in others. The interests are opposed in the sense that the tax agency play strategies intended to generate more revenue while the taxpayers employ strategies aimed at seeking to pay less than required. Equally, the interests are considered complementary because they all focus on revenue that the government spends for the benefit of the citizens in a form of public goods and services. While each player employs different strategies in realizing his/her own interests the opposing interests may indicate that parties have no common interest but in reality they do.

The primary objective of any tax authority in imposing tax to individuals is assumed to be to raise revenue intended for the provision of public goods and payment of other government expenses. Subsequently, if taxpayers choose not to pay the designated taxes the probability of the government providing the envisaged public goods becomes low. For example, if all citizens paid taxes the taxpayer's expected utility would be high because the government would be able to provide public goods. In contrast, the government would not be able to provide services if no taxes were paid.

In this study, the game theory was used for understanding both the relation between the tax-authority and the taxpayers, and the relation among different taxpayers. Especially if there are views about fairness the probability that a certain individual will pay his or her tax might depend upon what the individual believes about the probability that other people will pay their taxes. In the following section the conceptualized relationship among the key actors in property tax system in WM and NKD is presented.

### **2.3 Conceptual Framework**

For MMDAs to effectively and efficiently deliver services to the people within their jurisdictions, the requisite inputs such as human resources, financial resources and political will are inevitable. Considerable relationships should exist among the key players in property taxation system to make it efficient and effective. Decisions by the main actors from the principal-agent and game theories perspective are likely to have considerable impact on the operation of a property tax system in the Upper West region. Thus, apart from the standard principles of taxation, the property tax system is also analyzed in the context of the relationships framework.

### **2.3.1 The Local Governance System**

The local governance system is founded on decentralization. Manor (1995) identified three main types of decentralization and they are; the administrative decentralization or de-concentration, political decentralization and fiscal decentralization. The Administrative Decentralization creates a framework for the re-location of branches of the central state to local areas, entailing the transfer of powers to locally-based officials who remain part of, and are upwardly accountable to central government ministries and agencies.

Political Decentralization or Democratic Decentralization or Devolution of Power is the transfer of powers and resources to sub-national authorities who are largely or wholly independent of the central government and democratically elected.

The French cooperation also identified four main types of decentralization: political, fiscal, administrative and divestment. But for the purpose of this study, the focus is on the fiscal decentralization component

### **2.3.2 Fiscal Decentralization**

This form of decentralization involves the transfer of fiscal resources and revenue-generating powers, inclusive of authority over budgets and financial decisions to decentralized institutions such as the MMDAs and to either de-concentrated officials and/or central government appointees or to some elected politicians. It consists primarily of devolving revenue sources and expenditure functions to lower levels of government. By bringing the government closer to the people, fiscal decentralization is expected to boost public sector efficiency, as well as accountability and transparency in the service delivery and policy-making. However, decentralization also entails greater complexity in inter-governmental fiscal relation and co-ordination. The basic idea of fiscal decentralization is that, decentralization of government addresses the problems with allocative inefficiency (Tanzi, 2000) by allowing smaller communities to take responsibility for governance by forcing local governance to be more relevant and more accountable to the community.

There are a number of methods to close the fiscal imbalances of sub-national governments, some of which also reduce imbalances between jurisdictions (Ahmad, 1997). In practice, transfers may be in the form of surcharges or revenue sharing whereby



a local government receives a share of the revenues from particular taxes collected by the central government within its jurisdiction (McLure, 1999).

Fiscal decentralization is therefore a major aspect of Ghana's decentralization process. It is therefore through the fiscal decentralization that the local authorities are mandated and equipped to raise revenue within their areas of jurisdictions. Therefore, mobilization of revenue at the local level is enshrined in the decentralization process of Ghana. Paramount among these revenue mobilization sources is the property tax or rate.

### **2.3.3 Structure of Local Government Revenue**

#### **2.3.3.1 Intergovernmental Transfers (IGTs)**

Intergovernmental transfers are a major component of local government financing. These are grants and transfers to local authorities from central government and other government departments (Rothchild, 1996 cited in Mogue et al, 2009).

These commonly take two forms, unrestricted (block or general purpose) and categorical (tied or specific purpose) grants. Unrestricted grants are those funds that can be spent on any local service. The aim of these grants is to compensate local governments for limitations of their tax sources. The unconditional nature of block grants enables councils to implement projects identified in several localities autonomously. Categorical grants have to be spent for specific services (such as roads, parks or some other local service) indicated by central government or its agencies. These are meant to promote programs of national purpose and can only be used on specific categories of expenditure. All grants





are predictable and can be tailored to meet their objectives by using a surcharge whereby local governments determine the amount of funds that it needs.

Another form of grant is when central government receives funds from international monetary institutions and distributes them to local governments as grants that are used under loan conditions given by the lender. Most of the grants have costs attached with them which might be detrimental to the local authorities. However, these grants also promote a dependency syndrome and recklessness in the use of funds as local authorities will be operating under the assumption that more grants will be availed to them. For example, in Ghana the introduction of a grant known as the District Assembly Common Fund inclined the District authorities to over rely on these grants and thus led to a considerable decline in locally raised revenues (Slack, 2009). The author further notes that transfers can reduce accountability when two or more levels of government are funding the same service. There is no incentive to be efficient when someone is responsible for funding.

### **2.3.3.2 Fees**

Fees may be defined as the charges levied or paid for any service or facility provided by the DA or on behalf of the DA. The level of the rates, fees, licenses and charges are formulated in two vital documents which the DAs approve each financial year. These are the Fee-Fixing and Rate Imposition Resolutions. The preparation of these two documents is regulated by the issuance of Guidelines for the charging of rates, fees, licenses, etc. by the Minister of Local Government and Rural Development in accordance with Section 34

of Act 462. Section 34 states that “subject to such guidelines in respect of the charging of fees as may be prescribed by the Ministry by legislative instrument, a district assembly may charge for any service or facility provided by the assembly or for any license or permit issued by or on behalf of the Assembly”.

### **2.3.3.3 Licenses Fees (Business Operating Permits)**

Another most important source of revenue for local authorities is the license fee which is imposed on motor vehicles, shops among others (Goldfrank, 2009). Fees are the amount of money paid for a particular piece of work or for a particular right or service. A fee is defined as an amount of money paid for a particular right or service or piece of work that is in proportion to the cost of distribution of government services provided to the payer (Kessey, 1995). The sixth schedule of Act 462 provides a range of items where fees are levied by District Assemblies. Some area items on which fees are levied include slaughter houses, cattle ponds, trading kiosks, market dues, and market tolls. But there is a school of thought which asserts that the issuance of Guidelines by the Ministry of Local Government and Rural Development for the charging of fees, rates etc. is inconsistent with the principles of decentralization and must be disregarded. The DAs must be free to charge reasonable fees.

### **2.3.3.4 Trading Services, Investments and Miscellaneous Resources**

Local authorities should also have the capacity to undertake income generating projects though these sources of revenue do not form a significant portion of internally-generated

funds of DAs. As also explained by Feltoe (2002), a council may engage in any commercial, industrial, agricultural or other activity for the purpose of raising revenue for the council. The revenue is derived mainly from incomes generated from own trading/commercial concerns like the operation of bakeries, hiring of chairs and canopies, small-scale block-making factories, etc. Revenue from these sources also comes from dividends from ownership of shares in companies as well as overpayment recoveries and sale of scraps through auction.

Revenues from these sources are dwindling because of national policy of divesting its functions as much as possible to the private sector in order to have capacity to formulate public policy and monitor and supervise activities in both the public and private sectors for effective governance of the country as a whole (Awaitey, 2003).

#### **2.3.3.5 Lands**

In Ghana, the issue of land registration and adjudication functions is vested in a Central Government agency, i.e. Lands Commission Secretariat. However, some revenues accrue to DAs from land-use in their respective areas by way of royalties, concessions, etc. They (DAs) also derive revenue from burial fees for use of cemeteries.

Though revenue derived from this source is not so significant for the majority of DAs, it is anticipated that if land registration and adjudication functions are transferred to the DAs this source of revenue could be transformed into one of the most lucrative.

#### **2.3.3.6 Borrowing**

Borrowing is another source of revenue at the disposal of local authorities. Revenues from taxes, user fees and IGTs are likely to be insufficient to meet the infrastructural needs of local authorities. For this reason, local authorities may also want to access private capital and this is achieved through such initiatives as borrowing.

According to Chapman (1953; 185), “local governments may also borrow money from the state or such other source, with the consent of the Minister responsible for Finance”. Unlike central government grants, in borrowing the borrower has to pay back. Local authority loans are suited for those expenditures and can be paid in small increments from future revenues.

In Ghana, DAs are allowed to borrow in accordance with Act 462. Section 88 of Act 462 states that “a District Assembly may raise loans or obtain overdrafts within Ghana of such amounts, from such sources, in such manner, for such purposes and upon such conditions as the Minister in consultation with the Minister responsible for Finance, may approve; except that no approval is required where the loan or overdraft to be raised does not exceed GH¢2,000.00 and the loan or overdraft does not require a guarantee by the Central Government” (Awaitey, 2003).

There is therefore a limit to borrowing. Whereas the law does not restrict the amount, source and use of a loan/overdraft, it places certain conditionalities on borrowing as follows:

(a) loans/overdrafts are to be contracted within Ghana; (b) type of borrowing is restricted to only loan/overdraft; (c) approval is needed from the Minister of Local Government and Rural Development in consultation with the Minister of Finance where the amount exceeds GH¢2,000; (d) approval is also needed as in (b) where the loan/overdraft requires a guarantee by Central Government.

The limitation as regards the amount to be borrowed without approval (i.e. GH¢2,000) is a constraint to borrowing. In current terms GH¢2,000 is just a pittance to a DA given the level of services being provided by the DAs and the macro-economic setting within which they operate (Awaitey, 2003).

Coupled with the above, the DAs are unable to put up proper financial accounts to meet money market standards and demands as a result of their low financial administration capacities. Funds also do not flow easily to DAs due to the reluctance of lending institutions to advance funds without guarantees underwritten by Central Government or clear indications of ability to pay (Awaitey, 2003).

In some industrialized countries local governments can bypass central governments and borrow from private sources but this degree of independence may not be appropriate in the developing world because the credit worthiness of the local governments is not well established and central government might want to control or guide allocation of local investment.



There are various issues to be considered when borrowing and these include the grace period, interest rate, grant element as well as the absorptive capacity of the borrowing entity (Musgrave & Musgrave, 1984). Underlined here is the need to assess the absorptive capacity of the recipient local entity as well as its fiscal discipline capacity.

According to Elock (1994) there is the need to establish a strong local government borrowing system. It is recommended that local governments start collaborating with private entities in the provision of their services as a means of enhancing their revenue generation capability. However, the feasibility of such a move is questionable since many districts and councils lack well-developed financial markets and credit worthiness. It is also recommended that local authorities fix mobile assets census and maintain a register that will provide information on value and other details for proper management of property. If such measures are adopted, the revenue base will be boosted from property tax.

#### **2.3.3.7 Property Rates or Tax**

Property rate/tax is based on the value of properties owned by households and enterprises. The property is assessed to determine its value, upon which it is taxed (Roy, 1999). Property tax always includes land, residential constructions and industrial constructions. Every local government authority has a mandate to charge rates and levies on various types of property within its jurisdiction.

According to Rothschild (1996;134), “the rate charged is collected on the basis of the value of property as listed in the particular council valuation roll and paid semi-annually. Because property tax is based on verifiable factors, it provides a very predictable income for local authorities”. Property rate is considered as a “wealth tax” and the revenue derived from property rate is used as a balancing figure in the determination of the revenue budget. This means that property rate revenue is the difference between the total expenditure of the District Assembly (DA) and the total revenue realizable from all other sources of revenue available (i.e. non-property rate revenue) to the DA in a fiscal year.

However, it has to be noted that during the exercise of rating, property members of the valuation Board might be biased on estates or properties where they have personal interests in. There is also the challenge of shortage of skilled valuers (Roy, 2000; Youngman, 2001). It should also be noted that while a well-maintained property register is indispensable, in practice it is costly and technically difficult to maintain. In addition, some land and building owners may take advantage of the insufficient legal control and not pay tax. It may also be difficult and costly to evaluate each building and premise. In practice, it is difficult to make the poor or powerful people pay (IMF, 2011). There are also problems in ascertaining tax liabilities especially in the case of absentee landlords whose tenants erect taxable properties. Experiences in African countries suggest that local authorities face challenges in enforcing legal penalties for nonpayment (Youngman, 2001).

Property ownership in most African countries is not clearly legally defined and hence difficult to identify the actual owners of property. Central governments are also reluctant to contract out tax administration functions to local authorities.

In Ghana, Section 94 of the Local Government Act 1993, (Act 462) provides that,


“District assembly shall be the sole authority for the district and subject to any special provision in the Act or any other enactment; no other authority other than the Assembly shall, notwithstanding any customary law to the contrary have power to make or levy rates in the districts”. Further to the above, section 95 states that, “District Assembly shall levy sufficient rates to meet their estimated expenditure”.

Rates are classified according to section 96 of the Local government Act, 1993 as general and specific rates. In section 96(2) of the Act, a general rate is referred to as a rate made and levied over the whole district for the general purpose of the district, while section 96(3) (a) defines general rate as a rate payable by the owner of premises in the district on the ratable value of the premises; or (b) a rate assessed on the possessions, or any category of possessions of persons who reside in the district. Under 96(2), a special rate means a rate levied over a specified area in the district for a specified project approved by the District Assembly for that area, while section 96 (4) defines the special rate as the basic amount payable by everyone of 18 years or above who resides in the area, or owners of movable or immovable property in the area.

Property rate due is determined by using what is known as the rate impost against the rateable value of the property as indicated in the Valuation Roll. The rate impost is a co-



efficient expressed as a proportion in the cedi of the rateable value of the property concerned. In determining the rate impost certain procedures (steps) are to be followed. These are: (a) Estimate the total expenditure of the DA for the financial year. (b) Estimate the Non-Property Rate revenue of the DA for the fiscal year. (c) Subtract (b) from (a) to obtain the expenditure to be met from property rate revenue. (d) Divide the estimated expenditure to be met from property rates by the total rateable values of all properties in the Valuation Roll (List) to arrive at a flat (average) or uniform rate impost. (e) Vary this rate impost according to rating zones/classifications to obtain differential rate imposts. (f) The rate impost should be varied in such a way that the total of rates payable in respect of each class of property may be equal (i.e. if the Assembly has 100% previous collection performance records) or a bit higher than the figure in (c).



However, some exemptions from payment of rates are provided for by law. Section 99 (1) (a-e) of the Local Government Act of 1993 (Act 462) provides for the exemption of assessments and payments of property rate for the following: (a) all premises appropriated exclusively for the purpose of public worship and registered with the DA; (b) cemeteries and burial grounds registered with the DA; (c) charitable or public educational institutions registered with the DA; (d) premises used as public hospitals and clinics; and (e) premises owned by diplomatic missions as may be approved by the Minister for Foreign Affairs.

For the purpose of this study, the definition of rate in section 96(3) (a) is the most appropriate. A rate could thus be said to be a local tax imposed by a District Assembly on the ratable values of immovable properties to generate revenue to provide local services.

