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**Thesis**

**Title:** The Impact of Property Taxation in the Provision and Maintenance of Infrastructure (mainly local roads) in Formal and Informal Settlements, Dar es Salaam

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**Title**

**The Impact of Property Taxation in the  
Provision and Maintenance of Infrastructure  
(mainly local roads) in Formal and Informal  
Settlements, Dar es Salaam.**

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## Summary

Cities in Sub-Saharan Africa are facing challenges in providing new infrastructure and maintaining the existing one due to urbanization trend. Although, sustainability growths of the cities require local authorities to have funds to provide efficient basic infrastructure and services, insufficient finances have been a major obstacle for local authorities in Sub-Saharan Africa as the results show the number of informal settlements are growing with inadequate basic infrastructure services like waste management, local roads, surface water drainage systems and portable water. Property tax is among the main tools of land value capture in Sub-Saharan Africa region for financing local governments in the provision of infrastructure and services.

This thesis gives the outcomes of a research whose goal was to explain the impact of property taxes in provision and maintenance of infrastructure mainly local roads in formal and informal settlement in Dar es Salaam City. A case study strategy was adopted. The study is an explanatory and a single embedded, it researches Dar es Salaam city with the focus on two settlements that is Mbezi Beach formal settlement and Makongo Juu informal settlement. The analysis of property tax revenue collected, allocation and cost of road construction and maintenance was done. This is the better way to explain to what extent property tax collected is adequate provision of infrastructure services. The views from taxpayers were explored, in order to know their perceptions on property tax in two settlements i.e. Makongo Juu and Mbezi Beach in Dar es Salaam.

The findings reveal that residents in both settlements are paying property tax as per laws administering the same in the country. The legal and institutional set up does not distinguish collection as well as use of property tax between the formal and informal settlements. Nevertheless, despite the fact that those who live in informal settlements, in this case Makongo Juu comply more with payment of the tax as compared to those living in Mbezi Beach which is a formal settlement; the formal areas have been given more attention in terms of infrastructure provision and maintenance as compared to informal areas.

Moreover, the taxes collected from formal and informal settlements are not sufficient to meet the expenditures related to road provision and maintenance due to use of outdated valuation rates, exemptions, poor law enforcements for non compliance, as well as lack of proper collection strategies. Apart from that, there is greater awareness of the rights and obligations to both the tax payers and the Municipal officials as they both showed that there is a relationship between property taxation and service provision, of which the practice proved to be different especially in the informal settlements. Therefore, based on the discussions it suffices to conclude that property taxation in Tanzania does not influence much on provision and maintenance of infrastructure mainly local roads in the informal and formal settlements.

**Keywords:** Land value capture, Property tax, Formal and Informal settlements and Infrastructure.

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## Abbreviations

BRN	-	Big Results Now
CAMA	-	Computer Assisted Mass Approach
CEPAC	-	Certificate of Additional Construction Potential
DART	-	Dar es Salaam Rapid Transit
IHS	-	Institute for Housing and Urban Development
KMC	-	Kinondoni Municipal Council
KM	-	Kilometres
OECD	-	Organisation for Economic Co-operation and Development
PO-RALG	-	President's Office Regional Administration and Local Government
TShs	-	Tanzania Shillings
UARA	-	Urban Authority Rating Act of 1983
UK	-	United Kingdom
UN	-	HABITAT - United Nations Human Settlements Programme
USA	-	United State of America
US\$	-	United State Dollar

Exchange Rate as per 1<sup>st</sup> July 2016

1 US\$ = Tshs 2,200/=

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## **CHAPTER 1: INTRODUCTION**

### **1.1 BACKGROUND INFORMATION**

Dar es Salaam city came into existence during colonial era (in mid 1840's to early 1960's) and developed rapidly in the early 1980s. The city urbanization trend is characterized by high population influx (mainly rural-urban migration) accompanied by unregulated settlements growth along the highways. Developments in the city are largely identified by informal land and housing market (Lupala, 2002). Although, Angel (2012) argued that local authorities need to make preparations in advance for urban expansion in order for the city to remain efficient and productive for many years, by securing rights of way, open spaces and even begin to subdivide for urban use before urban development takes place, that was not the case for Dar es Salaam City. The enormous urban growth has surpassed the planning systems' capacity to deal effectively with the rapid urban growth. As a result, the price of serviced land and housing in the city has become very high hence leaving the poor households searching for shelter, through informal market (UN-HABITAT, 2010). According to UN-HABITAT (2010) this has also promoted the expansion of informal settlements in the peripheral areas which are growing disorderly without reflection of the future settlements and environmental impacts in the area.

According to Angel (2012), the growing population in the cities increases the need for land and local authorities to provide infrastructure in their areas of jurisdiction. The author added by indicating the world annual growth rate of population and land coverage in the cities which is 1.6% and 3.66% respectively. However, sustainable growths of the city require local authorities to have funds to provide efficient basic infrastructure or services e.g. water, waste management, electricity, hospital, roads, schools etc. Dar es Salaam city like any other city in Sub-Saharan Africa is facing challenges in providing new infrastructure and maintaining the existing one due to urbanization trend (Kayuza, 2006). The number of informal settlements is growing with inadequate basic infrastructure services like the above mentioned which lead to outbreak of diseases like cholera and diarrhoea, especially during rain seasons. According to Smolka and De Cesare, (2013) one evident cause of informality is lack of policy and programmes of housing provision for the poor in all government levels as well as land regulations which are difficult to adhere.

#### **1.1.1 Value Capture and Property Tax**

Property tax is one of the main tools of land value capture in Sub-Saharan Africa region for financing local governments in the provision of infrastructure and other obligations. Franzsen and McCluskey (2013) defined property tax as the tax imposed on vacant land, improvements on land or both land and improvements. In Tanzania, property tax was established during colonial era in 1946. Post independence Tanzania Government instituted urban house tax under Urban House Tax Ordinance of 1962. In 1972 all local taxes were suspended due to "Centralisation Policy" under which, the funding and management of local services became the responsibility of the Central Government. In two years time, the burden of infrastructure provision was so heavy for central government due to abolition of local governments and local taxes, that a Land Rent and Service Charge Act was enacted in 1974 to levy the tax in order to supplement (and finance) service provision needs in the urban areas (Kayuza, 2006).

Nevertheless, property tax was re-established in the late 1970s to overcome the crisis of infrastructure deterioration in urban areas (Kayuza, 2006). The local government authorities were empowered to collect property tax by the Local Government Finance Act of 1982, in the rationale of financing public goods and services among other functions. Also, the Urban Authorities (Rating) Act was enacted in 1983 replacing the Land Rent and Service Charge Act of 1974. The Act requires every property owner in the taxable area to pay property tax. For that reason, infrastructure provision in Tanzania has been associated with local government reform, that the existence of local authorities is justified by efficient public service provision and property tax being the source of revenue to finance service provision. The services which are provided by local governments include local roads, pathways, street lights, surface water management, solid waste management and local markets. The national highways, arterial roads, police, higher learning institutions, referral hospitals and so on are provided by the central government, while water and electricity are provided by the public sector parastatals (Roy, 2008).

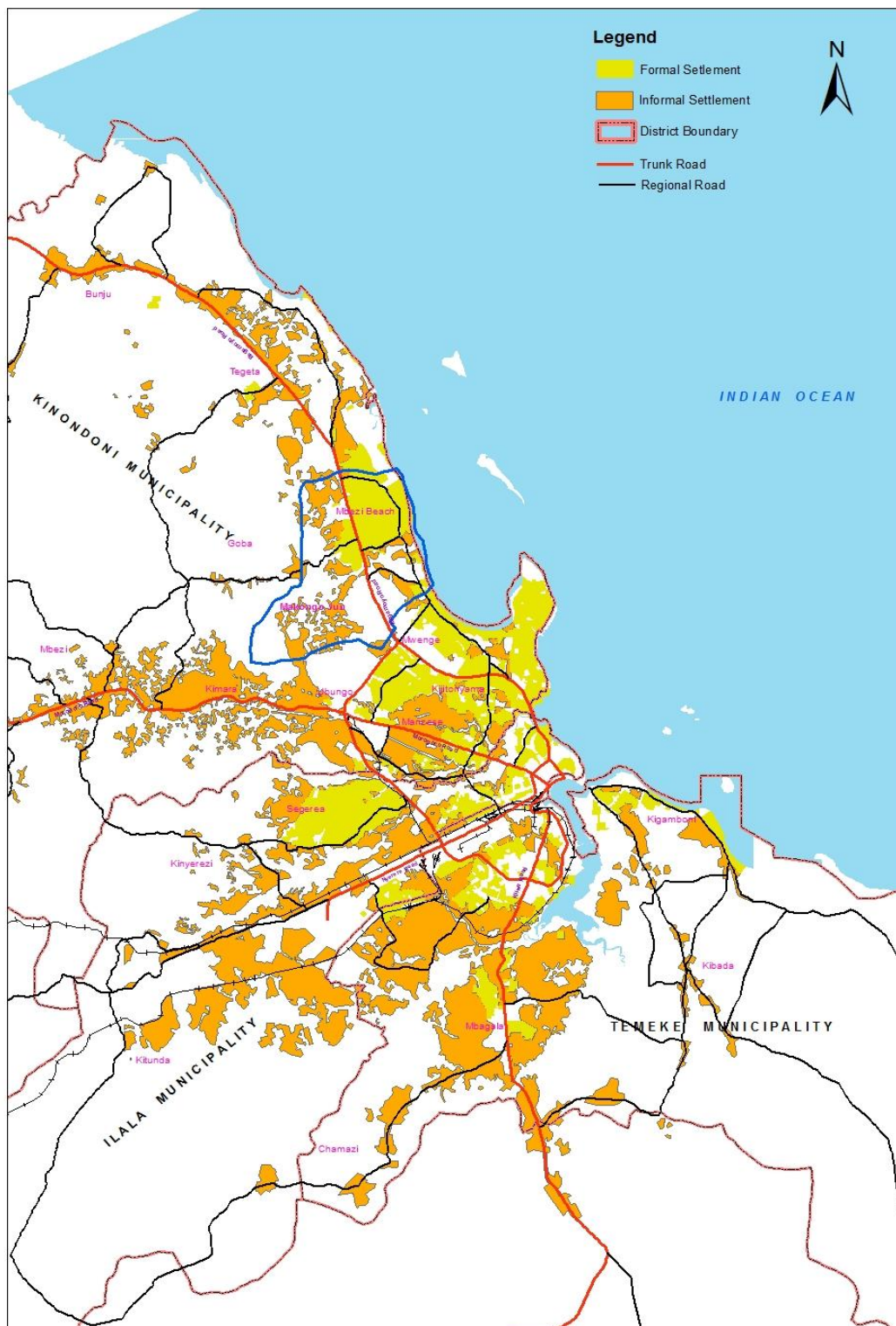
Unlike land rent (ground rent), property tax in Tanzania is charged in both formal and informal built areas. For the purpose of this study, informal settlement refers to those settlements where the land occupiers legally occupy land through purchase from customary land owners, inherited or allocated by the local leaders, but developed contrary to the zoning regulations (Kombe and Kreibich, 2006). In this case, it is different from squatter settlements where the latter means unlawful occupation of unused public or private land, while, formal settlements mean the settlements where land is well planned, surveyed and serviced. Allocation of plots in formal settlements is done by the government by providing long term right of occupancy with the term of 33 to 99 years.

### **1.1.2 The Role of Property Tax**

Stressing on the role of property tax in improving infrastructure Walter (2011 pg 6) adds that “taxpayers are much more likely to pay if they feel it is a fair tax and taxes paid result in improved infrastructure and service in the community”. The importance of this tax as the source of local government revenue is increasingly noted and the local government authorities are continually improving the tax base in order to increase collections. Despite of improvements in revenue collection system due to improved record keeping, Dar es Salaam city is still facing considerable challenges in spending on infrastructure provision especially in informal compared to formal settlements. However, Brazil informal settlers are legally entitled to infrastructure from the local government authorities simply by paying property tax (Smolka and De Cesare, 2006). According to (Smolka and De Cesare, 2006), informal settlers are willing to pay property tax after realizing that private sector service provision of such services like water, waste collection etc are more expensive than government provided services.

In order to understand the scale of the problem figure 1 is the map showing the informal and formal settlement distribution in Dar es Salaam. The goal is to see the magnitude of informal settlements without adequate infrastructure and services in the city.

**Figure 1: Formal and Informal Settlement Distribution in Dar es salaam**



Source: Dar es Salaam standard sheets and Satellites Images

## **1.2 PROBLEM STATEMENT**

Informal settlements in Dar es Salaam are divided into three different zones decreasing in number towards the city centre contrary to formal settlements which are decreasing towards the periphery (UN-HABITAT, 2010). The map above shows this situation. According to UN-HABITAT (2010) the first inner core zone is characterised by high density informal settlements, mostly prone to flooding during rain seasons, and unregulated developments. The second zone is intermediate where informal settlements grow without planning authorities' intervention, and lastly is the peri urban zone where informal settlements are growing fast without taking into account future operation services and environmental status of the area. However, all informal settlements in Dar es Salaam city are characterized by poor infrastructure and inadequate community facilities compared to formal settlements despite the fact that property taxes are collected in both settlements. This situation is contrary to Walter (2011) argument that there must be a relationship between the amount of tax collected and the amount of services provided in the area. However, the informal settlement covered by this study is strong evidence that this relation does not occur.

The behaviour of neglecting provision of infrastructure in the informal settlements by the local government authorities in Dar es Salaam, under the pretext of informality while they collect property tax is controversial. Local authorities try to dissociate property tax collection and service provision in informal settlement with the excuse that they are not recognized by the law, this makes the situation even worse. Unlike the formal settlements, the most pressing infrastructure problem in informal settlements in Dar es Salaam is local roads and surface water drainage system. Most of the local roads in informal settlements are impassable during rainy season due to potholes and flooded rivers. However, the maintenance of those roads depends much more on the money contributed directly by the users in the neighbourhoods than local government investment (Kayuza, 2006).

Several studies have been conducted on property taxation and informal settlements like the study on urban poverty and legal framework in informal settlement (Kironde, 2006), where the author concluded that legal framework in Tanzania contributes to inadequate serviced lands which compel the poor to seek shelter in the informal subserviced land. Also, Kayuza (2006) found out that the taxpayers perceptions on property is positive, what they need is to see the value of money they are paying. However, still there is a knowledge gap on why local roads infrastructure and surface water drainage system in the informal settlements are worse compared to formal settlements. Despite the clear context in the levels of infrastructure between formal and informal settlements, there is no clear evidence showing higher property tax payment compliance in the former than in the latter. This study will therefore try to contribute on the understanding of the reasons why informal areas are not serviced even though they are meeting their obligation of paying property tax.

## **1.3 RESEARCH OBJECTIVES**

To explain the impact of property tax and its importance in provision and maintenance of infrastructure mainly local roads the case of Mbezi Beach formal settlement and Makongo Juu informal settlement in Dar es salaam City.

## **1.4 RESEARCH QUESTIONS**

To what extent does property taxation influence provision and maintenance of infrastructure mainly local roads in Mbezi Beach and Makongo Juu settlements in Kinondoni Municipal Council?

### **Sub Questions**

- What is the legal and institutional set-up of property taxation in Kinondoni Municipal Council?
- What is the difference in aims and goals of property taxes collected by government in formal and informal settlements?
- To what extent are collected property taxes adequate to finance local roads infrastructure provision and maintenance?
- What are the taxpayers' and government perceptions on the use of property taxes to finance local road infrastructure in Mbezi Beach formal settlement and Makongo Juu informal settlement?

## **1.5 SIGNIFICANCE OF THE STUDY**

This study contributes on the existing knowledge on how the local government are treating differently or similarly the formal and informal settlements in the provision and maintenance of local road infrastructure services through property taxes collected, by investigating on what people pay and what they receive back in terms of services. Also the study will bring out the expectations of taxpayers in informal and formal areas on what they pay in relation to what they receive in terms of local roads infrastructure. The findings and recommendations of the study will help the local authorities to set sustainable strategies on how to deal with basic infrastructure problem in the informal and formal settlements by using property tax revenue collected from those areas.

## **1.6 SCOPE AND LIMITATIONS**

According to Kyessi and Sekiete (2014) only 30% of Dar es Salaam city population lives in formal settlements and the rest live in informal settlements. This study has examined the relationship between property tax collected and the available infrastructure services in two selected settlements that are Mbezi Beach and Makongo Juu. In the context of the existing legal framework; the study has been able to examine the appropriateness of the current property taxation process and infrastructure provision in the case area. It has been observed that, the road infrastructures in informal settlement are in poor condition compared to formal settlements.

Due to time and resource limit, this study has been limited to two settlements, that is Mbezi Beach representing formal settlements and Makongo Juu representing informal settlements in Dar es Salaam as various data sources have been easily accessible by the researcher. Furthermore, two settlements have been chosen as the best case areas because they have a reasonable number of valued properties for property taxation and the social status of population living in the two settlements does not differ much as well as both settlements are allocated in the

intermediate zone. This study intends to assess the difference of level of infrastructure provision and maintenance in informal settlements compared to formal settlements in relation to the revenue collected through property taxation.

## **CHAPTER 2: LITERATURE REVIEW / THEORY**

### **2.0 INTRODUCTION**

In this chapter reviews on key concepts as value capture, property taxation, and urban infrastructure services and discussion about their relationship are highlighted.

### **2.1 VALUE CAPTURE CONCEPT**

Value capture concept present undeniable evidence of attracting new interests and acceptability in developing countries. Value capture means to deploy a part or all of increased values of land due to public investment in infrastructure services, zoning regulation, increment demand derived from population and economic growth or any action done by community other than private land owner's investments, for the benefit of community at large (Hong and Brubaker, 2010; Alterman, 2012; Booth, 2012 and Smolka, 2013). That means the benefit of a private land owner accrue from government investment must be equally distributed among the residents on the principle that "no citizen should accumulate wealth that does not result from his own effort" (Smolka, 2013, pg 8). Many countries have been applying value capture especially Latin America. Brazil and Colombia have enacted legislation for value capture instruments in many cities and recently Equador approved a similar national legislation. Although in many places value capture instruments contribution are still unnoticeable, in Sao Paulo the introduction of CEPACs and betterment levy in Bogota has been generating considerable amount of extra budget revenues (Smolka, 2013). However, due to the decline of local government revenues from conventional sources and growing need of infrastructure investments value capture instruments became an attractive source of revenue including in the United States and in other developing countries (Ingram and Hong, 2012).