#### 2.3.4 Property Rating Information System (Tools)

An efficient land information system would enable local government and professional valuers to create a “fiscal cadastre” containing information about property ownership, valuation, and property tax information. This would facilitate the equitable and efficient administration of property rating/taxation. One of the basic tools for property rating in Ghana is the cadastre which include a fiscal and a land cadastre. According to Larsson (2000), a cadastre is a systematic description of the land units within an area. The description being made by maps that identifies the location and boundaries of every unit and by records. A cadastre therefore represents a specific type of land record comprising maps that indicate the identification number and area of the unit, land use for each parcel, land value and information concerning ownership or control of the interests in land. A “fiscal cadastre” may therefore be defined as an official inventory of land parcels that provides the information needed to determine the value of property (land and or improvements) for the purpose of taxation (Whittal, Jennifer, 2004). Also “land cadastre” is a parcel-based and up-to-date land information system containing a record of interest in land. It usually includes a geometric description of land parcels, linked to other records describing the nature of the interest in the land. It often includes the value of the land



parcel and its improvements (Whittal, Jennifer, 2004). Valuation Rolls or List is a list of all properties valued, with their rateable values.

A well-developed cadastral system provides cadastral maps, which can be used for property tax administration. Useful cadastral maps for taxation purposes should show boundaries and size of parcels of land, location of each parcel and identifiers. Identifiers include parcel numbers; subdivision block; lot designations and the names of streets; railroads; subdivision and administrative jurisdictions (IAAO, 1990). Information on land ownership and administrative information such as property address, property owner's address, taxing jurisdiction, taxpayer account number and so on, may also be included to form part of the mapping required for property taxation purposes.

As is the case with many other developing countries, the cadastral system in Tanzania is not much developed (Kayuza, 2006). The few cadastral maps that may be available with local authorities are inadequate, lacking most of the necessary information to guide property taxation of which Ghana is not an exception.

### **2.3.5 The Existing Legal Framework on Property Rating or Taxation**

In order to legitimize the full exploitation and potential of property rates, many countries across the globe over time had enacted legislations to guide the practices of property rating and rates. For instance, the 1995 constitution and the local government act, Cap 243 of Uganda empowers local governments to collect local revenue within their areas of

jurisdictions. They provide the legal framework under which Local Governments may deliver vital infrastructure and social welfare services to the people, through a process based on transparency and accountability. Article 191 of the constitution allows Local Governments to levy, charge, collect and appropriate fees and taxes in accordance with laws enacted by parliament (Kalenge et al, 2010). The Local Government Act, Cap 243 specifies the major sources of revenue that local government may collect. Property taxes are among them. However, it is the Local Government (Rating) Act, 2005 that provides the legal basis for local government to value, assess and collect rates on properties. The Act empowers local governments to levy rates on properties within their areas of jurisdictions (Kalenge et al, 2010).

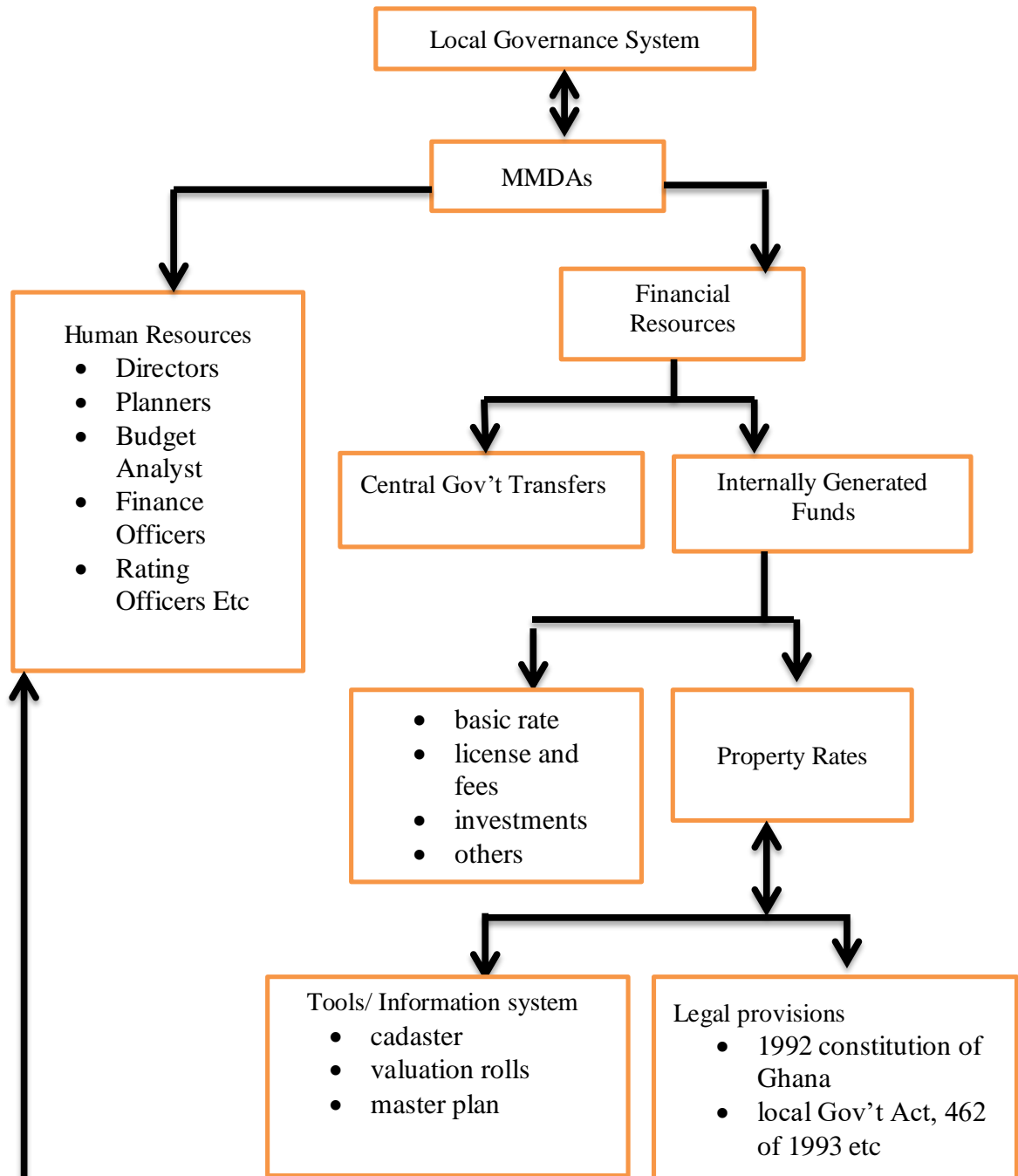
Several statutes have been passed for the regulation of property rating in Ghana since the colonial era. These include the Municipal Rating (Immovable Property Rate) Regulations (L.I. 212), 1959; the Local Government (Immovable Property Rate) Regulations (L.I. 40), 1960; the Local Government (Immovable Property Rate) Amendment Regulations (L.I. 348), 1964; the Municipal Rating (Immovable Property Rate) Amendment Regulations (L.I. 349), 1964; the Municipal Rating (Immovable Property Rate) Amendment Regulations (L.I. 650), 1970; the Immovable Property Rate Amendment Regulations (L.I. 1049), 1975; and the Local Government Act (Act 462), 1993,(Boamah, 2013).

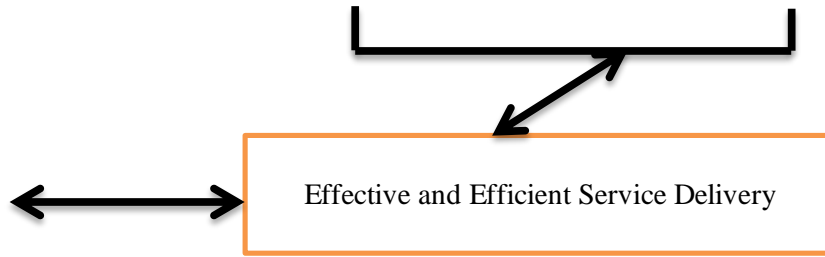
Articles 245 and 252 of the 1992 Constitution and section 34 of the Local Government Act, 1993, Act 462 mandated MMDAs to generate their own revenue through levying fees and fines, basic rates, and property rates within their jurisdictions, and may also



undertake investments. Section 94 of Act 462 makes Metropolitan, Municipal and District Assemblies (MMDA) the rating authorities in their areas of jurisdiction. The Act 462 has therefore assigned powers of determining, levying and collecting property rate to the MMDAs in the country. Section 95 (1) states that: A District Assembly (DA) shall make and levy sufficient rates to provide for that part of the total estimated expenditure to be incurred by it during the period in respect of which the rate is levied and which is to be met out of money raised by rates. The Local Government Act, 1993 (Act 462) provides for the imposition of the property rate in all District Assembly areas. The property rate is perhaps the only tax that can be said to be based entirely on property. The basis of valuation is the replacement cost and it is the responsibility of the Land Valuation Division to carry out the valuation of properties in the District Assembly's area and prepare the *Valuation List* which is a list of all properties valued, with their rateable values. Replacement cost is defined as the amount it would cost to provide buildings, structures and other developments as if they were new on an undeveloped land or site at the time the premises are being valued (Local Government Act, 1993 Act 462, Section 96(10) (a)). Rateable value of premises under section 96(9) of Act 462 is the replacement cost of the buildings, structures and other developments comprising the premises after deducting the amount which it would cost at the time of valuation to restore the premises to a condition that would be serviceable as new. The Act adds that rateable value should be not more than 50% of replacement cost for owner-occupied premises and not less than 75% of the replacement cost in other cases. Thus, rateable value in Ghana is simply the replacement cost of premises less depreciation. Depreciation, according to Essel (1991) (in Pogane, 1998) is the loss of value of a property relative to its replacement cost, i.e. the

difference between the replacement cost when the property is new and the market value of the property at the date of valuation. Depreciation thus measures the extent to which the old building is not as good as the new one. The lower limit of depreciation, as per Act 462, is 50% for owner-occupier premises, with an upper limit of 25% in all other cases.





**Figure 1: Relationship between Actors of Property Rating System**

Source: Author's Construct, 2014

## 2.4 Empirical Evidence

### 2.4.1 Property Rating in Ghana

Rating as a tax has a unique feature that the amount of revenue required from rates is decided and the liability then distributed among the ratepayers (Emeny and Wilks, 1984). As noted above, the tax base for rating in Ghana is the buildings / improvements only, and the rating system is manual, based on individual parcel valuation which is laborious, time consuming and administratively expensive (Petio, 2013).

Farvarque-Vitkovic et al (2008) lamented the inability of district assemblies to generate sufficient revenue from property rates. The use of the replacement-cost method as the basis of assessment was considered subjective due to the wide range of properties in a particular rating area, and a change of the tax base from buildings - only to land value - only was recommended to promote the use of mass valuation (Farvarque-Vitkovic et al, 2008). Brosio (2000) observed the lack of enforcement of payment of property rates and it is however pathetic to note that several district assemblies in Ghana do not collect property rates as a means to augment their revenue. Also, due to the use of antiquated



method of collecting property rates, property owners avoid the payment of rates. This has made property rates very costly to administer.

Boamah (2013) also observed a high non-compliance rate, lack of enforcement against compliance, general public disdain, and negative perceptions about rating officials all seem to have contributed to low property tax yield thus affecting the buoyancy of the property rates in the Offinso-South Municipality.

A study conducted by Petio (2013) in some selected Districts and Municipalities of the Upper East Region confirmed similar institutional and administrative capacity challenges being experienced in the east African countries. He stated that there was low rate coverage and minimal property revenue. Out of the nine Districts in the Region, Bongo and Talensi-Nabdam Districts were the only two Districts not levying property rates in the region and that Bongo District blamed their inability to levy property rates on non-availability of property data. With the exception of Bolgatanga and Bawku Municipalities, the other five districts levying property rates used flat rates (i.e. rates neither based on rateable values nor rate impost). Imposition of flat rates, other than applying a rate impost on the depreciated replacement cost of the rateable properties, was also found out to be rampant in most of the districts. The imposition of flat rates by the districts does not conform to the requirements outlined in the law (Act 462). Rating by the districts was also selective because the districts levied rates only on commercial properties and a few modern or concrete-built residential premises – contrary to the stipulation of Act 462 which makes every property liable (except for specified exemptions), (Petio, 2013).





Thus, the coverage of rateable properties and the quantum of revenue realised from rating were low, because most of the districts, especially Kasena-Nankana East and Nankana-Nakana West, levied rates on only a few properties, contrary to the wide tax liability given by Act 462.

Challenges in preparing valuation list was another paramount challenge revealed by the study conducted (Petio, 2013). The Land Valuation Division (LVD) as gathered from his study carries out valuations of all rateable properties in the districts, and to prepare valuation lists for the purposes of levying property rates. This is consistent with the position of Plimmer and McCluskey (2010) who argue that the valuation organisation should be different from the tax-spending authority to avoid conflict of interest. However, the LVD has not been able to undertake regular revaluations of properties to reflect current market values. Petio (2013) observed that, there were no technically trained rating personnel in the districts to support the LVD. Most of the districts, except for Bolgatanga and Bawku Municipalities, had no rating units as part of their administrative set-up. In the majority of cases, it was the Budget Offices which had additional responsibility of levying property rates in the districts. None of the Budget Offices in the various districts had staff with relevant academic or professional backgrounds relating to property rating.

The Municipal Valuation Offices also lack logistics support, such as vehicles, motor cycles, computers and accessories, measuring tapes and property record sheets.

Thus, the logistical support such as vehicles, motor bikes, computers and printers etc, required by the Municipal Valuation Offices was virtually non-existent. Even measuring tapes which do not cost much were also in short supply (Petio, 2013)



Before 1986, the Valuation Division of the Ministry of Local Government was responsible for carrying out rating valuations in the country. Then in 1986 under the Provisional National Defence Council (Supplementary and Consequential Provisions) Law, 1982(section 43), the Valuation Division was transformed into the Land Valuation Board (LVB) and charged with preparing valuation lists for property rating, and determining compensation for land acquired by government or any public corporation (Kasanga and Kotey, 2001).

Kasanga and Kotey (2001) however noted that, a number of constraints faced the LVB, including a severe shortage of qualified staff, lack of logistical support and vehicles, poor staff remuneration, and delays in compensation payments by government

Under the recent Lands Commission Act 2008 (Act 767), the LVB was changed to the Land Valuation Division (LVD) of the Lands Commission of the ministry of land and natural resources. The Local Government Act 1993 (Act 462) allows private valuers and firms to undertake rating valuations. The Act (462) mandates the LVD to supervise such private valuers, and the LVD operates under guidelines set out in the Immovable Property Rate Regulations 1975 (L.I. 1059) and Act 462.

Martey and Tagoe (2012) attributed the ineffectiveness of property tax mobilizing to lack of a Geo-Property Information System. Poor keeping of records on real properties within the districts are bedeviling the smooth growth of the districts. District assemblies in Ghana have inadequate data on all found in the district. For instance, several district assemblies do not keep or have data on the number of developed and non-developed plots

of land in the district. This therefore works against attempts to improve internally generated revenue especially property rates in the districts (McCluskey, 2003).