The main objective of value capture is to tap the increment value resulted from public actions to finance urban infrastructure services and to improve land management performance. It is worth noting that investment in infrastructure services generally leads to an increase in land values, therefore it is feasible to recoup the capital costs of investment by tapping part or all increments value produced by the investment; this can be successful achieved through tax, fees, incentives, selling of development rights or development agreement (Ingram and Hong, 2012).

Principally, land value is always generated by the investments or actions done by public or private entity or individual, and everyone has a right to a part of this value. Therefore, the value generated by public investments or actions should be recovered by the public for community benefit at large, while, the natural value of land paid by owner in the time of acquiring it and the increment value resulted from private investment should remain to private owner (Ingram and Hong, 2012). The value capture instruments mostly used at the local government level are betterment levy, development exactions, land leasing, property taxation, building permits and other charges (Walter, 2011; Hong and Ingram 2011). In Tanzania, value capture instruments which are mostly used by the local government are building permits and property taxation. Other value capture instruments like land rent and land leasing are under central government control. However, the most effective instrument for local government is property tax, because it is a



permanent source of revenue and its contribution to local government revenue is notable. Therefore this study is focused on it.

## **2.2 PROPERTY TAX CONCEPT**

Property tax is tax levied on the value of land, buildings and other remarkable development permanently done on land (Abbott, 2008). Different terminologies are used to refer property tax, like rate or real property tax; all of them comply with the above definition. Property taxes are introduced by the law enacted by central government and usually implemented by local government through regulations imposed by regulatory authorities (Plimmer, 2013).

Property tax is land value capture instrument used by local government to generate income for financing local infrastructure like local roads, solid waste management, fire and police, public education, local parks and so on. A good example is United State (US) where public schools (elementary and secondary) are financed by property tax (Bolt, et al. 2009). Also, Youngman (2016) in her book pointed out that, the efficient use of property tax revenues by the local government increase the property value in the jurisdiction and hence motivate the community support.

Due to the benefit offered by property tax to the local government worldwide, it is viewed as an essential source of revenue and tax tool to support local authorities' expenditures. Kitchen (2013) and Youngman (2016) both agreed that the contribution of property tax revenue in financing infrastructure services is notable. Presbitero, et al. (2014) indicated that the federal countries are the ones which had higher shares of property tax revenue in general government revenues for the period of 1973 – 2011. For example the United State, Canada, Australia and Japan had 11.7, 10, 8.8 and 9.9 percent respectively. Nevertheless, the United Kingdom and New Zealand almost the entire local revenue were covered by property taxes that is 92.6 percent and 90.1 percent respectively. While, in developing countries property tax generally is still a minor source of revenue. However, the level of dependence on revenue from property tax differ from one country to another depending on other sources of revenue available and assigned responsibilities to local governments.

Many authors, including Slack (2013), Walter (2011), Ingram and Hong (2010) and Youngman (2016) mentioned the attributes inherent in the property tax, which make it a good source of finance for local infrastructure services. First the real property or landed property is immovable, which means it cannot move from one geographical location to another and hence difficult to tax evasion. Second, the local services funded by property tax revenues benefit the property value, therefore is regarded as a benefit tax<sup>1</sup>. Third, the tax is inelastic by nature due to the fact that property values respond slowly to the change of economic activities. Also, the taxpayer is aware of the tax he pays and where to pay it, also the tax paid finances the visible services in the community. Moreover, Bahl and Cyan (2011) and Youngman (2016) argued that, property tax

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<sup>1</sup> *Benefit tax is a tax that is roughly proportional to the cost of public service benefits received by the taxpayer.*

can be progressive<sup>2</sup> where the high valued property located in the best areas is taxed at higher rate compared to the property located in low valued areas. When tax falls heavy over low valued property is regressive tax<sup>3</sup> and a tax is proportional<sup>4</sup> when the high valued property is taxed at the same rate as the low valued property. However, property tax is voter free taxes, that is when the voter is not satisfied with what he pays and what he receives in terms of services is free to move to other jurisdiction. Many authors have praised property tax for it benefits to local government and taxpayer at large, although Plimmer (2013) and Slack (2013) noted down some shortcomings or limitations of property tax like limiting property tax rate to a specified percentage of the property value which reduces local autonomy, tax reliefs and exemptions which reduce tax base. Also lack of updated information of landed properties mainly in developing countries hinder proper property tax implementation. Despite these limitations, the potential of property tax to meet expenditure benefits with slight interference in market decisions, make it a sustainable and permanent local government source of revenue which improves the efficient use of resources at local level and hence finance infrastructure provision (Kitchen, 2013; Walters, 2012; Dye and England, 2009). However property taxation practice in any country depends on the legal and institutional set up of either central or local level assigned that duty as described below.

### **2.2.1 Legal and Institutional Set-up of Property Taxation**

Property taxation is a duty enshrined in a statute. All particulars of property tax are stipulated in the legislation. That legislation can be enacted at different levels from central to local government. All underlying concepts and details of property tax must be defined clearly to make sure they meet the desired outcomes (Plimmer, 2013). Abbott (2008) pointed out four aspects underlying tax definition, which are “a compulsory levy, imposed by organ of government, raising fund for public expenditure and with no exchange of goods and services expectation”.

However, there is a big confusion between tax and user fee among the taxpayer, whereby Plimmer (2013) tried to elaborate the two terms. The author defines tax as source of government revenue used for provision of public goods and services for example roads, health and education. Generally it provides collective benefits to the public in general, not to individual taxpayers, while, user fee is the payment of services provided such as electricity and water, that can be measured and correspond to the benefit it brings for each individual or family. According to Almy et al. (2008) property taxation framework are always legitimated by the constitution but the taxation system provisions are provided in enacted statutes. Also the regulations are always made to clarify and give extra instructions. However, tax legislation is advanced gradually, considering the historical evolution of the area (country) i.e. legal, social and economic aspects.

The establishment of property tax in cities with informal settlements can be used as the connection with land administration offices. Also by registering the informal property in the cadastral provides some form of security which leads to land market growth. For countries like Tanzania, which are following the British taxation system, the system does not consider the

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<sup>2</sup> *“Progressive tax is the one where the average rate of tax rises as an income rises”.*

<sup>3</sup> *“Regressive tax is a tax related to income that bears hardest on those least able to pay i.e. the average tax is high for those on lower incomes”.*

<sup>4</sup> *Proportional tax is one where the average tax rate is constant across different income levels.*

nature of land ownership in imposing the property tax. Property tax is normally imposed on physical occupation of land by individual regardless of land ownership (Plimmer, 2013). Tanzania like any other country property tax was established by Local Authorities (Rating) Act of 1983. The Act defines clearly the tax base, tax rate, tax exemptions, valuation approaches, means of collection and enforcements as discussed in details below.

### **2.2.2 Property Tax Base**

The bases for property taxation differ from one country to another depending on property rights, market forces and legislation in that country (Franzsen and McCluskey, 2013; Kitchen, 2013 and Slack, 2013). Generally, property tax base is on landed property or real property, that is land, improvements or both. Kitchen (2013) gives examples of countries whose tax base is land only like Ukraine, improvements only like Tanzania and both land and developments like Japan. However, different authors use different terms to designate each case. Walter (2011) uses the term land and property tax (LPT) to mean the property tax basing on both land and improvement, Oates and Schwab (2009) and Dye and England (2009) use the term Land Value Tax to mean property tax on land only, while, the term property tax is mostly used for taxation on improvement only. Property tax base is usually defined by national law in case of unitary state like UK, Indonesia and South Africa while for the case of federal countries like Canada and USA the base is determined by the state/provincial law. Mostly, property tax is based on land, improvements or both and rental values. However some few countries like Georgia includes movable properties/assets (e.g. aircraft and boats) in the property tax base (Franzsen and McCluskey, 2013).

Despite the legal stipulation concerning property tax base, also the selection of suitable tax base depends much on the environment where tax is imposed. In the situation whereby the main objective of property tax is to make sure the land is fully utilized, site or land tax is the best option (McCluskey & Franzsen, 2013). In order to generating enough income to finance infrastructure, land and improvements together are appropriate means and it is easy to assess the value of the subject property since the transaction of real properties incorporate both value of land and improvements thereon.

### **2.2.3 Property Tax Rate**

Cities from different countries have different level of preference to establish property tax rates which fits their circumstances. However, in some cities tax rate are set by the national government e.g. Cairo, Jakarta, and Kigali while some cities have power to make some adjustments in their tax rates like Manila, Kuala Lumpur, Lagos and Dar es Salaam, even though that power is rarely used. For instance, tax rate in Lagos has not changed since 2003. Also some cities have power to set tax rate e.g. Nairobi and South African cities. In South Africa the tax rates range from 0.5 to 0.9% for residential properties and 1.0 to 2.5% for commercial properties (Franzsen and McCluskey, 2013). While for a country like Poland, local authorities are the ones that set tax rates, although the central government regulates the maximum rate yearly by taking into account inflation rate. Also, Zorn (2013) classified tax rate into two groups that is flat rate and progressive rate. He further argued that flat rate is widely used because it is a single rate which is easy to implement and to administer. Unlike progressive whereby the high valued

property located in the best areas is taxed at higher rate compared to the property located in low valued areas.

#### **2.2.4 Property Tax Assessment Approaches**

According to Franzsen and McCluskey (2013) and Walters (2012) there are three basic valuation approaches used for establishing property tax values to all types of properties. Those approaches are comparable sales approach in which the property value is established by comparing the subject property with the recent sold similar properties in the neighborhood, cost approach whereby the value of property is established as the cost of restoring subject property minus depreciation value, while income approach capitalizes income flow that “accrues from the property investments into present value, which represent market value of the property” (Annual cash flow after expenses divide by annual rate of return). Mostly used for commercial properties.

Market value is the basis in many property taxation systems; depends on the available fact of market transaction in the neighbourhood. However, lack of comparable on place, the cost approach is the most used option; it has been used in cities like Dar es Salaam, Accra and some cities in Latin American. The use of cost approach (costs of construction) without taking into account market value aspect may lead into under valuing or over valuing the subject property (Lafuente, 2009 and Mathur et al 2009). In additional to that Eckert (1990) commented that the use of emerging automated approaches i.e. Computer Assisted Mass Approach (CAMA) assists the assessors in arriving at taxable value in a short time and at low costs. However, most of the cities in developing countries are yet to start using this approach, and this is mainly due to lack of reliable information. Table 1 gives the brief statement on the tax bases used by different countries, basis of assessment in each base and the valuation method used in arriving at a property value to be taxed.

**Table 1: Summary of Property Tax Base, Rates and Assessment Approaches**

Countries	Tax base	Basis of assessment	Valuation Approaches	Method mostly used
<b>Ukraine, Australia, New Zealand, Vietnam</b>	Land only	Unimproved Capital Value, Annual rental value	Market Value Income Approach, Comparable sales Approach and Residual Value Approach). Non-Value Based Approach(Area Based, Banding and Hybrid)	Comparative or Residual Method
<b>Ghana, Nigeria and Tanzania</b>	Improvements only	Annual rental value, Building value, Capital Improved Value	Market Value Income Approach, Comparable sales Approach and Cost Approach. Non-Value Based Approach(Area Based, Banding and Hybrid)	Depreciated Replacement Cost or Rental
<b>Namibia, Grenada, Japan, Chile, UK and Colombia</b>	Land and improvements together with single rate	Unimproved Capital Value, Annual rental value, building Value, Single Rate, Capital Improved Value	Market Value Income Approach, Comparable sales Approach and Cost Approach. Non-Value Based Approach(Area Based, Flat rate, Banding and Hybrid)	Comparative if both owned by single entity. Residual or Rental if own separately
<b>Namibia, Australia, South Africa and Swaziland</b>	Land and improvement with different rates	Unimproved Capital Value, Annual Rental Value, Building Value, Two Rate, Capital Improved Value	Market Value Income Approach, Comparable sales Approach and Cost Approach. Non-Value Based Approach(Area Based, Flat rate, Banding and Hybrid)	Comparative or Residual for Land. Depreciated Replacement Cost or Rental for Improvement
<b>Mexico City, Colombia and Latin America</b>	Land and Improvement separately with single rate	Unimproved Capital Value, Annual rental value, building Value, Single Rate, Capital Improved Value	Market Value Income Approach, Comparable sales Approach and Cost Approach. Non-Value Based Approach(Area Based, Flat rate, Banding and Hybrid)	Comparative Residual or Area Based for Land. Depreciated Replacement Cost or Rental for Improvement.

Source: Author (based on Kitchen, 2013; Franzsen and McCluskey, 2013 and Walters, 2012)

### **2.2.5 Property Tax Exemption**

Property tax relief or exemptions are applicable almost in every country charging property tax. The power of exemption can be either with central government or local government or sometimes both. Tax relief or exemption may be reduction of taxable amount or eliminate the property from tax liability (Bird and Slack, 2002). However property tax relief or exemption differ from one country to another, but there are some common properties which are exempted almost in every country like government building, public hospitals and schools, buildings used for worshipping like churches and mosques etc (Kayuza, 2006). However, countries like UK and The Netherland went further and exclude agricultural land from property tax base, while in some countries national government compensate sub national government for government properties exempted from tax base e.g. Canada and Japan (Youngman and Malme, 1994). Generally tax relief and exemption reduces tax base especially in developing countries where exemptions are provided without any means of reimbursing. Moreover, Kelly (2013) argued that in order to increase property tax revenue in developing countries, they need to improve tax administration and reduce exemptions which erodes tax base. Property tax collection strategies and compliance enforcement are among aspects to be taken into account in property taxation process in order to achieve the intended goal as described in the following heading.

### **2.2.6 Property Tax Collection and Enforcement**

The aim of property taxation worldwide as we have pointed out is to generate income in order to finance infrastructure and services (Kelly, R., 2013). Collection of revenue from property tax can be improved by widening tax base, enforcing compliance measures or by reviewing tax policy like reducing exemption which normally reduces tax base (Kelly, R., 2013). Generally in order to have efficient and effective property taxation system two aspects need to be taken into account: tax collection strategies and enforcement. Failure of one or both property taxation will not yield the intended results (Bird and Slack, 2002). However, the majority of countries concentrate their efforts on valuation reforms instead of administration reforms. Aspects like tax collection and enforcement have been left behind and the attention is given on improving valuation process and data keeping (Kelly, R., 2013). In order to achieve the intended goal in property taxation process like in OECD countries, the collection led strategy should be adopted like timely and precisely billing, increase convenient payment points, timely enforcement for noncompliance and so on (Kelly, R., 2013).

### **2.2.7 Role of Property Taxes in Local Government**

Local governments worldwide are assigned the task of providing goods and services to the local level. According to Kitchen (2013) good and service range from private goods<sup>5</sup> (e.g. water, solid waste, electricity and sewage) to public goods<sup>6</sup> (e.g. local roads, sidewalks, public education,

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<sup>5</sup> *Private goods are goods and services which have “no means of charging consumers because non-payers are not excludable and which consumers do not have to compete (there is no rivalry)” (Batley, 1996)*

<sup>6</sup> *Public goods are good and services which “is possible to charge for and which individual compete to consume” (Batley, 1996)*

police and fire protection). He further, pointed out that, the goods and services which reveal private goods characteristics can be financed by user fees in the sense that they pay for what they use, while the services that inherent public goods characterizes should be financed by local taxes.

However, “property tax meet the criteria of a good local tax better than the alternatives of personal income or consumption based taxes” (Kitchen, 2013 pg 2). According to Alm, (2011) property tax is the attractive revenue source for local authorities due to the fact that its base expands proportionately with the urban growth,(even if this growth increases the marginal cost of the majority of services provided) also the visibility and fairness nature of the tax in providing services which benefits the local community at large. However, the role of property tax is not the same in every country; it largely depends on expenditure responsibilities among different government levels (Kitchen, 2013). Also the contribution of property tax in local government revenue differ from one country to another, the study done by Kitchen (2013) on 5 countries from OECD, 5 countries from Latin America, 5 countries from Asia, 5 countries from Central and Eastern Europe and 5 countries from Africa indicates that in OECD countries property tax contributes average of 33% on the local revenue, Latin America average of 34%, Asia average of 6%, Central and Eastern Europe average of 11.5% and Africa average of 21%. These indicate that in OECD and Latin America countries the contribution of property tax to local government revenue is very high while Asia and Central and Eastern Europe the contribution is low. In African countries the contribution vary from one country to another, but generally the contribution is moderate.

Unlike other countries, in USA, property tax is directly connected to education funding (Kenyon, 2007). Kenyon (2007) illustrated it by an example of 2004/2005 financial year where the total amount of fund for public school was \$488.5 billion where nearly half of it (i.e. 44%) was local fund mainly property tax and the rest 47% was state funded and 9% Federal contribution. In Tanzania, property tax revenue expenditure depends on the local government assigned responsibilities by The Local Government Finances Act of 1982 and The Local Government (Urban Authorities) Act, 1982. More details are provided in the local government budget.

### **2.2.8 Local Government Budget**

The budget process is administered by several laws and policies. Legal framework provides the role and responsibilities of various government levels in details together with the long term government’s goals (HakiElimu, 2014). Local government budget was created according to the fiscal decentralization policy. Fiscal decentralization means a process of reassigning budget mandate from national government to local levels, by granting the authority in decision making concerning taxes and expenditures (Bahl, 2008 and HakiElimu, 2014). Also, authors pointed out that, fiscal decentralization empowers the taxpayers to participate in decision making regarding infrastructure services provision through local authorities. Expenditure assignment as the pillar of fiscal decentralization defines the local governments’ responsibilities in services provision and the underlying powers in decision making on budget expenditure while revenue assignment clearly defines the distribution of taxing powers in different government levels (Bahl, 2008; Muwonge and Ebel, 2014). However, central governments in some countries are still imposing some limitations on local government budget composition. For example, the Brazilian constitution of 1988 compels the local governments to use 25% of their revenue for education.

Also, in Phillipines a cap on local government expenditure on services was set by the local government code (Bahl, 2008).