## **2.5 Conclusion**

Property rate is the most common, reliable and sustainable source of revenue to local governments across the globe. It is one of the most lucrative sources of local government financing (Mou, 1996). It is thus essential for the success of fiscal decentralization and the financing of local infrastructure and service delivery (Boamah, 2013). For example, it is a key source of revenue for local authorities in most OECD countries (Hefferan and Boyd, 2010 cited in Boamah, 2013). Property taxes constitute 100% of local tax revenue in Australia and Ireland, 99% in the United Kingdom, 93% in Canada and 72% in the United States (Braid, 2005), and the tax forms more than 2% of developed countries GDP (Bahl, 2009). Property tax is thus an ideal tax for local governments in low-income countries since it serves as benefit levy, is progressive in its distribution of the tax burden, and has significant revenue-raising potential (Bahl, 2009).

Despite the immense contribution of property tax in developed nations, its potential is generally under-exploited in developing countries (Lall and Deichmann, 2006 cited in Boamah, 2013). Property tax revenue constitutes less than 4% of all tax revenues in developing and transitional countries, and averages 0.42% and 0.54% of Gross Domestic Product (GDP) of developing and transitional countries respectively (Kaiser, 2005; Bahl, 2009)



Juxtaposing the performance of property rates in the developed economies with developing economies statistically, it is evident that, property rates potential are not fully exploited in the developing countries and in Ghana particularly. (Bird & Slack 2003) observed that, property tax and its administrative functions are often performed manually resulting in low revenue base due to limited recording of ratable properties and low collection rates.

Awaitey (2003) also lamented that, the methodology employed in the valuation process in Ghana is very controversial and that with the exclusion of the land in computing the value of the property, rateable values tend to be low and that could affect the quantum of rates ultimately. Awaitey (2003) further revealed that valuation rolls are not updated as and when they should be. Conventionally, valuation rolls should be updated every five (5) years but some DAs are still using rolls which were prepared 15-20 years ago. Their inability to update their rolls stems from the lack of resources of the LVD which is mandated to undertake property valuation and preparation of valuation rolls for the DAs (Awaitey, 2003).

Similarly, as stated by Kasanga and Kotey (2001), a number of constraints faced the LVB, including a severe shortage of qualified staff, lack of logistical support and vehicles, poor staff remuneration among others.

Amidst these constraints elicited from the literature, can one conclude that property rating and rates collection agencies/institutions in the WM and NKD are insulated from such constraints?

Certainly, the answer cannot be pre-empted, hence, the thrust of the research on assessing the capacity of property rating and rates collection agencies in the two study areas on the performance of their statutory mandate.



## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter outlines the methodology adopted for the study. The study areas are briefly described. The logic, techniques and the procedures underpinning the study are presented in this section. The chapter therefore highlights on the research design, data requirements and sources, data collection tools and methods, sampling techniques, study variables, and data processing as well as data analysis and presentation employed for the research

#### 3.2 Profile of the Study Areas

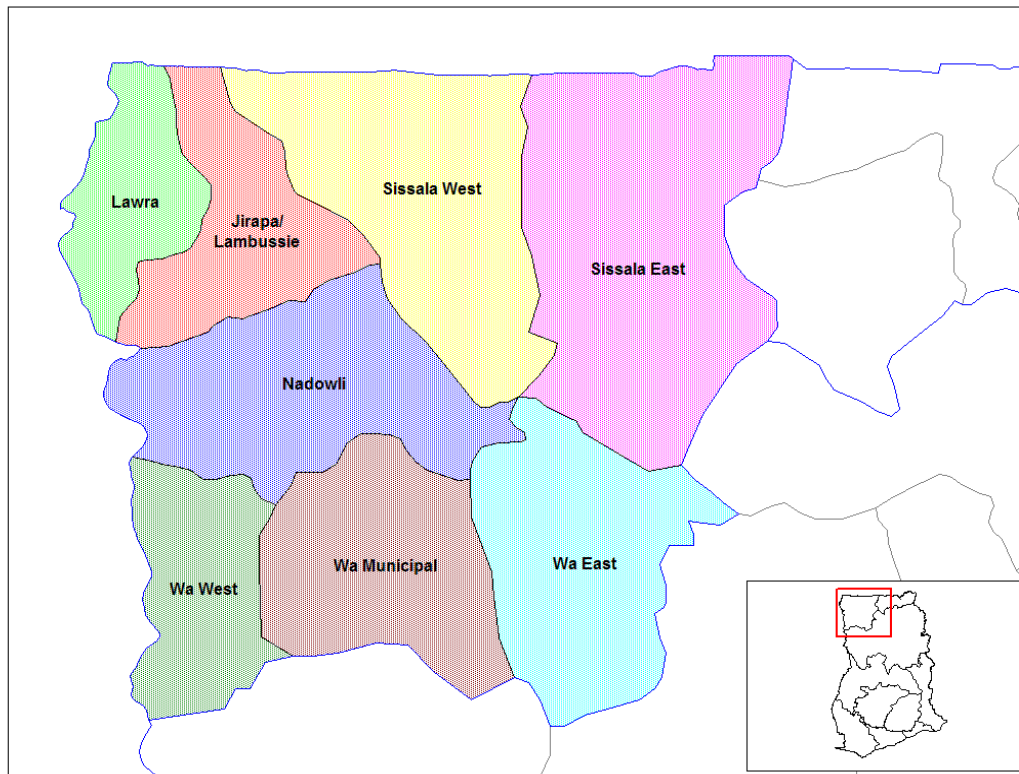
##### 3.2.1 Location

The Wa Municipality is located at the Western corner of the Upper West Region of Ghana approximately within the latitudes 1°40'N to 2°45'N and longitudes 9°32' to 10°20'W of the prime meridian. It has a total land mass of 234.74 sq km. It shares administrative boundaries with the Nadowli-Kaleo District to the North, the Wa East District to the East and South and the Wa West District to the West and South.

Nadowli -Kaleo District on the other hand is centrally located in the Upper West region of Ghana. It lies between latitude 11° 30' and 10° 20' north and longitude 3° 10' and 2° 10' west. It is bordered to the south by Wa Municipal, West by Burkina Faso, North by Jirapa District and to the East by the Daffiama-Bussie-Issa District. It covers a total land area of 2,742.50km<sup>2</sup> and extends from the Billi Bridge (4km from Wa) to the Daputori



Bridge (almost 12km from Jirapa) on the main Wa – Jirapa-Hamile road and also from West to East it extends and bordered by Daffiama- Bussie- Issa District.



**Figure 2: Map of Upper West Region**

**Source:** Upper West Districts, Ghana

Wa Municipal and Nadowli District in the map above are the study areas. It must however be noted that, the portion for Nadowli (now Nadowli-Kaleo) District includes the new District called Daffiamah-Busie-Issa.

### 3.2.2 Climate and Vegetation

The Wa Municipality and the Nadowli-Kaleo District are located within the Guinea Savanna Woodland and has two major seasons, the wet and the dry season. The wet season sets in early April and ends in October. Characteristic of the dry season is the cold and hazy harmattan weather which starts from early November and ends in the latter part of March when the hot weather begins with intensity and ends only with the onset of the early rainfall in April. Some economic trees found in both Districts are kapok, shear, baobab, mango and dawadawa which are resistant to both fire and drought. However, the natural tree vegetation are increasingly disappearing as a result of human activities in the likes of cultivation, construction, wild fire as well as charcoal burning in the suburb of both districts. The type of tree species also determine the level of building materials available for purposes of construction and this to a large extent informs the cost of building materials. These economic trees provide a potential for the establishment of processing industries to increase employment opportunities for the people.

It can also be said that the type of climate of a particular place influences a great deal the type of building materials to use for the construction of housing facilities. The kind of building materials used in the region for housing has a direct bearing with the value attached to such properties for rating purposes in the districts.

### **3.2.3 Ethnicity**

The ethnic groups within the Wa Municipality comprise Dagaabas (42.3%), the Waala (40.3%) and Sissala (5.8%) all other Northern ethnic groups (5.1%), Akan ethnic groups (3.8) and all other ethnic groups (2.1%). (2000 population and Housing Census: Ghana



Statistical Service 2005, Upper West Region). Available data show clearly that Mole-Dagbani is the predominant ethnic group in the Nadowli-Kaleo District with 88.3%. Other indigenous ethnic groupings collectively constituted the remaining 11.7%.

### **3.2.4 Population**

The total population of the Wa Municipality as at 2000 stood at 224,066, representing 38.9% of the Region's population (2000 Population and Housing Census: Ghana Statistical Service, 2005). However, the draft report of the 2010 population and housing census put the population of the municipality at 107,214 persons. The municipality has a population growth rate of 2.7% for peri-urban and 4% for the Wa Township. The population is dominated by females (2000 population and Housing Census, Ghana Statistical Service 2005).

The total population of the Nadowli-Kaleo District 63,141 with a growth rate of 1.9%. The population of the District is also dominated by females (2010 PHC Draft Report). The increases in population thus suggest that there will be an increasing need for residential properties and the other landed properties. A vibrant housing sector presents an opportunity for revenue generation through property rates especially the municipal assembly.

### **3.2.5 Settlement Pattern and Household Size**

Apart from Wa Township that has a compact settlement as a result of rapid urbanization, the remaining communities in the Municipality are made of dispersed settlement.



According to the 2010 Population and Housing Census, the total number of houses in Wa stood at 20,016 and a total household of 18,891 with an average household size of 5 persons.

The settlement pattern in the Nadowli-Kaleo district is predominantly dispersed except that Nadowli and Kaleo Townships are almost compacted. The District had the medium proportion of households of 10 or more (16.5%) (2010 PHC Draft Report).

### **3.2.6 Housing**

The main dwelling units in the municipality comprise of compound houses, semi-detached, self-contained, single storey, bungalows as well as three storey buildings. In Wa, houses are often built with landcrate, sandcrate and rammed earth. However, rammed earth as well as landcrate is predominant in most communities within the Municipality. As regards roofing, corrugated aluminum roofing sheet is generally used except in few situations where “mud roofing” is used by some residents who cannot afford the corrugated aluminum roofing sheets.

Characteristic of the Wa Municipality are unauthorized settlements or houses largely due to the fact that the town sprouted out of a rural settlement where town planning was initially nonexistent. In this general regard, the land use system in the Municipality is not distinctively structured. There are various residential zones within the Municipality but the prominent ones are; Dobile, Kpaguri, Sombopaala, Kunta, Gyegyereyiri, Gyangbeyiri, SSNIT, Airstrip, Mangu, Kambali, Tindamba, Zongo, Kabanye, Tagrayir, Limanyir, as well as Wapaani and currently Bamahu. In the likes of classification, we have high class



residential area, medium class and low class residential area. Suffice it to say that, only SSNIT residential zone falls within the high class residential zone with detach single-houses, Dobile which is predominantly government low cost bungalows is categorized as medium class residential zones. The remaining residential zones fall within the low class. In all these zones, accommodation is made up of private owners and private tenants and government and institutional.

There is gradual improvement in the housing sector in the Nadowli-Kaleo District. Most of the traditional house types with earth roofs are giving way to landcrete and blockhouses with zinc and aluminum roofing sheets. There has also been remarkable improvement in the quality, quantity and design of privately owned houses. The use of cement blocks in construction of houses has increased.

### **3.2.7 Sanitation**

The current environmental sanitation status in the Wa Municipality leaves much to be desired. Less than 40% of urban residents are served by a solid waste collection system, and less than 5% of the total population is served by the solid waste collection, and less than 2% are served by an acceptable household toilet facility. Even in cases where waste is removed, most are disposed in an unsanitary manner, posing serious risks to human health and the environment, including the Municipal dwindling water resources. Rain water drainage is inadequate or even absent in most settlements in the Municipality and flooding is rife. At the household level, poor hygienic practices by individuals and communities are compounded by insufficient education on hygiene. These factors have a

serious health implications and more than half of all reported diseases are related to poor environmental sanitation, with its attendant social and economic cost. The Municipality has a total of 103 toilet facilities, 79.6% (82) are privately owned and 20.4% (21) are public toilets (GSS, 2005).

The sanitation situation in the Nadowli-Kaleo District is not different from that of the Wa Municipality. The existing sanitation facilities in the District include Septic tanks, Ventilated Improved Pit Latrine (VIP), Kumasi Ventilated Improved Pit Latrine (KVIP), Pit latrine (CLTS) and Water Closets, which can only be found in institutions and the privately owned houses. The VIP's and Water Closets are private while the KVIP and Septic tanks are public. It is currently estimated that 11.1% of current population have access to sanitation facilities. However, due to improper management and maintenance most of the facilities have been neglected and people resort to free range open defecation which poses serious environmental and sanitation problems.

### 3.2.8 Water Supply

While about 93% of urban dwellers in Ghana are estimated to have access to safe water, only 39% of the rural population has access to safe water. Though the urban water supply is considerably better than the rural water supply, it is not bereft of problems, particularly in slum and high population density areas, where water supply- infrastructure have been over stretched. In Wa Municipality there are a total of 316 manual boreholes, 48 hand-dug wells with pumps and 21 hand-dug wells without pumps. In addition, there exist a total of 4 pipes systems in the Municipality of which two are in the Wa Township. The

spatial distribution depicts a fair supply of potable water. However, a close analysis of the existing situation on the ground reveals that the boreholes and hand dug wells dry up and quite a substantial number are yielding low qualities of water. The service gap in water supply in Wa Municipality is very apparent. This is in terms of gross inadequacy in yields, supply as well as distribution. Although the Municipality enjoys potable water from pipe borne water sources, wells and boreholes; pipe borne water supply is just around Central Wa and SSNIT flats. The underground source of water supply and boreholes are yielding less and less quantities of water which is not enough to meet the current water demand of a rapidly growing Municipality.

There are 88 pipe systems in the Nadowli-Kaleo District located in 5 communities Nadowli, Kaleo, Nator and Meguo-Mantari. 350 boreholes are located in the communities, out of these, 312 are functional and 48 needs rehabilitation. However, 53 of the boreholes are privately owned. Compared to the number of boreholes at the beginning of 2006, the construction of new boreholes has increased by more than 40%. This has no impact on the water supply coverage in the District because of the number of broken down boreholes and those that need rehabilitation. Presently there are about 8 communities without any form of water facility to obtain potable water. Communities including Pelbuo and Naro have been victims of the guinea worm disease as a result of the non-availability of potable water (DWST, Nadowli-Kaleo, 2013).

### **3.2.9 Electricity**



Most communities in the Wa Municipality and the Nadowli-Kaleo District are connected to the national electricity grid. However, it does not enjoy a 24 hour uninterrupted supply of hydro-electric power as a result of the current power crisis.

### **3.3 Research Design**

The study employed an exploratory approach to achieve the main research objective. The research approach helped to diagnose the capacity or other wise of the property rating agencies in the selected study areas that provided the opportunity for discovery of new ideas aimed at making property rating a viable revenue source for local government finance.

Exploratory research seeks to look into areas that have receive minimal attention or when the topic area is relatively new and unstudied or when the objective is to test the feasibility of undertaking a more careful study (Rubin & Babbie, 1997, Ahiedeke, 2008 as cited in Akanbang, 2012).

Data collected included the staff strength of the LVD and the two Assemblies, computers and their accessories, transport facilities, logistics as well as funding. Amount of revenue generated from property rates, knowledge level of property owners on property rating were also collected. The maximum variation case study method was employed in the selection of the two Assemblies. While purposive sampling was relied upon in the selection of the Wa Municipality, simple random sampling was used in the selection of Nadowli-Kaleo District among the rural districts.