### **2.2.9 Local Government Budget Formulation Process**

In Tanzania, budget plans go through many processes before approval. It starts with the local authorities receiving the budget guidelines from the President's Office Regional Administration and Local Government (PO-RALG) which is Ministry responsible with local authorities in Tanzania, the local authority send the budget guidelines to the Wards<sup>7</sup> who require Sub-wards (*Mtaa*) level to prepare the budget plans through participation. Then sub-ward (*Mtaa*)<sup>8</sup> plans get combined into ward plan, the collection of ward plans creates a local authority plan and hence budget is developed. The local government budget are debated and approved by members of the council<sup>9</sup> before being reviewed by regional secretariat. A combination of local governments budgets form a PO – RALG plan and hence the budget. Members of parliament debate and approve budgets from different ministries. Local government get final budget disbursement and begin implementation of the plan.

## **2.3 FORMAL AND INFORMAL SETTLEMENTS**

Formal settlement mean settlements where the dwellers or residents possess formal legal titles and exhibit regular development patterns with essential public services such as water, roads, and electricity while informality can be defined as the development on land or other human activities which does not comply with the laid down procedure or rules (Payne, 1997) in (Smolka and De Cesare, 2013). Informality includes the situation where the land transactions are done based on a contract but not officially registered. Also include, the situation where a developer develops a land according to regulations and condition, and sell the property without formal registration to evade tax, fees and other associated costs (Smolka and De Cesare, 2013).

According to Smolka and De Cesare (2011 pg. 10), "Formal land development begins with planning and ends with the occupation of fully finished houses, which invariably occurs after urban services are in place." Informal land improvement, on the contrary, usually starts with land occupation through informal land market transactions between landowner (seller) and land seeker (buyer) or developer. In order to ensure possession of acquired piece of land Abramo (2003) in Smolka and De Cesare (2011), argued that, building process starts immediately regardless available building materials or plot boundaries demarcation. Usually infrastructure and other public services in that areas are provided after occupation and rarely, government may plan to improve the settlement.

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<sup>7</sup> Ward is a lowest administrative division of the local government in Tanzania

<sup>8</sup> Sub-ward (*Mtaa*) is the lowest level of ward which can be described as neighborhood committees with elected members, with only administrative function.

<sup>9</sup> Council is a body of elected people (councilors) from each ward to manage the affairs of the local authority on behalf of their voters.



Either, Smolka and De Cesare (2011), pointed out some misconceptions or negative perceptions which support argument against imposing property tax in informal settlements like only poor people are living in informal settlement, all informal settlers are unemployed or informal workers, informal settlers have no ability or willingness to pay property tax, no market transactions in informal land acquisition also credit can be accessed through formal land titles only. However, the above misconceptions was proved wrong by Smolka and De Cesare (2011) and Abramo (2003) in Smolka and De Cesare (2011), who stated that people who are living in informal settlements are heterogeneous some of them are employed in the formal sectors and the decision to live in the informal settlement is highly linked with family ties not income levels. Also Smolka and De Cesare (2011) gave example of Lima, Peru where the informal residents are accessing to credit from nongovernmental financial agents more easily than residents with formal land titles. Therefore, by simply living in informal settlement does not amount to inability and unwillingness to pay property tax. This can be approved by Smolka and De Cesare (2006) finding that informal settlers in Brazil are willing to pay property tax after realizing that private sector service provision of such services like water, waste collection etc are more expensive than government provided services. Also informal settlements residents perceive property tax payment receipts as the evidence of rights on their properties (Smolka and De Cesare, 2011). In order to improve infrastructure and services in informal settlements, property tax need to be instituted as discussed in the following section.

### **2.3.1 Property Taxation in Informal Settlements**

The introduction of property tax in informal settlements requires some basic information of the subject area. That information has a great value for local authorities land management department as well as private sector. As pointed out by Durand-Lasserve (2006) that lack of proper recognition of services beneficiaries and cost recovery in the informal settlements leads to poor infrastructure and services provision. Therefore, by recognizing the informal settlement through property taxation may prompt the local authority to provide basic infrastructure services and thus open a room for other social and economic opportunities in the neighbourhood. It is worthy to note that, poor families in the informal settlements are willing their property to be included in the cadastre for property taxation to guarantee the legal ownership of their land (Smolka and De cesare, 2013). However, Smolka and De Cesare, (2013) pointed out that property tax assessment and collection in the informal settlements are costly compared to formal settlement this is due to the fact that identification and accessibility of properties in those areas is the problem. This leads to lack of investment in infrastructure in those areas.

Nevertheless, informal settlements to a great extent are the result of inadequate and unaffordable serviced land. Property tax encourages land development at its highest and best use, especially when the tax is charged heavily on land (Smolka and De Cesare, 2013). Land prices are relatively high both in formal and informal settlements in developing countries cities, so the poor cannot afford to access it, property tax can be used to reduce that price. Moreover, Bahl and Linn (1992) in Smolka and De Cesare (2013) agreed that, imposing a heavy tax on land, prices of land diminishes and the access of poor people to it is less difficult. Therefore a land tax value can be used as an alternative means of acquiring serviced land. However, this can be best applicable in countries where tax base is on land. But for countries like Tanzania and Ghana where tax base is development only it is not applicable.

Therefore, it is a high time for local authorities to put much emphasis on property taxation strategies in the informal settlements as it shows high potential as source of local government revenue to finance infrastructure and public services. Although, some of developing countries are showing some initiatives in recognizing informal settlement as discussed in the following topic.

### **2.3.2 Legal Perspective of Informal Settlement**

Recognition of the legitimacy of informal settlement land tenure system emerged in 20<sup>th</sup> century in some of developing countries. It was successfully attained through constitution and national policy provisions. Tanzania, South Africa and Uganda are among countries which introduced this recognition. In South Africa informal urban settlements were included in the national law, section 63 (1) of Development Facilitation Act, 1995 states that:

*“Whenever land development takes the form of upgrading of an existing settlement, informal or unregistered tenure arrangements existing among occupants of the settlement may, subject to any condition be converted into ownership in the manner prescribed”.*

This section prompts the local authorities to recognize the informal settlers as members of community and their right to access public services and proper planning. In Tanzania the Land Act, No 4 of 1999 and National Land Policy of 1995 recognize the right of land occupier in informal settlements with the provision which directs the local authorities to record and maintain the rights of residents in informal settlement for future registration. Also, in Trinidad and Tobago a ‘certificate of comfort’ is provided to squatters as the initial stage of acquiring a full ownership of that land. Moreover, in Uganda the rights of informal settlers are recognized by a constitutional provision (McAuslan, 2002).

It is worth to note that informal settlements in Dar es Salaam are obliged to pay property tax as per Urban Authorities (Rating) of 1983 but still signalled by poor road infrastructure and other basic services. However, informal settlements in Dar es Salaam have unique features compared to informal settlements in many other cities in Sub Sahara Africa. They consist in residents with different socio economic backgrounds. Also the land is legally occupied through purchase from customary land owners, inheritance or allocated by local leaders (Young and Flack, 2010).

## **2.4 INFRASTRUCTURE SERVICES CONCEPT**

Infrastructure is the system designed to meet some social needs of humankind by creating a sustainable and liveable environment. Also, infrastructure smoothen the flow of information and facilitates the movement of people and goods from one point to another. Generally it is a foundation of the public prosperity both in urban and rural areas. Different authors have made attempts to define infrastructure differently, to mention few;

Chambers, (2007) *defined infrastructure as “the physical structures, facilities and networks that provide essential services to the public”.*

Weisdorf, (2007) *defined it as “the essential facilities and services that the economic productivity of community or organization depends on”.*

Alm, (2011 p.3) *defined it as “long lived capital facilities used in providing certain types of services to households and also in providing services that enhance private sector production”.*

Nearly all definitions signify two aspects that are the capital invested to produce services and actual services flow (Alm, 2011). Infrastructure comprises different aspects i.e. transport, energy, electricity, educational, health facilities, and solid waste destination. The production of goods and services process depends on services which are the component of infrastructure; also services facilitate the community to function well. However, the public goods attributes inherent in infrastructure services require government intervention to ensure efficiency and equitable distribution as pointed out by Ingram et al., (2013). Also to make sure that, the services provided by private sector are not under provision due to inefficient allocation of goods and services. Although, infrastructure services are undertaken across all levels of government as argued by Mello and Sutherland (2016), but for the purpose of this study the infrastructure only undertaken under local level especially local roads are given special attention. Road network among different components of infrastructure is the catalyst of economic growth in many urban areas worldwide.

In Tanzania, and many other developing countries infrastructure services provision is facing many challenges like lack of finance, unsatisfactory condition of facilities used to provide service and the resulting low quality of services magnify the problem (Alm, 2015). Generally the demands for infrastructure provision and maintenance are so high. This was supported by Estache (2010) in Alm (2015) by estimating the average of 6.5% of GDP as the need for infrastructure for developing countries for 2005-2015. According Peterson (2009) the high urbanization trend of cities in the developing countries has increased the need of finance for infrastructure development and maintenance. Local governments are assigned the responsibility of financing infrastructure services provision and maintenance through decentralization policies, although the local revenue bases are narrow. That growth trend of cities increased the land based financing popularity as a source of finance for infrastructure services.

Instruments which have been successfully used to capture land values to finance infrastructure in developing and developed countries are mentioned by Peterson (2009); betterment charges mostly used in Bogotá Colombia, Sale of development rights used in Sao Paulo – Brazil, public land sale used in China and India, Development exaction and Impact fee used in Santiago, Chile and so on. Therefore, Peterson (2009) concluded that; the use of land based financing to finance infrastructure services proved to be more economically efficient, than the system of financing infrastructure through general revenues.