Key informant interview, surveys and focus group discussions were then applied in obtaining information from the experts and respondents on the subject area. SPSS was used in analyzing responses from the survey whereas most of the qualitative data was descriptive of experts' views.

### **3.3.1 Justification of Research Approach**

Theodorson and Theodorson (1969) indicated that the case study approach is useful for studying an individual, group, an episode, a process, a community, a society, or any other units of social life. Stake (1994) suggest that a case study is useful when “opportunity to learn is of primary importance”. A case approach provides a mode of enquiry for an in-depth examination of a phenomenon.

A case study approach was employed in undertaking the research because the phenomenon under investigation is a contemporary one and the study is based on a real life situation. Also, the case study enables the use of multiple methods for data collection and analysis. The multiple sources of evidence and different data collection techniques (interviews, focus group discussion) are two of several methods that Patton (1990) suggest to improve the quality of the data and research findings. The use of multiple sources of evidence therefore enhances the quality of data for the research as it permits the validation of one source of data by another source as in the case of this study.

In addition, the case study research method brings the investigator and the case being investigated into direct contact. This leads to a better conversance with the circumstances of a case and helps to assess the reactions of a group or a community to questions and



issues raised in the course of the investigation (Kumekpor, 2002). The case study afforded the researcher an opportunity of studying the property rating system in Ghana with respect to the capacity of the mandated institutions and its potential in providing good financial base for MMDAs.

Furthermore, once the researcher has very little control over the phenomenon under investigation, the case study approach becomes appropriate method to be employed for the study as in the case of property rating.

However, the literature on case studies has revealed different forms or types of case studies. These include typical, deviant, extreme, maximum amongst others. But for this study, the maximum variation case study was relied upon.

Patton (2003 in Patton, 1990) observed that a maximum case involves purposefully picking a wide range of cases to get variation on dimensions of interest; document uniqueness or variations that have emerged in adapting to different conditions; identify important common patterns that cut across variations.

The basic principle behind maximum variation case is to gain greater insights into a phenomenon by looking at it from all angles. This can often help the researcher to identify **common themes** that are evident across the sample.

Wa Municipality being the only Municipal Assembly in the Upper West Region fits for a maximum case study. Since the maximum case looks at many cases to discover variations and common patterns, Nadowli-Kaleo District was selected in order to make comparison in the capacity and the potential of property rating between the two assemblies. This



ensured that the geographical variation regarding property rating is represented in the study.

It must, however, be noted that the case study approach has some challenges among them are; investigator related shortcomings such as biases and poor judgment of issues, difficulties relating to the nature of the case study especially when the study has a security or political consequence.

Also, when the members of the case being studied fail to cooperate, the researcher may not obtain the required information for the study. Nonetheless, these challenges and limitations were overcome by the study through proper planning and adequate preparation towards the field survey

### **3.4 Data Required and Sources**

Both primary and secondary data were used for the study. Relevant literature was reviewed from secondary sources to support and refute arguments and conclusions raised by different people on the subject under investigation. The secondary sources of data which include journals, publications, articles, books and the internet-based material were employed to provide a deeper understanding of the key concepts, components and efforts in local government revenue mobilization through property rates. The data required for the research includes the human, logistics and technology available for valuing real properties for the purposes of levying rates in the Wa Municipality and the Nadowli-Kaleo district. In addition, data on the quantum of rates levied on the real properties and the real amount collected from such levies by the two assemblies were required. Also,



data was required on the knowledge level and perception of the public regarding property rating and the quantum of rate charged and its possible effects or impacts on revenue mobilization on the development of the Municipality and the Nadowli-Kaleo district. The data on the challenges and constraints in the preparation of valuation rolls and mobilization of property rates at the local level were available at the land valuation division and finance office of the two assemblies of the Upper West Region respectively. Data on the potential of property rates serving as a secure of sound financial standing of the Municipal and District Assembly was obtained from the budget and finance offices and the rate payers.

### **3.5 Choice of Sampling Techniques and Sample**

To achieve the objective of the study, both probability and non-probability sampling techniques were employed in the selection of units of enquiry. Purposive sampling method was employed in the selection of the Wa Municipality whereas the Nadowli-Kaleo District was randomly selected from among the ten districts in the region. The Municipality was chosen for the fact that, it is the only municipality in the region and thus has the opportunity to harness the potential of the fast growing rate in the landed property sector.

As noted by Lincoln and Guba (1985) purposeful sampling aims at maximizing information collection for variance and as confirmed by (Patton 1990) it identifies information-rich sources for in-depth data collection. The land valuation division was



purposively selected as the agency mandated by law to assess and value rateable properties at the sub-government levels.

Also, the purposive sampling technique was used to sample the officers that were interviewed. Finance and Budget Officers of the two assemblies and officials of the LVD were contacted for issues pertaining to property rates and the system of rating in the study area. In effect, these officials have the chance of providing specific information on the subject area.

The municipality has already been clustered into ten divisions by the Land Valuation Division and with multi-stage random sampling; one community/suburb was selected from each division. Simple random sampling technique was then applied in selecting the respondents (property owners). The lottery method was further employed in selecting communities. Simple random sampling was again employed to select seven non-exempt property owners from each of the sampled communities/suburbs where questionnaire were administered to elicit information on their knowledge level on property rating and the quantum of rates they pay in the WM using the same lottery method.

In the case of Nadowli-Kaleo District, it was clustered into area councils and three councils were randomly selected. They included Kaleo, Nadowli, and Takpo. Out of this, one community each was randomly chosen from the selected area councils within the district and ten respondents selected for the administration of questionnaires.

The multi-stage sampling method was used for it ensures that, every community and non-exempt properties had equal chance of been selected.

The intuitive method for sample size determination was relied upon for the study. Due to the unavailability of statistics on the number of real properties in both administrative districts, the study could not apply any statistical method in determining the sample size. The study was inadvertently constrained by time and logistics to have counted all the real properties for the sample size determination in the wide study area. Thus the main respondents were non-exempt property owners in the selected neighborhoods of the two districts totaling 100 and sixteen (16) officials of the two study areas.

### **3.6 Data Collection Tools and Methods**

The data collection instruments/tools and methods that were employed for the study include the use of questionnaire, focus group discussion and key informant interviews. These tools were employed at various stages of the data collection process.

#### **3.6.1 Key Informant Interview**

It is a qualitative research method that involves the rigorous conduct of individual interviews with a small number of respondents to explore their perspectives on a particular area that they have knowledge or interest in (Boyce & Neale; 2006 cited in Akanbang, 2012). Patton (1990) stated that, interviews provide a way of collecting information on and finding out about things that the researcher cannot directly observe. Interviews are an important data collection technique for a case study since case studies are about human affairs. These human affairs should be reported and interpreted through the eyes of specific interviewees, and well-informed respondents can provide important insight into a situation (Yin 1994).

These interviews were conducted with Officers of the LVD, WMA and NKDA who are mandated to value and levy property rate and who have expert knowledge on property rating and levying. The information obtained from these interviewees included the human and logistic base of the agencies, the potential of property rates for local level development and the factors that hinder the execution of their mandate. A series of interview guides were developed and used during interactions with these officers.

### **3.6.2 Survey Method**

The survey method involves the use of a structured questionnaire to elicit responses from respondents (Ahiadeke, 2008 cited in Akanbang, 2012). The survey was done among rate payers or property owners, as the responsibility for paying property rates in WM and NKD falls on the property owner. Data gathered from them includes their knowledge level on property rating, the value of their properties and the quantum of rates they pay. Through the survey, both closed-ended and open-ended questions were administered through which information was elicited from the respondents.

### **3.6.3 Focus Group**

A focus group, as a research method, involved more than one participant per data collection session (Wilkinson 2004). As such, the focus group method is sometimes referred to as a focus group interview, a group interview, or a group depth interview. Wilkinson (2004) stated that a focus group at the simplest level is an informal discussion among a group of selected individuals about a particular topic.

Broadly speaking, focus groups are ‘collective conversations’, which can be small, or large (Kamberelis & Dimitriadis 2008). The group is focused because it involves collective activity (Kitzinger, 2005).

The rate collectors were grouped into five and interviewed on the quantum of rates they are authorized to mobilize and the practical issues that hinder the smooth collection of the rates. Data on the potential of property rates as balancing factor for WMA and NKDA budgetary allocation was elicited from the focus group.

Focus groups do not aim to reach consensus on the discussed issues. Rather, focus groups encourage a range of responses which provide a greater understanding of the attitudes, behavior, opinions or perceptions of participants on the research issues (Hennink, 2007).

It is perceived as a method which can generate complex information at low cost and with the minimum amount of time. It also can be used with a wide range of people and groups in different settings. It is for these merits that the method was adopted as part of the study.

### **3.7 Key Study Variables**

Kreuger and Neuman (2006) viewed a variable as a concept that varies- it thus entails that, a variable may take on two or more values. A variable is thus an empirical element which can take more than one value. Miller and Brewer (2003) have shown that variables help in moving a research from a conceptual to empirical levels, using the variables as key elements of the research problem. The value or the categories of a variable are its attributes. For the focus of this research, the study variables were:



- Property rates (coverage) of the two assemblies
- Capacity of the LVD and Assemblies (i.e. number of staff, qualification of staff, number and availability of transport and computers and monitoring and evaluation mechanisms) in executing their mandate
- The uses of property tax revenue in the municipality and district.
- The property rates and other internally generated funds and their potential for local governance finance

### **3.8 Data Processing**

Completed questionnaire were checked and edited on the field to ensure that all questions were responded to where appropriate. Where open ended questions are involved, the responses were categorized into similarities and coded for easy inputting into the SPSS software for analysis

### **3.9 Data Analysis and Presentation**

Analysis of the collected data was done with the use of both qualitative and quantitative techniques. Statistical package for social sciences (SPSS) and excel were used in the analysis of both quantitative and qualitative data. Qualitative responses in particular were categorized and coded for easy inputting and analysis. Results were presented in tables, figures among others in the case of the quantitative analysis. The qualitative analytical



technique however used descriptions and interpretation or explanations of respondents' views of the principal issues pertaining to the study.





## CHAPTER FOUR

### ANALYSIS AND PRESENTATION OF FINDINGS

#### 4.0 Introduction

This chapter presents the empirical analysis of the data collected. The analysis is based on data provided by the Municipal Valuation Division, Finance and Budget Officers, and Property Owners of both assemblies. The chapter is divided into three parts: property rating in Wa Municipality; property rating in NKD and comparative analysis of the two cases.

#### 4.1 Property Rating in the Wa Municipality

##### 4.1.1 Institutional Capacity

The parameters of institutional capacity in the scope of this study borders on the human resource, technology and logistics status of the Municipal Valuation Division and the Municipal Assembly that can facilitate the smooth execution of their mandate.

##### 4.1.2 Status of Valuation Personnel and Logistics Situation at Municipal Valuation Office

An efficient property rating system or regime anchors on the availability of technically trained personnel with the requisite knowledge on ratable value determination within every decentralized governance unit. Professional determination of such rates would be in consonance with the provisions of the local governance Act and readily accepted by all.



Available data at the Municipal Valuation Division revealed that about twelve thousand (12,000) real properties are found in the municipality. Out of which only about 30 percent of these real properties have been assessed in 1997 for rates imposition. And about 70 percent of the 12,000 real properties have never been assessed. Per the local government Act 462 of 1993, properties that have been valued should be revalued every five years'. Adherence to this provision has remained a mirage. Since the year 2000, no revaluation has been done. According to MVD;

*Since the first valuation in 1997 and subsequent supplementary valuations in 2000 and 2007 no revaluation has been done in the municipality. This is because the Division does not have the needed staff to do the valuations and revaluations, (personal communication with the Municipal Rating Officer, 08/2014).*

This complete violation of the Act is partly attributed to the lack of professional Raters in the Municipality and the Region at large. For rating valuation to be successful in the Municipality, the following staff is the need at the MVD:

- 1. Technical Officers, who have responsibility for referencing, sketching of building plans in the field and assessing the rateable values of the properties;*
- 2. Technical Assistants, who assist Technical Officers in the functions above;*
- 3. Valuation Assistants, mainly responsible for filing and indexing the records;*
- 4. Draughtsmen, who refine the sketches done by the Technical Officers, and*
- 5. Support staff eg: typists for typing the valuation roll.*

The shortage of such professional staff will directly affect the efficient administration of the property tax or rate.

Table 4.1 gives the current number of personnel available and required in the Municipal Valuation Office who are responsible for carrying out rating valuations for all the districts in the region.

**Table 4.1: Personnel Requirement for the Municipal Valuation Office**

Personnel required	Number available	Number required
Valuation officer	1	10
Technical officer	None	6-minimum
Technical assistant	None	5
Valuation assistant	None	6-minimum
Draughtsman	None	1
Typist/stenographer	1	1

**Source:** Field Survey, 2014.

As shown in Table 4.1, it is worthy to note that with the eleven administrative districts in the Upper West Region; only one rating officer is available to assess the values of properties for the whole region. The valuation division falls under the Ministry of Land and Natural Resources and not under the Ministry of Local Government and Rural Development which therefore suggests that any service rendered is on contract bases with the Municipal Assembly and other districts across the region. To this effect, the municipal rating officer has since been contracted by the Municipal Assembly to value properties within her jurisdiction for the purposes of taxation.



It is obvious from the above statistics that, the rating units in the municipality is grossly understaffed and thus affecting the execution of its mandate.

**Table 4.2: Logistics for Property Rating**

Logistics	Quantity Available	Quantity Required
Vehicles	Nil	One
Motorbikes	Nil	One
Computers	One	Two
Property records sheets	50 packets	100 packets
Field note book	Adequate	
Valuation list	Excess	

**Source:** Field Survey, 2014.

The Municipal Valuation Office lacks logistics such as vehicles, motor cycles, and computer and its accessories and property record sheets but have enough field note books and excess valuation list materials as shown in Table 4.2. The only car is given to the regional Land Valuation Division of the Lands Commission, but, the regional valuation officer is only responsible for valuing properties for compensation purposes by the central government. These revelations in the municipal valuation division of the lands commission validate similar findings by Petio (2013) in Upper East Region. His study revealed that, the two Municipalities in the Upper East Region are bedeviled with inadequate technical personnel and logistics for the Land Valuation Division (LVD).

Ideally, the Wa Municipal office of the Land Valuation Division should have had at least a vehicle or even a motorbike that could facilitate its work, however, the division lacks these facilities. Their work is always truncated by the lack of these critical logistics. A



critical look at the human resource and logistics situation of the Wa Municipal Land Valuation Division suggests that the capacity of the division to effectively and efficiently discharge its mandate can best be described as very low and appalling.

#### **4.1.2 Institutional Challenge**

##### **4.1.2.1 Lack of Commitment by the Municipal Assembly**

Aside the acute shortage of professional or technical personnel, the rating office and assemblies are bedeviled with other challenges. The study revealed that, the Municipal Assembly and other districts in particular do not show any level of commitment with regards to the provision of the necessary funding for rating valuations. A municipal valuation official remarked:

*I have requested the Municipal Assembly to make available some funding so that I can organize rating officers from sister regions to help value properties that are not assessed since the year 2000 and to also revalue the already valued ones but no answer to the budget. The revaluation has not been executed as a result of their lack of commitment towards decisions arrived at. Since the assembly has not provided the needed funds, our office cannot carry out the revaluations. However, in order to widen the range of coverage, a private company by name Indemnity Ghana Limited has been contracted by the Municipal Assembly this year to handle*



*the un-assessed real properties in the municipality for taxation.*

*(Personal communication with an official of MVD, 08/2014).*

Following from the study, it presupposes that until the assembly is willing to deliver on her part of the budget, properties built after the year 2000 cannot attract any rate or tax in accordance with Local Government Act. This will continue to hinder the smooth estimation of rates imposed by the Municipal Assembly and invariably debilitate against the potential of the property tax. It is worthy to state that, Valuation Offices do not charge the assemblies for the valuation rolls prepared, but considered that the District Assemblies and central government should provide funding to cater for expenses such as fuel, stationery, and lunch for the rating personnel during valuations or revaluations. The Valuation Officers were unable to publish the valuation lists regularly due to lack of funding for these expenses, but staff mentioned that they usually undertake supplementary valuations. Meanwhile, as provided for by Act 462, revaluation in the various districts needs to be undertaken every five years by the Valuation Offices.

#### **4.1.2.2 Incomprehensive data base on Properties in the Municipality**

The study revealed that, the Wa Municipal Assembly, still depend on the database that was gotten through the rating valuation conducted in 1997 for the rate impost determination and collection by the assembly. The 2000 and 2010 Population and Housing Census reports indicated that the total number of real properties (houses) in Wa Municipality stood at 20,646 and 20,016 respectively. The figure for the 2000 census year



is greater than the 2010 figure because Wa East and Wa West Districts were part of the present Wa Municipality. On the Contrary, at the time of the study, the Municipal Rating Officer did indicate that real properties in the Municipality were about twelve thousand (12,000). Though the housing sector in the Municipality has tremendously grown, the un-assessed properties have been over seventy percent on which rates are not levied. It has therefore limited the Budget Officers in estimating the right streams of revenue inflows from property rates and that invariably hampers revenue collection opportunity of the assembly.

#### **4.1.2.3 Lack of Cooperation from Property Owners**

Lack of cooperation from property owners is yet another challenge hampering the effectiveness of property rating in the region. The study revealed that most of the property owners in the Municipality have resisted the payment of property taxes. As remarked by the Municipal Valuation Division,

*“At the time of the rating valuation, some property owners refused to give the right disclosure on their properties and some even denied owning those properties in order to evade tax. It only became serious when the valuation list were published with care takers names appearing as owners of some properties, then, the supposed rightful owners began demanding for changes in names of ownerships. However, a committee was set-up in accordance*

*with the provision of the Act and those issues of identity clash were resolved”. (An official of the MVD, 2014).*

Inferring from the above statement, it is clear that property owners did not only refuse to give a full disclosure in order to evade tax, but they seem to be ignorant about the importance of rating valuation. Any delay and silence on their part would have meant that, the care takers automatically become the rightful owners of such properties. In the Wa Municipality, the un-assessed properties are outsourced to a private company called Indemnity Limited to value and levy rates on them. Accordingly, the personnel deployed to distribute the demand notices were faced with strong resistance from owners of the said properties. As stated by a property tax demand notice issuer:

*“We were not allowed entry into some of the premises for us to assess the rightful rates to levy on them even after we have clearly identified ourselves”. Some even rejected the demand notices served on them by throwing them back to us with serious threats on the grounds that, the assembly does not have the right to collect property rates from them. (Tax Collector, 2014)*

Apparently, property owners are oblivious about the powers vested in the Municipal Assembly to collect property rates within her jurisdiction for the very development communities are craving for. Ignorance among most of the inhabitants regarding property rates made them to question why they should pay rates on houses they toiled to build. But that could possibly stem from the backdrop that, they are not sensitized or educated on the importance of real property valuation and its contribution to community development.







#### 4.1.2 Political Interference

Effective enforcement of the law against defaulters is a very imperative attribute of any efficient tax administration system. The Local Government Act 462 of 1993 has provided the Assemblies enough powers to institute punitive measures against defaulters. Section 101 (2) of the Local Government Act states that, “if any person fails to pay any rate for which he is liable or before the date on which it is payable, the District Assembly concerned may recover it as a civil debt together with costs or may prosecute the defaulting ratepayer for willful default to pay the rate together with appropriate penalties”. This legal backing given the assemblies has not seen the light of the day for many decades. According to the study, any time the assembly wanted to collect the rates according to the rules, a political tag or colour was given to it and as no administration wants to incur the wrath of the electorate, the workers at the assemblies were often forced to relax in their efforts to levy rates. The rates non-compliance level situation in the Wa Municipality confirms the position of McCluskey et al, (2003); Lall and Deichmann, (2006), when they espoused that, there has been lack of enforcement against non-compliance partly because of political or bureaucratic interference, which undermines the efficiency of the tax collection system and enforcement against non-compliance. As to whether the assembly has been able to prosecute defaulters of property rates, the study revealed;

*The inability to prosecute defaulters because any time an attempt is made; politicians intervene by stopping the assembly from*

*enforcing the Act to the latter. The assembly therefore becomes reluctant at enforcing decisions, (An official of the WMA, 2014).*

This kind of political blockage could stifle the assembly efforts at mobilizing property rates in the municipality for development and explains why revenue from rates is low.

#### **4.1.3 Potential of Property Rates for Local Governance Finance**

Property rates forms one of the major sources of internal revenue for the Municipal Assembly in particular. The study indicated that, the Assembly is mandated by law for property owners to pay property rates to the assembly. To this end, revenue generated through property rates are used judiciously to finance development projects such as construction of market sheds, improvement in sanitation, providing public places of convenience, and building of schools as stated by an interviewee. This is in relation to the postulation by McCluskey and Bevc, (2007) that property tax possesses the potential of impacting positively on the fiscal autonomy of local authorities. Again, given the large property base in the Municipality, levying and collection of taxes on them can serve as a dependable source of revenue for local governance finance when well harnessed. Real properties are location specific hence very easy to administer thus buttressing Bird and Slack, (2002) position that, property rate is one of the best local taxes owing to the immovability of the tax base.

**Table 4.3: Annual Estimates and Actual (Revenue) To the Municipal Assembly**

Year	Total Revenue	GoG	Donor/NGO	IGF	Property Rates
------	---------------	-----	-----------	-----	----------------



2008	Total estimate	2,797,210.8	1,223,184.55	398,081.31	168,209.8	20,240.00
	Actual	2,499,270.47	1,522,747.67	785,252.45	191,270.5	17913.58
	% share	89.35	124.49	97.26	113.71	88.51
2009	Total estimate	5,095,450.68	3,320,804.35	1,632,210.6	212,412.6	20,000.04
	Actual	2,225,631.88	1,138,962.51	876,590.39	210,078.8	508.94
	% share	43.68	34.30	53.71	98.90	2.54
2010	Total estimate	20,935,613.0	1,784,6000.0	630,000.00	272,030.0	50000.00
	Actual	4,321,630.69	1,126,507.36	7,582.00	274,309.5	76101.59
	% share	20.64	6.31	1.2	100.84	152.2
2011	Total estimate	4,896,771.24	904,000	10,000	324,799	80,000



Actual	3,259,309.2	245,911.23	NILL	252,262.9	64,203.35
% share	66.56	27.2	NILL	77.67	80.25
Total estimate	3,953,272.59	2,303,946.36	1,282,407.3	366,919	80,000
2012					
Actual	4,668,370.6	3,051,620.14	1,288,326.9	328,423.7	81,304.27
% share	118.09	132.45	100.46	89.51	101.63

**Source:** Field Survey, 2014: *Note: all values are in Ghana cedis and %share represents the actual performance compared to the estimates.*

Available data from the Municipal Assembly as shown in Table 4.3 suggest that, inflows from central government, Donors/ Development Partners as well as their own IGF have exceeded the estimates in terms of actuals in the year 2008. But property rates component of the IGF which is the focus of study fell below its' estimates as in actuals for the same fiscal year. The excess over the estimates could be attributed to the electioneering year or season where central government pushes in the estimated budgetary allocations to accomplish a political agenda not differently from the development partners. The data indicated that actuals against estimates however fell sharply in the year 2009. Central government transfers and property rates component of the assembly IGF were the most affected. The actuals in terms of percentages with respect to GoG constituted 34.3 percent

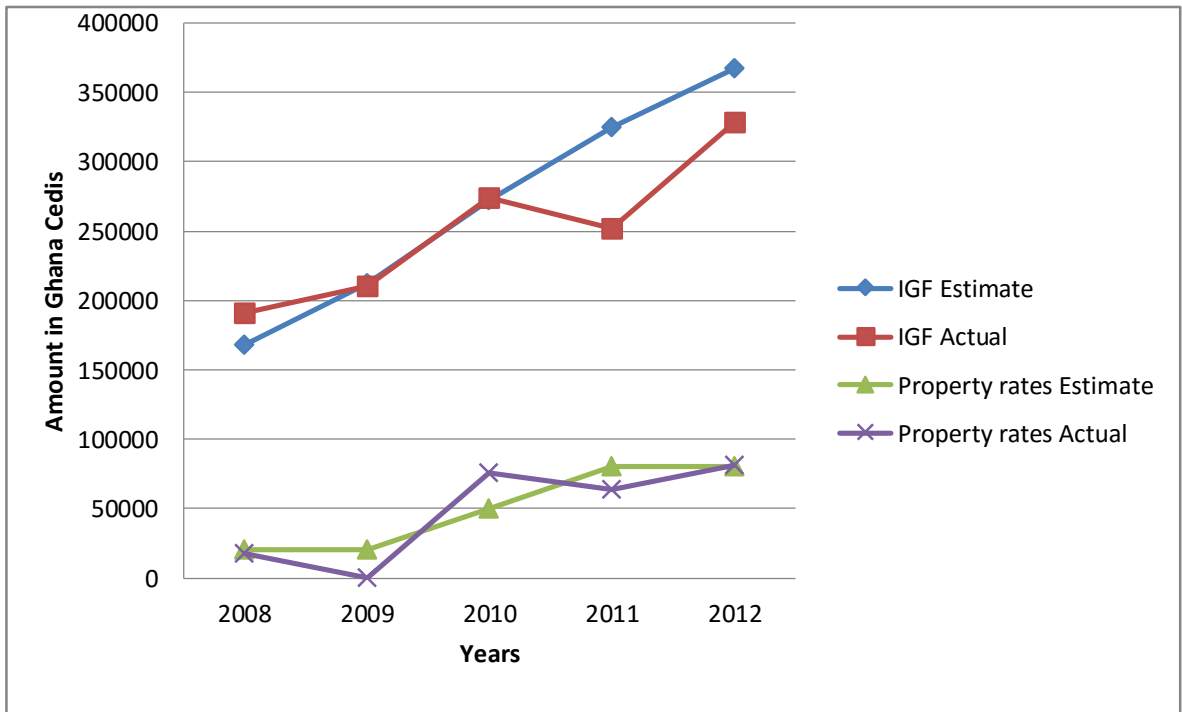
and property rates percentage was 2.5 percent as compared to 53.7 percent for Donor support and 98.9 percent for IGF though property rates component was part of the IGF.

For the 2010 fiscal year as the data indicates, central government transfers went further down to about 6.3 percent. Precarious was the drop in Donor Support from 53.7 percent to 1.2 percent. However, IGF and Property rates exceeded the estimates for the same fiscal year. However, this could not offset the declines in the two major revenue streams. As the data depicts, there was no inflows from Donors or development partners for the 2011 fiscal year. There was however a little improvement in central government transfers to the assembly as compared to the previous year. Unexpectedly, there was a decline in IGF and Property Rates following an over 100 percent in revenue collected in the preceding year. Further probing as to the cause of the sharp decline revealed that the assembly was often discouraged by the public non-compliance attitude especially on the payment of property rates. The study further revealed that because of the verbal attacks and criticisms that are always meted out to the tax collectors, they no longer have the penchant to move from property to property to collect the rates. By that, Property Owners are always reminded to come to the assembly to pay their rates after the demand notices are issued and served on them. These could in part explain the decline in IGF for that fiscal year.

In 2012, except IGF all the other streams of inflows exceeded their estimates. Comparing the estimates and actuals for 2008 and 2012 fiscal years, it is clear that the actuals have always exceeded the estimates except for property rates that recorded 88.5 percent in 2008. This could be attributed to the electioneering years where central government



probably tried to meet her part for some political agenda. The same could be said about the development partners who have over the two years fulfilled their part of the estimates in the WM in every election year. The unreliable inflows from central government though statutory in nature, and the complete zero record of inflows from development partners to the Wa Municipal Assembly in 2011 gives a clear signal that, local authorities must improve upon their internal revenue collection so that it can serve as a counterbalance to these unreliable sources. One of such internal sources is property rates which is the focus of the study.



**Figure 3: Relationship between Total IGF and Property Rates of WMA**

**Source:** Computed from data provided by WMA, 2014

From the graph, any time the targets of property rates were met, total IGF exceeded its estimates. In 2009, a sharp decline in property rates resulted in a minimal growth in total IGF. But when property rates exceeded the estimates in 2010, total IGF realized was equal to the total estimates for that fiscal year. A decline in property rates for 2011 fiscal year significantly caused a sharp decline in total IGF realized. Equilibrium in total property rates estimate and actuals resulted in almost equilibrium in total estimates and actuals of IGF. It is most likely that property rates would have a great influence on the IGF status of the Wa Municipal Assembly. From the line graph, it is worth noting that any achievement in revenue target of property rates, total IGF is at equilibrium in terms of estimates and actuals for some fiscal years. It can be concluded that, property rates could have a potential of securing an appreciable financial status for the municipal assembly if the compliance level increases with time.

The study revealed that, property rates compliance level in the Municipality is always below 10 percent of all assessed properties for a decade running. If less than 10 percent compliance rate can therefore have such a great influence on the Assembly's IGF as suggested by the graph above, it means that if this source is well explored such that 50 percent compliance level can be reached, then, there will be substantial inflows into the IGF. Reaching about 90 percent liability compliance level has the potential of propelling the Assembly's to attain a sound financial status not neglecting the other sources of IGF. Concerted effort is required of all stakeholders in order to harness the property rates potential in the municipality for local level development.

From Table 4.3 and Figure 4.1, it is evident that, amidst periods of short falls from central Government transfers and Development partners supports, property rates if properly harnessed can serve as a major and a reliable source of IGF for the local governance finance in general and the Wa Municipal assembly in particular. Property rates could be a potential source for the Municipal Assembly because, with just less than 10 percent compliance level, property rates have a relatively great influence on total actual of the assembly’s IGF. Therefore, if the assembly is able to put in effective measures especially enforcing the provisions of the Act, compliance rate can rise up above the current level and that will enhance property rates potential for local governance finance in the Municipality.