Property tax has been identified as sustainable source of finance for urban infrastructure services compared to the above mentions land value capture instruments due its continuity nature while others are one time payments. Different authors have different opinions on public investment on infrastructure services. However, Mc Donald and Osuji (1995), Marciel (2009) and Peterson (2009) agree that public investment on transportation infrastructure increases the property value in the neighbourhood. The good example is the Rodoanel investment in Sao Paulo which increased the land value in the West side of the project (Marciel, 2009). This argument was also supported by an example of Chicago given by Marciel (2009) and McDonald & Osuji (1995) that by improving transportation system the values of properties near the project area increased by 17%. Therefore by using property tax revenue to finance infrastructure such as local road

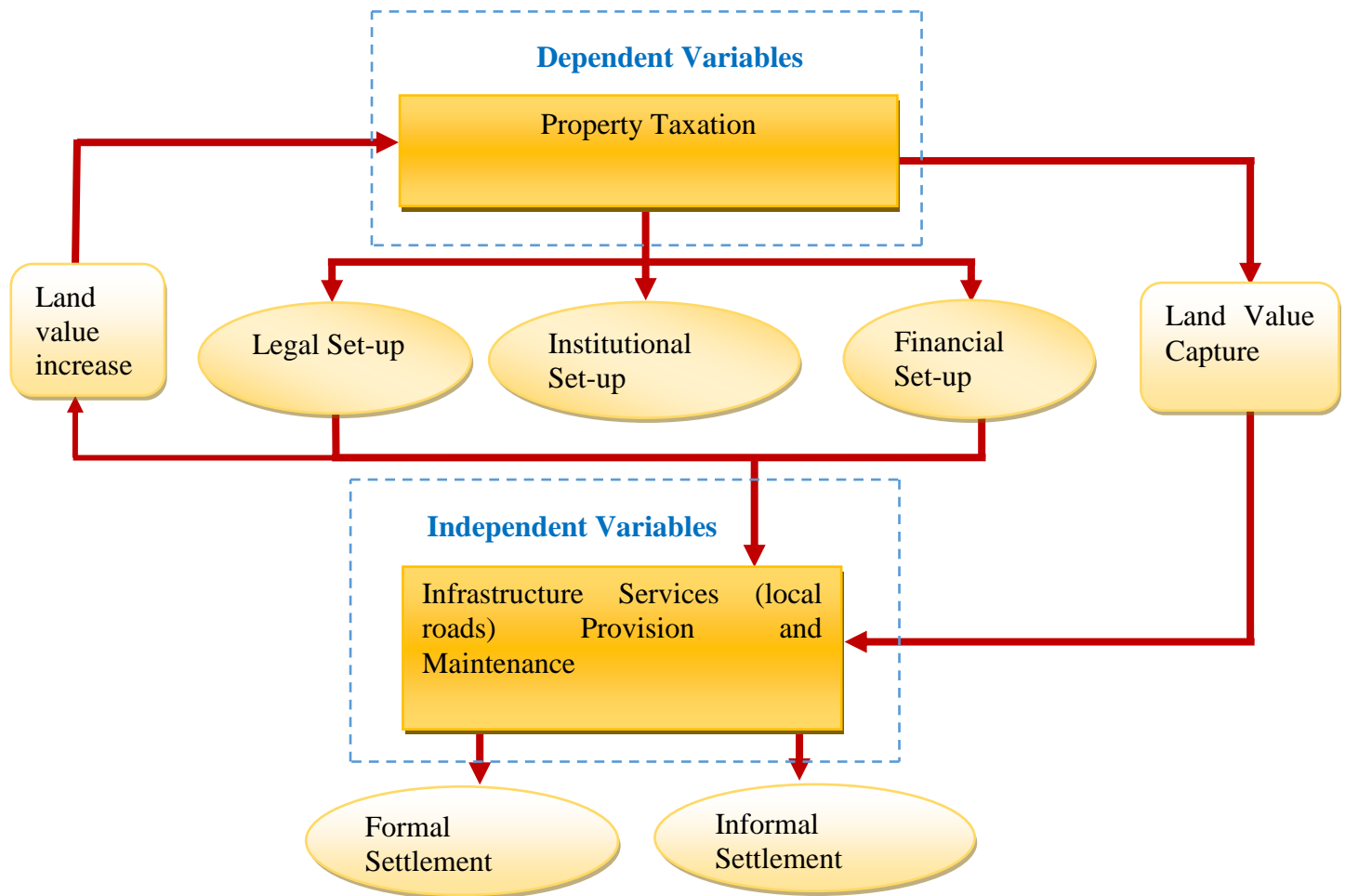
network increases the value of properties in the neighbourhood and the increment value can be tapped through property taxation and reinvested in infrastructure (Peterson 2006).

The focus of this study is on local roads infrastructure in the informal settlements. As noted from literature, different instrument were used to capture value and finance infrastructure services which increase the property values in the area. For instance, sale of land rights in Egypt used to construct high way in Cairo, betterment charges used in Bogota Colombia to finance road improvement also land leasing used in China to finance ring road (Peterson, 2009). Furthermore, road infrastructure is one of the most important aspects in economic development and social life, since it provides the access to other infrastructure services like education, health and other public goods and services. Therefore, by improving local roads in the informal settlements through property tax revenue, not only increase property values in the area but also provide accessibility to another form of infrastructure in the area.

## **2.5 CONCEPTUAL FRAMEWORK**

The conceptual framework diagram summarizes the concepts discussed in chapter two by indicating the existing relationships between them. It reveals the mutual synergic relation that may exist between property tax and local roads infrastructure: as literature indicates, with the improved accessibility in the formal and informal settlements, the property value in those areas increase. But it is worth to be noted that in Tanzania's case the increment value incident on land cannot be captured by property taxation. However, local government will be able to capture that increment value incident on developments through property tax and use it for construction and maintenance of local roads under favourable legal, institutional and financial set-up. However the availability of sustainable local roads in the formal and informal settlements evokes more investments and hence accomplishes the cycle of mutual dependence. Since, investing in provision and maintenance of local roads increase the value of properties in the surrounded areas, this justify the local government to collect property tax for further investment in road infrastructure and other services in its area of jurisdiction. Also it reveals that road infrastructure can be sustainably financed by property tax since it is a continuous revenue generating source.

**Figure 2 Conceptual Framework**



Source, Synthesis from literature review

## **CHAPTER 3: RESEARCH DESIGN AND METHODS**

This chapter introduces how the research was carried out. It provides a detailed methodology used in this study.

### **3.1 INTRODUCTION**

Property taxation is increasing in popularity in many countries, Tanzania inclusive, as the source of local government revenue to finance infrastructure services. Local governments in Tanzania are gradually improving the tax base in order to increase revenue through a better system of collection. Unlike land rent (ground rent) property taxation is imposed in both formal and informal settlements in Tanzania. However the infrastructure services mainly local roads in the informal settlements in Dar es Salaam city are in bad shape compared to formal settlements. For this matter, the explanatory research was conducted to indicate the relationships of variables being researched on and hence connect the resultant ideas to get a better understanding of the cause and effect of existing fact. The research has gathered various primary and secondary data related to property taxation practice and road infrastructure provision in formal and informal settlements. The study has obtained ideas and contributions from various property tax and related professionals also taxpayers for purpose of obtaining views and ideas in relation with the appropriateness of property taxation and road infrastructure improvement.

### **3.2 Research Area**

The study tries to find out to what extent property tax influence the provision and maintenance of local roads infrastructure in the informal settlements compared to formal settlements. This study was conducted in Dar es Salaam City. However, the focus was in two settlements that are Makongo Juu informal settlement and Mbezi Beach formal settlement. The study revealed that there is high compliance in paying property tax in Makongo Juu compared to Mbezi Beach, although local roads in Makongo juu are in poor condition.

#### **3.2.1 Makongo Juu Settlement**

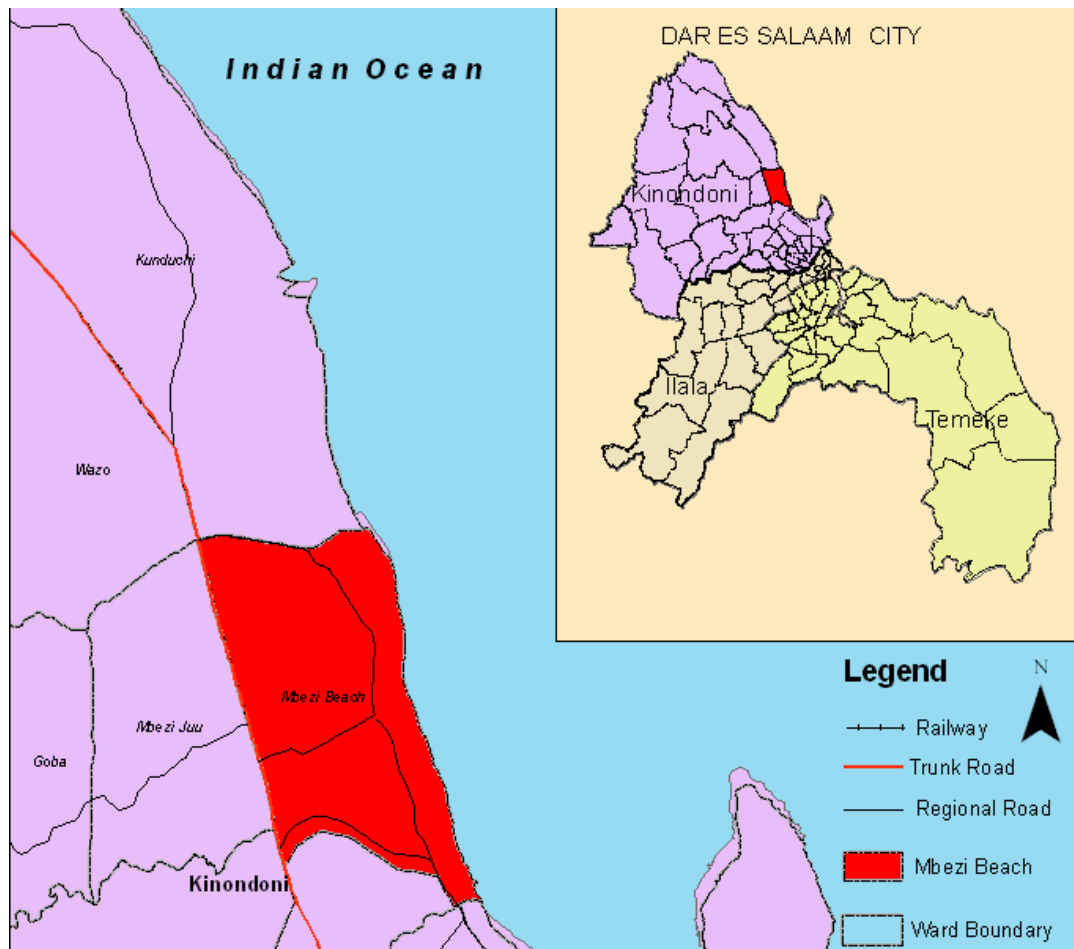
Makongo Juu is an informal settlement located about 15 kilometres northwest of Dar es Salaam city centre. The area is growing very fast. Historically, before 1960s, the area was a Sisal Plantation. Gradually, farm land was subdivided into plots by the peasants and sisal workers. Currently the settlement occupies an area of 1500 hectares, is a densely-settled residential area with an estimated 17,000 inhabitants with an average of 5-6 persons per household, showing that there are between 2840-3400 households (Layson and Nankai, 2014). Figure 3 is location map of Makongo Juu settlement.

The map displays the Makongo Juu ward in red, situated in the southern part of Dar es Salaam City. The ward is bordered by Kinondoni to the north, Ilala to the west, and Tembeke to the east. The Indian Ocean is visible to the south. The map includes a legend for Railway, Trunk Road, Regional Road, and Ward Boundary, and a north arrow. An inset map shows the location of Makongo Juu within Dar es Salaam City.

### 3.2.2 Mbezi Beach Settlement

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**Figure 4: Mbezi Beach Formal Settlement: Planned Settlement**



Source: Dar es Salaam Standard Sheets and Satellites Images

### **3.2 REVISED RESEARCH QUESTIONS**

The main and sub research questions are not changed, they are the same as in chapter one. Main research question states that; to what extent does property taxation influence the provision and maintenance of infrastructure mainly local roads in Makongo Juu and Mbezi Beach settlements in Dar es salaam City? The study intention was to establish how property tax is used by local authorities to finance infrastructure services, by investigating on what people pay and what they receive back in terms of services especially local roads. Also, to find out whether the property tax revenue is sufficient to finance improvement and maintenance of local roads infrastructure; in Makongo Juu and Mbezi Beach settlements in Kinondoni Municipal Council in Dar es salaam City. The following are sub research questions:

1. What is the legal and institutional set-up of property taxation in Dar es Salaam?
2. What is the difference in aims and goals of property taxes collected by government in formal and informal settlements?
3. To what extent are collected property taxes adequate to finance local roads infrastructure provision and maintenance?



4. What are the taxpayers' and government perceptions on the use of property taxes to finance local road infrastructure in Mbezi Beach formal settlement and Makongo Juu informal settlement?

### **3.3 RESEARCH APPROACH AND DESIGN**

For this research a case study strategy was adopted. A case study approach is appropriate when an event to be studied cannot be separated from its context (Yin, 2003). Also, suitable when the research requires understanding of a complex phenomenon for example investigating on how property taxation finances infrastructure services in the informal settlements. This is the central focus of this research. Moreover, the case study strategy was well thought out suitable for this research as it involved physical observation and in depth interviews of population involved in the study. The strategy enabled thorough investigation on the reasons of poor infrastructure service in the case areas by employing different techniques of data collection such as in-depth interviews, direct observation and secondary data and come up with a detailed explanation which enabled the researcher add understanding of property taxation and road infrastructure provision in the formal and informal settlements.

The study is an explanatory and a single embedded case study. It is explanatory, in the sense that the research intention was to explain why property tax are collected in informal settlement but still road infrastructure are in poor conditions while theories provide that property taxes are collected to finance infrastructure provision and maintenance. Also the study is a single embedded since it researches Dar es Salaam city with the focus on two settlements i.e. Mbezi Beach and Makongo Juu. The two settlements were selected because of the similarities and differences between them. Mbezi Beach is a well planned and developed settlement with good road infrastructure compared to Makongo Juu which is unplanned settlement with poor road infrastructure. Property taxation are collected from both settlements and both settlements are located in the intermediate zone of Dar es salaam city.

### **3.4 OPERATIONALIZATION: VARIABLES AND INDICATORS**

Technical variables like property tax, infrastructure and budget identified in the conceptual framework were defined to ease the operationalization process. 'Property tax' refers tax levied on the value of land, buildings and any other remarkable development permanently done on land (Abbott, 2008 and Franzsen and McCluskey, 2013), also in the context of this study the definition of 'infrastructure' was limited to local roads transportation system designed to meet some social needs of humankind by creating a sustainable and liveable environment (Chamber, 2007; Weisdorf, 2007; Alm, 2011 and Ingram et al., 2013) and 'budget' is used to mean an estimate of income and expenditure for a set period of time (Phillips and Costa, 2007).

**Table 2: Operationalization of Variables**

Concepts	Variables	Indicators	Data Collection Method	Data Type
<b>Property Tax</b>	Legal set-up	Legal justification of:- <ul style="list-style-type: none"> <li>• Tax base</li> <li>• Tax rate</li> <li>• Tax of assessment</li> <li>• Tax relief and exemption</li> <li>• Tax collection and enforcement</li> </ul>	Interviews Documents review (e.g. policy, Constitution, Urban Authorities (Rating) Act, etc) Observation	Primary and Secondary data
	Institutional set-up	<ul style="list-style-type: none"> <li>• Organization structure</li> <li>• Responsibilities</li> <li>• Capacity</li> </ul>	Interviews Document review Observation	Primary and Secondary data
<b>Local Government Budget</b>	Expenditures	<ul style="list-style-type: none"> <li>• Amount collected from each settlement</li> <li>• Amount allocated to road services compared to other services</li> </ul>	Interviews Documents review	Primary data and Secondary
<b>Revenue</b>	Financial Set-up	<ul style="list-style-type: none"> <li>• Estimated vs. collected amount (yearly)</li> <li>• Property tax vs. other sources of revenue</li> </ul>		
<b>Costs</b>	Local road construction	<ul style="list-style-type: none"> <li>• Types of local roads</li> <li>• Length of local roads in kilometre</li> <li>• Cost of construction per kilometre</li> </ul>	Interviews Documents review	Primary data and Secondary
	Local road Maintenance	<ul style="list-style-type: none"> <li>• Length of local roads to be maintained</li> <li>• Level of maintenance</li> <li>• Road maintenance cost per kilometre</li> </ul>		
<b>Infrastructure Provision</b>	Perception of Taxpayer	Formal <ul style="list-style-type: none"> <li>• Rights on services</li> <li>• Obligation of paying property tax</li> </ul>	Interviews Documents review	Primary data and Secondary
		Informal <ul style="list-style-type: none"> <li>• Rights on services</li> <li>• Obligation of paying property tax</li> </ul>		
	Perception of Government	Formal <ul style="list-style-type: none"> <li>• Rights to collect</li> <li>• Obligation to provide services</li> </ul>		
		Informal <ul style="list-style-type: none"> <li>• Rights to collect</li> <li>• Obligation to provide services</li> </ul>		

Source: Author, 2016

### **3.5 SELECTION OF SAMPLE AND SIZE**

Purposive sampling was used for this research, where the interviewees were selected based on the knowledge they possess over the subject matter. The researcher believes that the selected samples provided required primary and secondary data. At Local Government level experienced officers from each department were interviewed that is Valuation, Planning, Accounts, Engineering, and Legal department, also, valuation officer from Valuation section at the Ministry of Lands was interviewed in order to crosscheck with the information received from the local government officers. Ministry of Lands is the ministry which oversees the valuation practices of the local governments in the country especially valuation for property taxation. Instead of random sampling as proposed before, convenience sampling was used to select interviewees from Makongo juu and Mbezi Beach settlements. The researcher decided to switch from random sampling because representative sample was small that could not meet random sampling requirements and also the time limit of one month made it impossible to know the characteristics of whole population in the study. And the fact that the study is purely qualitative normal distribution of research characteristics is not evident; therefore this hindered the use of random sampling. Convenience sampling was appropriate in this study; the willing informants from both settlements were interviewed who provided rich and useful information which led to understanding of the subject matter more than generalizing the results. Last, but not least 2 local leaders from both settlements were interviewed to get extra information on their participation in property tax process, annual budget preparation, road infrastructure provision and maintenance in their jurisdiction and so on. A total of 17 interviews were conducted and through that the researcher gathered all necessary information required for this research.