#### 4.1.4 Public perception on property rates and rates compliance

**Table 4.4: Relationship between the Perceptions of Property Owners on Property Rates and Their Compliance Level in WM**

Should property rates be paid?		Do you pay property rates?		
		Yes	No	Total
Yes	Frequency	27	19	46
	Row Percentage	58.7	41.3	100
	Column Percentage	93.1	51.3	69.7
No	Frequency	2	18	20
	Row Percentage	10	90	100
	Column Percentage	6.9	48.6	30.3
Total	Frequency	29	37	66
	Row Percentage	43.9	56.1	100

**Source:** Field Survey, 2014. Person Chi-square =13.4, P-value = 0.000





From Table 4.4, forty-six (46) real property owners indicated their support for the payment of property rates while twenty (20) believed that, property rates should not be paid. Out of the forty-six property owners who answered in the affirmative with regards to property rate payment, only 58.7 percent did indicate that they have ever paid property rates in the Wa Municipality. Meanwhile 41.3 percent of them who endorsed the payment of property rates have never paid their rates liabilities in the WM. For the property owners who indicated that they pay property rates, 93.1 percent of them are those who think that property rates should be paid. Again, about 90 percent of the property owners who opposed the payment of property rates indeed did not pay their rates. It would thus be appropriate for future investigations to be conducted in order to unravel why some 90 percent absolutely refused to pay their property rates liabilities and the factors that motivated 6.9 percent of property owners who thought property rates should not be paid and yet they paid their rates in the Wa Municipality. Table 4.4 further shows a statistically significant association between respondents' willingness to pay property rates and their actual rates liability compliance level. A chi-square test of 13.4 with its corresponding probability value of 0.000 suggests that property owners who perceived that property rates should not be paid would truly not pay their rates liabilities in the Municipality. Also, it shows a strong association that, property owners who consent to the payment of property rates will really pay any rates liability they deserve to pay.

In effect, only 43.9 percent did indicate that they have ever paid property rates in the Wa Municipality. Also, as indicated in Table 4.4, 56.1 percent of the respondents who agreed that property owners should pay property rate have never paid their property rates. As

espoused by McCluskey et al (2003), a very high incidence of non-compliance will make the property tax less buoyant. This appears to be the case in WM. A non-compliance rate of 56.1 percent suggested by the data is extremely high.

A personal communication with officials of the Municipal Valuation Division and the Municipal Assembly came to light that less than 10 percent of property owners do set-off their property tax liabilities. However, data gathered from property owners showed that 43.9 percent of property owners in the Municipality do pay their rates. Though 43.9 percent of the property owners surveyed indicated that they have once or continually honoured their property tax liability, most of them could not produce their receipts to ascertain the reality neither were they able to vividly recall the right tax liability they paid. For the majority who thought property rates should be paid, cumulatively, a higher percent did not pay their rates. It is therefore clear that property owners have deliberately refused to pay, not that they are oblivious of their duty to pay their rates liabilities.

#### **4.1.4.1 Factors Affecting Property Rates Compliance**

A sufficient knowledge on a particular subject could partly provide the foundation for readily acceptance and easy administration regime. Adequate knowledge on the subject of property rating by property owners and the public is most likely to inform bearers of the property tax liabilities to readily comply with the Wa Municipal Assembly. It is most probable that one's level of formal education can influence his or her level of property rates compliance.

**Table 4.5: Education Level and Property Rate Compliance Level in WM**

Level of Education	Do you pay property rate?					
	Yes		No		Total	
		%		%		%
Tertiary	12	66.7	6	33.3	18	27.3
Secondary	6	28.6	15	71.4	21	31.8
Basic	5	55.6	4	44.4	9	13.6
No Formal Education	6	33.3	12	66.7	18	27.3
Total	29	43.9	37	56.1	66	100.0

**Source:** Field Survey, 2014. Person Chi-square =7.10, P-value = 0.069, Note \* indicates column percentage

From the Table 4.5, most respondents with tertiary education indicated that, they did pay their property rates. Majority of respondents with secondary education and those with no formal education did not pay their property rates. It is surprising to note that some respondents with no formal education have ever paid their rate liabilities and yet a good number with secondary education never paid their property rate obligation. However, the Table shows a statistically significant association between respondents' educational level and rates liability compliance level (Chi-square 7.10, P-value 0.069).

The chi-square test of 7.10 with the corresponding probability value of 0.06 suggests that property owners with appreciable level of literacy or formal education are likely to accept any property rates liabilities that are served on them. That is, there is strong and significant statistical association between one's level of education and the likely rate of compliance. When every real property owner has formal education the chance that they




will be willing to pay property rates is high. And when compliance level is high, enough revenue can be roped-in by the assembly for her development needs.

#### 4.1.4.2 Public Perception on Civil Criminality for Property Rates Non-Compliance

In response to a question as to whether property owners have ever witnessed the prosecution of property rates defaulters in WM or heard about it, about 98.6 percent of them said they were not aware of any person or persons being prosecuted for property tax evasion as shown in Table 4.6

**Table 4.6: Awareness of Persons Prosecuted For Property Rates Default in WM**



Are you aware of any person(s) who has/have been prosecuted for non-payment of Property rates?		
	<i>F</i>	%
Yes	1	1.4
No	69	98.6
Total	70	100

**Source:** Field Survey, 2014.

The 98.6 percent of property owners who have never heard of or seen any rate defaulter been prosecuted could motivate them not to comply resulting in the low compliance rate in the Municipality.

**Table 4.7: Education Level and Knowledge on Criminal Offence for Property Rates**

**Non- Compliance**

Level of Education	Do you know that it is a criminal offence to evade property rates?					
	Yes		No		Total	
		%		%		%
Tertiary	16	80.0	4	20.0	20	28.6
Secondary	12	28.6	9	42.9	21	30.0
Basic	4	40.0	6	60.0	10	14.3
No Formal Education	7	36.8	12	63.2	19	27.1
Total	39	55.7	31	44.3	70	100.0

**Source:** Field Survey, 2014. Note \* indicates column percentage

As to whether they knew it was a prosecutable offence for property owners to evade property rates as shown in Table 4.7, about 55.7 percent of the respondents said it was a criminal offence for any property owner to evade property rates or tax. Out of this, seven had no formal education at all and yet they knew it was a prosecutable offence for non-compliance in terms of property rates payment. Also, about 44.3 percent of the respondents however indicated they were not aware that it was a prosecutable offence for property tax evasion. It is most likely that the 44.3 percent non-awareness of prosecutable offences among property owners serves as inertia to their non-compliance in the WM because no one has ever been prosecuted for rates liability evasions. It is therefore evident that, enforcement of the law against rates defaulters is ineffective because, had it been



enforced, the compliance rate would have been higher than the current 10 percent rate recorded by the Municipal Assembly.

**Table 4.8: Relationship between Knowledge on Criminal Offences and Property Rates Compliance Level in WM**

		Do you know that it is a criminal offence for property rates non-payment?	
		Yes	No
Do you pay property rates?	Yes	Frequency 22	7
		Row % 75.9	24.1
No	Frequency	15	22
	Row %	40.5	59.5
Total	Frequency	37	29
	Row%	56.1	43.9

**Source:** Field Survey, 2014.

For the twenty-nine (29) property owners who said they have ever paid property rates, about 75.9 percent of them were aware that it is a criminal offence for any property owner to evade the rate and about 24.1 percent paid though they did not know that it was a prosecutable offence to evade the tax. Unexpectedly, about 40.5 percent of the property owners who knew it is a prosecutable offence to evade the payment of property rates have never paid their rates in the Municipality. Also, about 59.5 percent of the respondents who indicated that they were not aware of such prosecutable offences did indeed failed to honour their rates liabilities. It can therefore be concluded that, the inability of the Municipal assembly to enforce the Local Government Act against rates defaulters serves as a conduit to property owners to violate the provision of the Act with gross impunity in



the Wa Municipal. Suffice it to note that, property owners in WM relatively had fair knowledge that it is a prosecutable offence to evade property tax. This knowledge level should have made them to comply with their rates liability but that was not the situation in the Municipality as evidenced by the low compliance rate. It is therefore curious for further research to be conducted in order to understand why property owners upon being aware of the criminal aspect, yet they didn't fulfill their tax obligations.

#### **4.1.4.3 Public Perception on the Justification for Property Rates Payment**

One basic principle governing the practice of property rating across the globe is benefit-pay and equity principle. As espoused by Goode (1984), Musgrave and Musgrave (1984), and AFRODAD (2011), there is no choice for the rate payer and there is sometimes no relationship between the amount paid and the form of benefit received. Underlined here is the fact that revenue collection should be based on principles of benefit-pay, economic efficiency, administrative convenience and equity. As the benefit-pay (user pay) principle argues, taxes should be apportioned in relation to the benefits received from publicly provided goods and services. Thus, for real property owners to have the courage to honour their rates obligations, the necessary or basic facilities and services should be provided by the Assembly especially those that are within their mandate and means for the communities.

**Table 4.9: Justification for the Imposition and Collection of Property Rates in WM**

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Do you think the assembly has any justification for the collection of property rates?	
<i>F</i>	%

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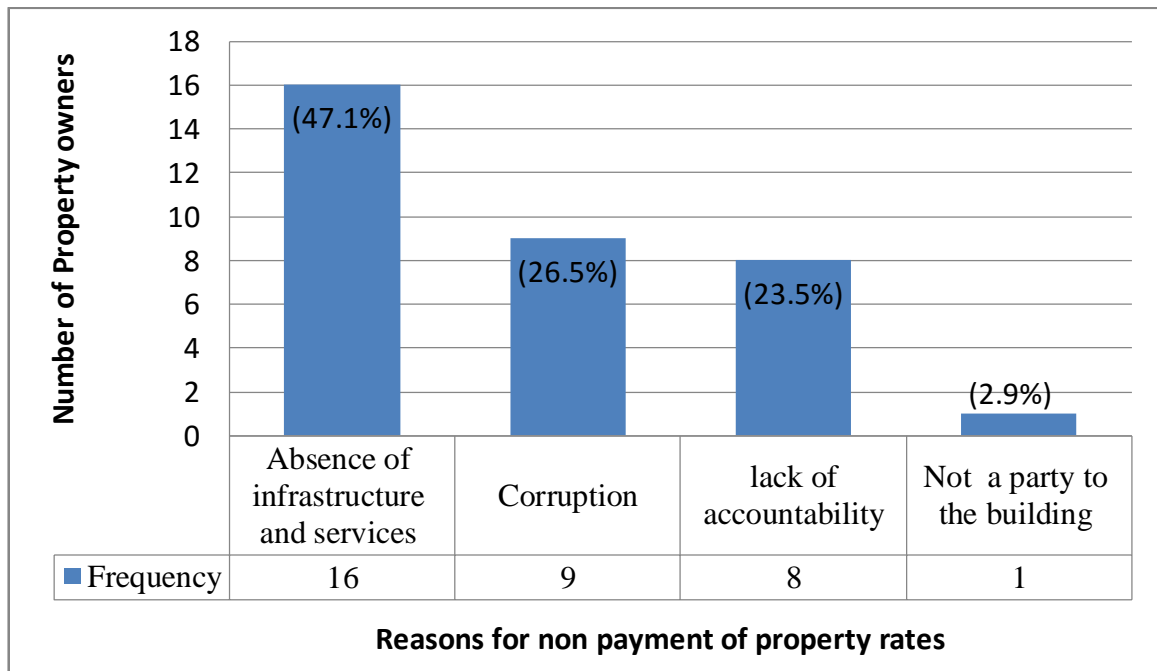
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Yes	38	54.3
No	32	45.7
Total	70	100

**Source:** Field Survey, 2014.

As indicated in Table 4.9; about 54.3 percent of property owners had no objections to the imposition and collection of property rate in WM while about 45.7 percent thought it is not justifiable. Although, the proportion of property owners supporting the property tax is higher than those with disdain for it, the 45.7 percent of the property owners who objected to the imposition of the tax is fairly high, which may partly elucidate the lack of buoyancy of property rate revenue in WM.



**Figure 4: Reasons against the Imposition and Collection of Property Rates in WM**

**Source:** Field Survey, 2014





As shown in Figure 4, respondents who disagreed with the collection of property rate cited various reasons in support of their position. About 47.1 percent indicated the absence of basic infrastructure and services in WM. About 26.5 percent of them also disagreed on the grounds that property rate revenue are misused (corruption) by officials while 23.5 percent of the respondents believed that rates collected are often not accounted for by the WMA and thus, giving little justification for the property rate payments. About 2.9 percent of the respondents asserted that, the real properties are equities of their sweat and not the Assembly hence, no need for them to pay property rates to the WMA.

Similarly, evidence from Boamah (2013) in a study on the Offinso South Municipality (OSMA) corroborates the findings of this study. His study indicated that, about 58 percent of property owners agreed with the imposition of property rate in OSMA and 42 percent disagreed. And that about 61.7 percent of respondents who dislike the property rate cited the misuse of property rate revenue and the absence of basic infrastructure and services, giving little justification for the property rate. The remaining 38.3 percent of respondents disliking the property tax mentioned socio-cultural reasons such as indigenous land rights as the reason which however did not feature in the findings in WM.

Therefore, the respondents who are dissatisfied are more likely not to pay future property rate liabilities and also have the tendency to discourage others from property rate payments in WM. For the 54.3 percent who agreed that there is every justification for the imposition of property rates mainly indicated that revenue generated through property

rates is channel into developmental projects as in schools, access roads, provision of safe drinking water and KVIP in the Wa Municipality for the benefit of all. This shows that tax payers' who are satisfied with the imposition and utilization of property rates in WM are likely to honour future property rate demands and also encourage other property owners to pay.

#### **4.2.0 Property Rating in Nadowli-Kaleo District**

The practice of property rating in Nadowli-Kaleo District cannot be different from the standard practices pertaining to other districts. From the study, it came to light that real properties have never been valued in the district yet rates are levied on them yearly by the Assembly but not collected. This situation the study revealed is attributed to the incidence of poverty in the district. The study however revealed a recent move to contract the Wa Municipal Rating Officer to value real properties for the purposes of taxation in the district. Aside from the incidence of poverty, the non-valuation and mobilization of property rates in the district presupposes that, there is/are some deficiencies somewhere along the practices of property rating valuation. It is therefore prudent to investigate into the assembly's capacity as an institution in order to ascertain the bare facts on the availability and requirement or otherwise of human resources and logistics regarding property rating and rates collection in the district.

##### **4.2.1 Institutional Capacity**

The sources of IGF to the Nadowli-Kaleo District Assembly include but not limited to rates, lands, fines and investment. Property rates in particular, cannot be collected if the

individual rateable value is not determined by a professional rating valuation officer. It thus requires of every Assembly to have a unit or department responsible for conducting rating valuation. From the study, it was revealed that Nadowli-Kaleo District Assembly has no rating valuation unit in its set-up. The responsibility therefore rest with the Budget Analyst of the Assembly. Rates are arbitrarily fixed by the budget unit and passed into force through a fee fixing resolution of an Assembly session. Table 4.11 shows rates fixed by the assembly for 2013 and 2014 fiscal years.

**Table 4.11: Fees Fixed On Real Properties by Nadowli-Kaleo District Assembly**

	2013	2014
Nature of property	GHC	GHC
Land crate: compound/semi	5.00/4.00/2.00	5.00/5.00/3.00
compound/single		
Block: compound/semi	10.00/8.00/6.00	20.00/15.00/10.00
compound/single		
Story building-one/two/three stories	15.00/30.00/40.00	30.00/40.00/50.00
Commercial	100.00	120.00

**Source:** Nadowli-Kaleo District Assembly

As it has become a duty for the budget unit to determine property rates, its collection or mobilization rest on the finance unit of the assembly. The study indicated that, except for the efforts of the Nadowli District Students Union (NADSU) at mobilizing property rates in 2009, no property rates have been mobilized by the assembly. To this the municipal rating officer has confirmed except that, the budget he presented was yet to be approved



by the assembly. Since there is no rating valuation unit in the district, the status of logistics and other equipment could not be ascertained.

In effect, the assembly is grossly incapacitated to conduct property rating valuation in the district. It has neither rating officer nor a technical officer to assist in that regard. The assembly has therefore continued to violate the provision of the Act by setting rates arbitrarily instead of differential rates which are even hardly collected.

#### **4.2.2 Institutional Challenges**

The inability of the district to conduct property rating valuation and to even mobilise them was attributed to a number of challenges. This ranged from non-availability of professional personnel, inadequate or better still lack of funds and apathy among residents regarding the payment of taxes. Proceeding section delved into some of these challenges gathered from the study.

##### **4.2.2.1 Lack of Professional Personnel**

The District Assembly as an institution should have had a rating unit in its set up. Sadly however, the Nadowli-Kaleo District Assembly had no technical person in charge of rating valuations. For the lack of rating valuation unit in the Nadowli-Kaleo District Assembly, challenges as unearthed in the Wa Municipality could not be unraveled. The finance office of the assembly indicated that rates were supposed to have been collected by staff of the various area councils in the district. As the officer remarked;



*We have rate collectors but they do not collect it because of the poverty level among the inhabitants. If we want to be strict, it will put so much hardship on them which we would not want to happen. But not too far from now when the rating valuations are done by the Municipal Rating Officer, we will collect property rates. It is time for the assembly to crack the whip since inflows from development partners and central government is not regular, (personal communication with finance officer, 08/2014).*

Inferring from the officers statement, though they do not have rating units, the rate collectors are readily available and willing to mobilise the rates when the assembly permits them to do so. An interview with one of the area councils officers confirmed the assertion that property rates are not collected in their electoral area.

#### **4.2.2.2 Inadequate Funding**

Following the absence of a rating valuation unit in the assembly, attempt has been made in recent times to contract the Wa Municipal rating officer to value real properties across the district. As he remarked:

*A budget has been submitted by the rating officer but that is yet to be honoured by the assembly for almost a year now and hence our inability to assess the values of real properties in the district. As long as we are unable to contract his services, the assembly will continue to set-up arbitrary flat rates for the various property*

*categories, (personal communication with Budget Analyst, 08/2014).*

The expression by the officer is an evident that the assembly is seriously challenged in terms of funds with their rippling effects on efforts aimed at improving upon IGF. The use of flat rates even violates the provision of the Act. Not much revenue could be generated since some properties stand the chance of being under-valued and taxed. Again, property owners who might feel to have been over-valued would not willingly comply and that could reduce inflows from the property rates.

#### **4.2.3 Potential of Property Rates for Local Governance Finances in NKD**

Nadowli/Kaleo district is one of the districts with growing towns and by that; a number of quality housing is quickly springing up across it. That therefore presents an opportunity for the imposition of property rates which can be a reliable source for revenue generation.

As remarked by one of the officers:

*Regardless of the incidence of poverty in the district, when properties are valued, their owners will pay the rates because they are mandated by the local government Act, Act 463 of 1993. Poverty was not an excuse when the Act was enacted but the assembly is only showing her human face towards real property owners. The assembly now wants to step up efforts to improve upon internal revenue mobilization. To this end, the assembly is contracting the municipal rating officer to assess the values of real*



*properties within some selected towns or communities in the district for taxation purposes. When this is done, the property tax or rate will be one of the reliable revenue sources for the assembly,(personal communication with Budget Analyst, 2014).*

Deducing from the officers statement, it is apt to conclude that indeed the property tax when well-developed will remain a dependable source for the Nadowli/Kaleo District Assembly. It was not for nothing that the Local Government Act gave such powers to the assemblies to levy such taxes. Enforcement of the Act is what is needed at this time. Community needs are increasing day by day and they should contribute in part toward their desired developmental needs. With the current status quo, property rates have minimal potential for local government finance since property rates were only collected in 2009 by a students' union and since then property rates have not been mobilized. They did not even have any records on property rates been paid unlike Wa Municipal Assembly where data on property rates payment were available for the researcher to ascertain rates potential. In the midst of these reasons property rates cannot be a potential source for local governance finance in NKD. However, property rates can only be a potential source for local government finance if the programs and plans tabled by the Assembly as revealed by the study are implemented to the latter even in the face of the poverty situation of the district

#### **4.2.4 Public Perception on Property Rating and Rates in NKD**

As the study sought to assess the knowledge level of property owners on rating valuation regime in the district, the following parameters were looked at. Their consent or



otherwise on the payment of property rates, their compliance level, their knowledge on the criminal aspect for non-compliance and reasons for or against the payment of property rates to the assembly. The preceding sections therefore present such measure of the public perception on property rating in NKD.

**Table 4.11: Relationship between the Perception of Property Owners on Property Rates and Their Compliance Level in NKD**

Should property rates be paid?		Do you pay property rates?		
		Yes	No	Total
Yes	Frequency	5	11	16
	Row Percentage	31.5	68.8	100
No	Frequency	0	12	12
	Row Percentage	0	100	100
Total	Frequency	5	23	28
	Row Percentage	17.9	82.1	100

**Source:** Field Survey, 2014. **Person Chi-square** =4.91, P-value = 0.086

For property owners who agreed that property rates should be paid, just about 31.5 percent did pay their rates liabilities in the Nadowli/Kaleo District and about 68.8 percent have never paid their rates upon agreeing in principle that property rates should be paid. Since the assembly indicated that they do not collect property rates, the 31.5 percent that said they have ever paid their rates might have been the only period the Students' Union embarked on the exercise in the District. However, the high percentage that thought property rates should be paid but did not pay is an indication of public disdain for the tax. Again, in Table 4.12, 100 percent of the respondents who opposed to the payment of





property rates did not really pay and they could discourage their colleagues from paying thereby rendering the property tax less resilient in NKD. The chi-square value of 4.91 with its corresponding probability value of 0.086 provides a statistically significant relationship between property owners agreeing to pay their property tax liabilities and actually paying their property rates in the district.

Adequate knowledge on the practices and significance of property rating among property owners could propel them to accept and fulfill their property tax obligations in the NKD. This assertion has been revealed and analysed in the proceeding discussions as shown in Table 4.13

**Table 4.13: Education Level and Public Perception on the Payment of Property Rates in NKD**

Level of Education	Should Property rates be paid?			Total
	Yes	No	I don't know	
	<i>f</i>	<i>F</i>	<i>f</i>	<i>f</i>
Tertiary	10	1	0	11
Secondary	5	5	0	10
Basic	1	3	0	4
No formal Education	0	3	1	4
Total	16	12	1	29

**Source:** Field Survey, 2014.



From the study, sixteen respondents indicated their willingness to pay property rates while twelve respondents opposed to the payment of property rates in the Nadowli-Kaleo District.

It is therefore likely that property owners with some level of formal education will accept the imposition of property rates in NKD but as to whether they will readily pay is another strand to look into.

**Table 4.12: Education Level and Property Rate Compliance in NKD**

Level of Education	Do you pay property rate?				Total
	Yes		No		
	<i>f</i>	%	<i>f</i>	%	
Tertiary	3	30	7	70	10
Secondary	2	20	7	80	9
Basic	0	0	5	100	5
No Formal Education	0	0	4	100	4
Total	5	17.9	23	82.1	28

**Source:** Field Survey, 2014. Note \* indicates column percentage

Surprisingly however, out of the sixteen respondents who approved the payment of property rates, just about 17.9 percent did indicate that they have ever paid real property rates in the Nadowli-Kaleo District. The remaining 82.1 percent have never paid property rates in the district. No demand notices have ever been served on property owners as it is a normal practice. For the non-existence of property rating unit in the assembly, real



properties have never been valued in the district hence the arbitrary fixing of property rates. Though 17.9 percent indicated that they have ever paid property rates, the finance officers of the assembly on the contrary, indicated that property rates were mobilized once in the district courtesy the efforts of Nadowli District Students Union (NADSU). Aside that period, property rates have never been collected in the district though rates are fixed in the budgeting unit of the assembly yearly. The non-payment or the non-collection of property rates was attributed to the level of poverty in the district thus no needs to over burden the property owners with such taxes. It is therefore likely that, the poverty burden in the district will serve as a bane to the buoyancy of the real property tax in the Nadowli-Kaleo District. For 82.1 percent of the respondents who have never paid their rate is extremely high and that may in part explain the less resilience of the tax in the district.

#### **4.2.5 Public Perception on Civil Criminality for Property Rates Non-Compliance**

The study set out to ascertain the awareness or knowledge level of property owners on the prosecutable provisions in the local Government Act in respect of property rates evasion. In that regard, all the thirty (30) respondents indicated their obliviousness of any person or group of persons being prosecuted for non-payment of property rates in the NKD. However, some of the property owners said they knew it was a prosecutable offence for anyone to have evaded property tax liability in the district.

**Table 4.13: Education Level and Knowledge on Criminal Offence for Property**

#### **Rates Non-Compliance in NKD**

Level of Education	Do you know that it is a criminal offence to evade property rates?		
	Yes	No	Total

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	<i>f</i>	<i>%</i>	<i>F</i>	<i>%</i>	<i>f</i>	<i>%</i>
Tertiary	8	72.7	3	27.3	11	36.7
Secondary	3	30	7	70	10	33.3
Basic	0	0	5	100	5	16.7
No Formal						
Education	1	25	3	75	4	13.3
Total	12	40	18	60	0	100

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**Source:** Field Survey, 2014. Note \* indicates column percentage

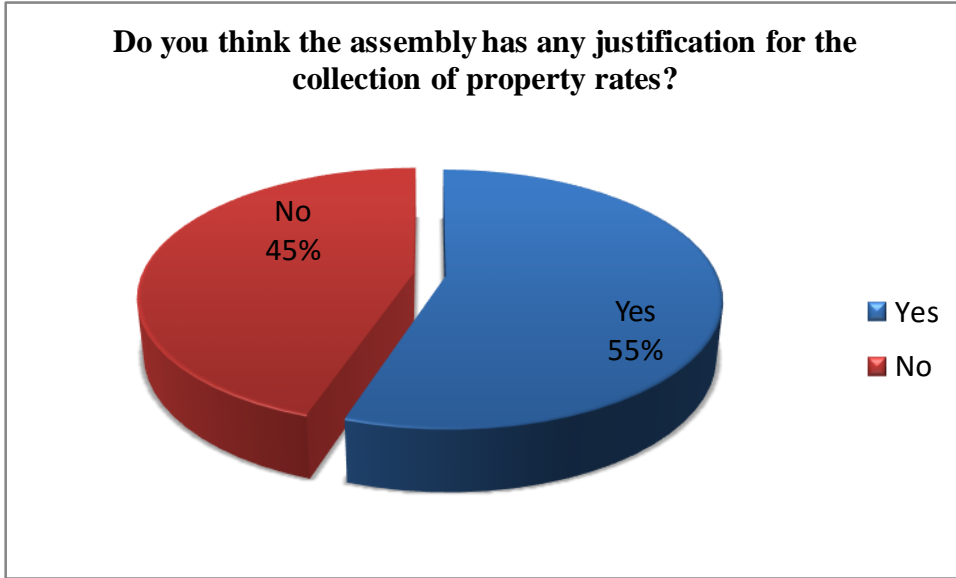
As indicated in Table 4.15, 40 percent of the respondents did indicate that it was a prosecutable offence to evade the payment of property rates in the NKD. However, about 60 percent of the respondents also said that, they did not know it was a criminal offence for them to evade the payment of property rates. The 60 percent of respondents who did not know that it was prosecutable offence probably might have explained in part the low compliance level when it comes to property rates liabilities in NKD. Again, further investigations need to be conducted as to why 40 percent knew it is prosecutable offence and yet they did not comply with rate liabilities. It is therefore clear that Property owners' have a relatively low knowledge on prosecutable aspect of the Act 462 for property tax evasion in NKD.

#### **4.2.6 Public perception on the justification for property rates compliance**

As observed in Wa Municipality, the willingness of property owners to pay property rates is not significantly different in NKD. Therefore, for real property owners to have the



courage to honour their rates liabilities, the necessary or basic infrastructure and services should be provided by the assembly.



**Figure 5: Public Justification for the Imposition of Property Rates in NKD** Source: Field Survey, 2014

As indicated in figure 5, though 55 percent is proportionally higher than those with contempt for property rates, the 45 percent of the property owners who opposed the imposition of the tax is fairly high and that could property rates compliance in future.

Table 4.16 shows the reasons for which property rates should not be levied and collected.

**Table 4.16: Reasons for Non-Justification**

Reasons	Frequency	Percent
---------	-----------	---------

	<i>F</i>	%
Absence of basic infrastructure and services	4	13.3
Corruption	4	13.3
Not a party to the building	4	13.3
Total	12	39.9

**Source:** Field Survey, 2014.

About 13.3 percent of respondents who disagreed with the collection of property rate cited the absence of basic infrastructure and services in NKD. Another 13.3 percent of the property owners also disagreed on the grounds that officials at the assembly used revenue (property rates) mobilized for their personal gains (corruption) while 13.3 percent of the respondents believe that the assembly is not a party to the construction of their real properties in the District and thus, giving little justification for the property rate mobilization.

Regardless of the above non-justifiable reasons, some property owners thought that the assembly has some justifications for the levying and collection of property rate as shown in Table 4.17

**Table 4.17: Reasons In Support Of the Justification**

Reasons for	Frequency <i>F</i>	Percent %
construction of schools	1	5.9
provision of water	1	5.9
provision of public toilets	1	5.9



for development projects	14	82.4
Total	17	100

**Source:** Field Survey, 2014.

About 82.4 percent of respondents who indicated that there is every reason for the payment of property rates asserted that when property rates are collected, they could be used to finance developmental projects by the assembly thus the need for the assembly to levy property rates on their owners. As part of these developmental projects, some 5.9 percent of the respondents cited the provision of school blocks, provision of potable drinking water and the construction of public places of convenience as projects that could be funded through the property tax.

The justifications meant that property owners are likely to pay and even encourage other property owners to also pay their property rates liabilities in NKD in the future when the assembly decides to do so.

#### **4.3.0 Comparative Analysis of the Two Cases**

##### **4.3.1 Status of Logistic and Human Resources**

The Wa municipal valuation division is responsible for rating valuations in the municipality and the ten administrative districts of the region with the regional land valuation division playing a supervisory role. The buoyancy of property rates or tax in the region is very much dependent on the availability of personnel with the right mix of technical know-how for the determination and easy administration of property rates and rating regime. The study however indicated that, the Wa municipal assembly is relatively



resourced as compared to NKDA since it has a rating valuation officer even though there are no available supporting personnel with technical background in rating, such as Valuers, Land Economists or Graduates in HND Estate Management.

In the case of Nadowli-Kaleo District, there is no rating officer. It is the Budget Office that had additional responsibility of levying property rates in the district though the finance officers indicated that, they have never collected property rates due to the poverty level among inhabitants. None of the Budget Officers in the district had relevant academic or professional backgrounds relating to property rating valuation. Except for the Wa Municipality that had a rating unit as part of its administrative set-up, Nadowli-Kaleo had no rating unit. The Municipal rating officer therefore indicated the urgent need for ten (10) valuation officers, at minimum six (6) technical officers, five (5) technical assistants, at least six (6) valuation assistants and one Draughtman in the municipality and the region to facilitate the execution of their mandate.

When it comes to logistics, both districts were constrained but comparatively, WM was better for they could boast of computers and other accessories except that the rating unit had no vehicle to facilitate their movement across the municipality.

#### **4.3.2 Institutional Challenges**

The challenges that confront the Municipal rating unit and the assembly are similar in the Nadowli-Kaleo District. The municipal rating officer has an oversight responsibility for the Nadowli-Kaleo District and the other districts in the region. It is therefore indicative that, once the municipal office is ill-equipped, property rating valuation practice in the



adjoining districts are inevitably challenged. It is for the other districts that, the municipal valuation office indicated the non-compromising need for a number of personnel as indicated in the preceding paragraph. The availability of such personnel will enable the municipal rating unit to assign personnel to the Nadowli-Kaleo District for the purposes of rating valuation and even other districts in the region. Their availability can have great impact on the fortunes of the property tax in the two study areas in the region.

Another common challenge as indicated by officials of the two assemblies is the sheer lack of commitment in terms of releasing funds for rating valuation and revaluation in NKD and Wa Municipality respectively. As indicated by the Municipal rating valuation officer, budgets submitted to the two districts have not been honoured to enable the outfit conduct property rating on the excuse of lack of funds. This has made the Nadowli/Kaleo district assembly to resort to complete violation of the local government Act by setting flat rate on real properties. Properties that were supposed to have been revalued in the Wa municipality after the first valuation in 1997 and supplementary valuations in 2000 and 2007, no revaluations have been done though the municipal rating officer indicated the office preparedness to garner the hands of other officers from the sister regions.

These revelations confirmed similar challenges uncovered in a study by Petio (2013) in the Upper East Region. In his study, it came to light that except the two Municipalities, no other districts had rating units as part of their administrative set-up. In the majority of cases, it was the Budget Offices which had additional responsibility of levying property rates in the districts. “In response to questioning, it transpired that the districts did not have the financial capacity to engage such professionals” (Petio, 2013).

These challenges thus stand to derail the fortunes of property rates to the assemblies in the region and nation as a whole.

#### **4.3.3 Potential of Property Rates for Local Governance Finance**

The irregular inflows from central government transfers, and the complete zero inflows from development partners to the Wa Municipal Assembly especially starting from 2011 is a clear signal that, local authorities must improve upon their internal revenue collection mechanisms in order to counterbalance the budget deficits resulting from the these unreliable sources. One of such internal sources is property rates. Property rates could have a great potential for local governance finance in the Wa municipality because rates collected suggest that a great influence on the assembly's IGF. As depicted by the line graph in the earlier part, any year property rates estimates were met, total estimates and actuals for IGF was at equilibrium. If less than 10 percent compliance rate can have a great influence on the Assembly's IGF as suggested by the graph, it is logical to state that when the source is well explored such that 50 percent compliance level can be reached, then, there will be substantial inflows from the property tax as a component of assemblies IGF. Property rates cannot however be a potential source for local government finance for NKDA.

#### **4.3.4 Public Perception on Property Rating and Rates**

In both study areas, majority of the respondents believed that property rates should be paid. In Wa municipality, forty-eight (48) out of seventy (70) real property owners indicated their support for the payment of property rates whiles, sixteen (16) out of thirty



(30) respondents indicated their willingness for the payment of property rates in the Nadowli-Kaleo District. In both situations a higher number of respondents endorsed the payment of property rates. It can therefore be said that their knowledge on property rating is relatively high and can present a good ground for readily acceptance.

#### **4.3.4.1 Property Rates Compliance Level**

In Wa Municipality, the data indicated 43.9 percent property rates compliance rate though officials of the assembly indicated that the compliance rate has always been less than 10 percent. In NKD however, the field data indicated a compliance rate of 16.7 percent. This study corroborates the works of McCluskey et al, (2003), as they muted that a very high incidence of non-compliance will make the property tax less buoyant. This appears to be the case in WM and NKD.

#### **4.3.4.2 Public Perception on Civil Criminality for Property Rates Non-Compliance**

As part of assessing the perception or knowledge of property owners on the prosecutable aspect of Act 462 of 1993 for property rates non-compliance, thirty nine (39) out of seventy (70) respondents conceded that it is a criminal offence for any property owner to default in the payment of property rates or tax in the Wa Municipality. In NKD, twelve (12) respondents out of thirty (30) did indicate their awareness about a prosecutable offence to evade the payment of property rates. It is therefore mindboggling in that, with higher number of property owners in the municipality being aware of prosecutable



offence for non-payment of property rates, yet, the compliance level is below 10 percent as stated by officials of the municipal assembly. It suggests that enforcement of the Act against defaulters is non-existent or being relaxed. Since officials of NKDA indicated that rates are not mobilized in the district, a low knowledge among the property owners regarding prosecution for property rates non-compliance is therefore not surprising.

#### **4.3.4.3 Public Perception on the Justification for the Payment of Property Rates**

From the study, about 54.3 percent of property owners justified the imposition and collection of property rate in WM whiles, in Nadowli-Kaleo District, about 55 percent of the respondents justified the imposition and mobilization of property rate. Although, the proportion of property owners supporting the property tax is higher than those with disdain for it in both districts, on the average about 45.4 percent of the property owners who opposed to the imposition of the tax is fairly high, and may partly explain the lack of vibrancy of property rate in WM and NKD. Respondents who disagreed with the collection of property rate in both study areas cited absence of basic infrastructure and services, corruption among officials, lack of transparency and accountability among others as reasons in support of their position and thus, giving little justification for the property rate payments.

The above reasons adduced by the respondents confirm the fact that people will be despondent towards the payment of property rates if they seem not to benefit from services rendered by the local authorities through taxes collected from them.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.0 Introduction

This chapter concludes the entire work based on the findings and recommendation for policy implication.

#### 5.1 Summary

The success of this study has been underpinned by the methodology adopted. The main subject matter focuses on the effects of the capacity of rating valuations division on the potential of property rates for local governance finance. Data was collected from the municipal valuation office, Municipal assembly, Nadowli-Kaleo District Assembly, non-exempt real property owners, and rate collectors. The data collected ranged from staff strength and logistics of the rating valuations division, revenue generated by assemblies through property rates, property owners' perception on property ratings and rates and the challenges these institutions are confronted with. Intuitive method was relied upon that resulted in a sample size of one hundred and sixteen (116) respondents for the lack of records on the number of real property owners in the study areas. Key informant interview, survey and focus group discussion were employed to collect the data.

After the analysis of the data, it was clear that the rating valuation division had a very low capacity to execute their mandate when it comes to property valuations. Nadowli-Kaleo District in particular had no rating valuation unit. Their incapacitation has been partly due





to inadequate staffing and logistics. Political interference, lack of funds and non-cooperation from rate payers were but a few of the challenges that confront the assemblies and rating valuation division as institutions. Despite the low capacity and challenges of the mandated institutions, property rates could have a great potential for local governance finance in Wa Municipality but not in the NKD. On the average, property owners had some knowledge about property rating and rates and yet a higher percentage has never paid their rate liabilities especially in Wa Municipality. The high non-compliance rate or public contempt for property rates has been attributed to lack of transparency and accountability, corruption, absence of basic infrastructure and services and non-enforcement of the Act 462 of 1993 against defaulters. For these institutions to be effective and efficient in the execution of their mandate, more professional staff and logistics are needed. Revenue generated through property rates should be used in visible projects and accounted for by officials of the assemblies in order to encourage future compliance.

## **5.2 Conclusion**

The objectives of the study were to assess the capacity of rating valuation authorities, their challenges, the potential of property rates for local governance finance and public perception on property rating and rates mobilization regimes in WM and NKD of the Upper West Region. The following findings form the conclusion of the study.

### **5.2.1 Staff capacity situation of the valuation office**

From the study, the municipal rating valuation has responsibility over the ten administrative assemblies in the Upper West Region. Ideally, each assembly should have had a rating officer for rating valuations but as indicated in the study, there was only one officer for the entire region serving the Municipal Assembly in particular on contract bases. The municipal rating unit was thus grossly understaffed because the only officer cannot execute a task meant for about twenty personnel. The rating valuation office was also poorly resourced because neither do they have a car nor a motorbike since their work involves transporting themselves and other equipment across the region. The inadequate personnel and logistics could thus explain in part the non-valuation of properties in NKD and non-revaluation of properties in WM as required by the local government Act 462 of 1993.

### **5.2.2 Challenges confronting the mandated institutions**

Inadequate funding, non-cooperation and political interference were some of the factors militating against the efficiency of the property rating system in the areas of study more especially WM. The inability of assemblies to conduct property rating and revaluations have all in part stemmed from their lack of funds to meet the budgets submitted by the Municipal rating officer in that regard. For the property tax to be buoyant, rates payers should be willing to pay their rates liabilities. As revealed by the study, property owners in WM have resisted the operations of demand notices distributors of the assembly that impeded the assembly's efforts at mobilizing the rates. There has been lack of enforcement against non-compliance partly because of political or bureaucratic

interference, which undermines the efficiency of the tax collection system and enforcement against non-compliance.

### **5.2.3 Potential of property rates as local governance finance**

Available data from the Municipal Assembly showed a persistent decline in the statutory transfers from central government from the year 2009 up to date. Except for election years where central government transfers were always fully paid, non-election years were always in sharp contrast. Another significant source of inflows to the assemblies comes from development partners but after 2008, such inflows have continuously diminished to the extent that in the year 2013, no financial support was received from these partners in development. Though that could be attributed to Ghana's attainment of lower middle income status, it also served a clarion call on the local governments to step-up their revenue generating efforts within their jurisdictions. Property rates are such potential source of revenue for them to be explored and harnessed at present and in the future if they are prepared to wean themselves off the strings of central government transfers and development partners' support.

In the Wa Municipality, property rates could have a great deal potential for financing their governance activities and projects as indicated by the assembly's records and as computed and presented in the line graph in the study analysis though the compliance rate is low. In the NKD however, property rates cannot be a potential source for local governance finance by virtue of the fact that, rates are not collected and hence no records for computation as in the case of WM.







#### **5.2.4 Factors affecting property rates as a source of local governance finance**

Increased public contempt for the property tax resulting in low compliance rate has downplayed the potential of the property tax in the two study areas. As indicated by officials of the Wa Municipal assembly less than 10 percent of property owners have paid their tax liabilities upon receipt of demand notices. The low compliance rate is attributable, according to respondents, to low knowledge on the practices of property rating among property owners, non-enforcement of the law against defaulters and perceived corruption among officials of the two assemblies.

The low compliance rate and public disdain resulting from the aforementioned factors have undermined the property tax system in WM and NKD. It would also be difficult for WMA and NKDA to justify the payment of the property rate without improving basic infrastructure and services in the study areas.

#### **5.3.0 Recommendations**

In order for rates payers to be encouraged to comply any time liability notices are served on them, the following were recommended.

- Recruiting and training of more rating professionals

The understaffing of the rating valuation division has been attributed to the closure of the only rating valuation training school in Accra for a decade. And it was thus recommended for Land Economy and Real Estate Management Graduates of KNUST, UDS and Polytechnics to be recruited and trained to fill such vacancies. To achieve this, there is the need for the Municipal and District Assemblies to contract the services of Ghana

Institution of Surveyors (particularly the Valuation and Estate Surveying Division) to provide on the job training on rating to graduates in the above fields in the districts and regions at large. In support of the suggestion put forward by Petio (2013), it is also imperative to enforce the Act by creating rating units as part of the administrative structure of the District Assemblies so that every district, as a matter of policy, would have trained personnel to complement the efforts of the LVD in administering the property rate. This would ensure more focus on levying property rates than currently provided under the Budget Offices.

#### **Providing the needed logistics for rating offices**

As indicated in the study, logistics constraints affected the smooth execution of the rating authorities in WM. Rating valuation in the study areas therefore requires the technical personnel to transport themselves and equipment around an entire Municipality and Districts, covering large distances over often poorly developed roads. There is thus an urgent need for Municipal Valuation Offices to be provided with relevant working accoutrement such as pick-up vehicles, motor bikes, computers and printers etc. The rating official recommendation corroborates Petio (2013) recommendation as he suggested that central government should debate with the assemblies on the possibility of withholding a percentage of the District Assemblies Common Fund (DACF) to support valuation and revaluations. Once such investment goes into revaluations, up-to-date property values would widen the rating coverage rate and take more revenues from property rates. This can only be achieved through commitment by the assemblies. Staff



may also need ICT training to enable them create databases on property for the various districts.

➤ **Provision of basic infrastructure and services within settlements and suburbs**

The property rate, making reasonable investments in urban infrastructure and services such as education, reliable water supply, electricity and access roads which may have the potential to encourage voluntary compliance was recommended by about 30 percent of the respondents. One fundamental reason for which rate payers thought it was not justifiable for the Assemblies to levy and mobilise property rates is the perceived absence of basic infrastructure and services in their areas of jurisdictions. Municipal and District Assemblies must note that, as indicated by Bird and Slack (2003) and Kelly (2000), property tax is a benefit tax and revenues accrued from property rates must therefore be used to provide visible local services that will lead to the benefit of all in order to motivate voluntary compliance

**Intense public education on the need for rates liability compliance**

Aside from providing the necessary infrastructure and services in the communities to encourage property owners, public education sensitization on the essence of property rating valuations in the Municipality is inevitable. Intensive public education program through radio stations and community fora on the need to pay property rates is necessary. This would enhance property owners' understanding of the need to honour their rate obligations and their subsequent compliance.



### **Enforcing the Act 462 against property rates Defaulters**

Again, the Municipal Assembly should crack the wheel by prosecuting property rates defaulters to serve as a deterrent to the others. However, that must be done without political interference since it was a serious challenge affecting Assemblies' efforts to levy property rates as revealed in the study. It will rather be necessary for politicians to help educate the electorates that it is becoming impossible for central government to fully finance local development alone without their support since they are the primary beneficiaries of such developments. When property rating is delinked from politics, it would not be justifiable for any taxpayer to link payment of property rates to any political party or regime and that could enhance the assemblies rating revenues to complement the DACF for local development.

### **Ensuring accountability and transparency on the use property rates revenue**

Bahl (2009) espoused that Public confidence in the tax system is essential for the success of property taxation. It is thus important for the Assemblies to be accountable and transparent in the use of property taxes. A major constraint to the success of the property tax in the study areas is the widespread perception that proceeds are misused and not invested in community infrastructure and services. For officials of the rating authorities and the assemblies to gain the confidence of rate payers, they should annually publish proceeds from the property rates with their corresponding development initiatives such monies are used for. WMA in particular should purge the property tax of perceived

corruption and lack of transparency which has the potential to encourage compliance, and reduce all forms of associated cost of administration and enforcement.

**Use of modern Information Communication and Technology (ICT) tools in property rates collection and management**

For the Assemblies to regularly update the valuation list, the application of ICT in obtaining a comprehensive data base, billing and collection process is necessary in order to improve property rate mobilization in WM. Mass valuation should be encouraged instead of the individual valuations that is laborious and time consuming. But the success of the mass valuation depends on the use of right information technology.

High non-compliance rates, lack of enforcement against compliance, lack of rating valuation officers, lack of public education on the importance and payment of property rates and general public disdain, and negative perceptions about assembly officials all seem to have contributed to low property tax yield in WM and NKDA. The data indicate that the respondents who are dissatisfied with the municipal management of taxes such as property tax revenue are less likely to pay the property tax and are even more likely to discourage others from paying.



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