### **3.6 VALIDITY AND RELIABILITY**

External validity, internal validity and reliability are the main challenges facing a case study strategy. According to Vershuren et al., (2010) external validity is concerned with the issue of generalizing findings beyond the case study area, which means the research results from a case study strategy cannot be generalized to the broad context. Internal validity presumes the existence of causal relationships between dependent and independent variables (Thiel, 2014). Reliability means to ensure accuracy and consistency in the sense that same findings will be arrived at, if similar study will be carried out following the same procedures. In order to overcome that challenge a combination and comparison of information from different sources was done (triangulation) and also the effort was made to build up trust relations with the respondents by clearly explaining the objective of the study. In addition to that, a pre test of interview guide conducted at IHS before going to fieldwork was done to make field work easier.

During interviews note taking and recording were done consistently also the interview guide questions were translated into Swahili language which is spoken language in Tanzania to make sure all interviewees understand the question and respond accordingly. However, in order to ensure validity and reliability of the information on property taxation practice and road infrastructure provision and maintenance gathered from various officers at Kinondoni Municipal council, triangulation was done through interviews conducted with the valuation officer at the Ministry of Land and taxpayers in Makongo Juu and Mbezi Beach settlements. Also physical

observation in the case areas was done to crosscheck the real situation of road infrastructure in both settlements compared on the information received from local government officers as well as documents review.

### **3.7 DATA COLLECTION METHOD**

For the purpose of this research primary and secondary data sources have been employed. The data have been obtained through interview, observation and document review.

#### **3.7.1 Interview**

Interview was conducted to different groups of professionals, property owners and local leaders. This was conducted through interview guide with specific questions structured according to the topic and which was asked depending on the response during interview process. Interview questions (Annex 2) have been useful in this study in order obtain the basic primary and secondary data related with property taxation and infrastructure provision in the formal and informal settlements in Dar es Salaam. Local Government officials particularly valuation officers at Kinondoni Municipal Council have been cooperative and able to provide valuable information related with property valuation procedures, tax assessment, collection in Dar es Salaam as well problems frequently encountered on their day to day duties together with their personal views in relation with public responses on various property tax matters and particularly road infrastructure provision and maintenance. Valuers, Engineers, economist, lawyer and accountant from KMC (who spared a valuable time to discuss with a researcher) have provided required information necessary in the identification of weaknesses of the current property tax processes and infrastructure provision. Also, constructive ideas towards achieving an appropriate process of property tax and infrastructure provision in Tanzania have been provided. Also the interview conducted with the taxpayers and local leaders from Makongo Juu and Mbezi Beach provided required information to answer the research questions.

**Table 3: List of Respondents**

<b>Respondents</b>	<b>Total number</b>
Taxpayers from both settlements	10
Municipal Valuer/Official	2
Road Construction Engineer	2
Municipal Economist	1
Municipal Accountant	1
Municipal Lawyer	1
<b>Total</b>	<b>17</b>

Source: Fieldwork (June 2016)

#### **3.7.2 Direct Observation**

This method was conducted to acquire some evidence without a need of having respondents (Walliman, 2005). Direct observation has been very useful as it has enabled this study to identify practical infrastructure provision and maintenance in formal and informal settlements in Dar es

Salaam. Two selected settlements have been visited, examined and directly compared in order to determine the level of infrastructure provisions and maintenance. Findings from physical observations have been able to provide basic answers to research questions of this study.

### **3.7.3 Document Reviews**

The study has benefited from secondary data which have been obtained from various documentation including published and unpublished information on property tax and infrastructure services such as books, various research papers and pieces of legislations, policy documents, constitution and various government reports have provided a theoretical part of this study. Books and research papers have been important sources of information related with property taxation and infrastructure provision and maintenance in Dar es Salaam while on the other hand legislations have provided a guidance and general understanding of the existing property taxation legal framework in Tanzania.

## **3.8 DATA ANALYSIS METHOD**

This study is a qualitative study; therefore the data collected was analyzed qualitatively by the aid of ATLAS.ti and EXEL for secondary data.

## **CHAPTER FOUR: RESEARCH FINDINGS**

### **4.0 INTRODUCTION**

This chapter describes the findings related to property taxation process and its effectiveness in addressing the problem of local road infrastructure in Dar es Salaam City by comparing two settlements; Mbezi Beach which is a formal settlements and Makongo Juu which is an informal settlement. The findings are based on the information provided by different sources; interviews conducted with experts from Kinondoni Municipal Council, taxpayers from both settlements, and local leaders of both settlements, triangulated with secondary data and researcher's physical observation.

Studies show that, Tanzania falls among the 53 member states of the commonwealth countries, hence has been one of the countries which adopted the British approach to property taxation (Kayuza, 2006). Considering the importance of property tax as a source of revenue for Urban Authorities, Tanzania has been implementing the current property tax assessment to raise substantial revenue required by local authorities. The growing needs for urban services and infrastructure, enhanced by an overwhelming increased rate of urbanization, has led to property taxation being one of most important revenue sources which enables local governments to deal effectively with revenue needs.

Therefore this chapter discusses the legal and institution set up of property taxation, aims and goals of property taxation, the extent of adequacy of property tax in financing local road infrastructure as well as the perceptions of those who charge (government) and those who pay the tax (tax payers).

### **4.1 LEGAL AND INSTITUTION SET UP OF PROPERTY TAXATION**

Interviews conducted with the valuation and legal officers at the Kinondoni Municipal Council (KMC) revealed that there are two main legislations that govern property taxation in Tanzania; The Local Government Finance Act of 1982 and The Urban Authorities (Rating) Act of 1983. Section 16 of Urban Authorities (Rating) Act (UARA) justifies Kinondoni Municipal Council to be among rating authorities in Tanzania. Also, tax base, rate, assessment, collection, exemptions and tax enforcement are provided under UARA. The Municipality consists of four divisions with 34 wards classified into 171 sub wards and is led by elected Mayor and Municipal Director. Sections which are dealing directly with property taxation and infrastructure provision and maintenance are described in table 4.

**Table 4: Sections Dealing with Property Taxation and Infrastructure and their Activities**

S/N	Section	Activities
1	Valuation section	To carry out valuation for rating purposes, to receive and settle taxpayers claims, to prepare valuation roll, to prepare demand notices
2	Finance section	To collect revenue, to ensure efficient use of collected revenue, to provide professional advice to all matters related to finance.
3	Planning Section	To plan , monitor and evaluate local government projects, to prepare local government budget
4	Engineering Section	To plan, design and supervise all Municipal Council civil works
5	Legal Section	To defend the local government in court, to review local government contracts, to prepare and supervise the local government bylaws, and to interpret laws and provide legal advice.

Source: Kinondoni Municipal Council

#### **4.1.1 Property Tax Base**

The interview conducted with the Municipal Valuer established that property taxation in Tanzania is based on improvements only (building structures or any other improvements). This is also provided under Section 21 of Urban Authorities (Rating) Act of 1983. The Act excludes the value of land because land in Tanzania is considered to be owned by the public vested on the President as the Trustee for and on behalf of all citizens<sup>10</sup>. Moreover, Section 22 of the Urban Authority (Rating) Act provides that market value of a subject property should be used as the taxable value and where the market value cannot be established replacement cost approach should be applied. The same section provides further that, depreciation value shall not exceed 25% of the property value. Due to unreliable property market information in Tanzania, cost approach is mostly used for different purposes of valuation, although this method is considered by Lafuente, (2009) and Mathur et al. (2009) to be ineffective as it may lead into under valuing or over valuing the subject property.

#### **4.1.2 Property Tax Rate**

The interview with Municipal Valuer revealed that the property tax rates which are used were established in 1996 during phase one of the rating valuation project, and was set at 0.15% for residential property and 0.2% for commercial property. This is also supported by Kayuza (2006) that property tax rate in Dar es Salaam are outdated and need to be reviewed. These rates have been the same for the past 20 years despite the fact that the law allows for the Municipal Councils to amend them; and the reasons for this situation were given by the Municipal Valuer as follows:

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<sup>10</sup> Section 4 of the Land Act, No. 4, 1999

*“The tax base is not reviewed for so long even though the law provides the room for amendments, because if you review the rate basing on the local government revenue requirements, the rate will be very high and I assure you that it will get resistance from the central government and the politicians. The politicians are always there to protect their elected posts”.*

However, tax rates of 0.15% and 0.2% for residential and commercial properties respectively are exceedingly low to capture enough revenue to finance local government spending on infrastructure services. Franzsen et al. (2003) compared tax rate in Tanzania with tax rate in other countries in the region; Namibia and South Africa where the rates are between 1% and 2% of the total value of land and improvement thereon, which indicates that tax rates used in Tanzania are very low and unrealistic. However, interviews conducted with different experts in Kinondoni Municipality indicated that the council does not feel that the tax rate is too low, but the problem lies on uncollected taxes due to exemptions and evasions. But analysis as shown in tables 13 and 15 shows that the amount collected is not sufficient enough to cover for the infrastructure costs. This can make one believe that the experts have not been able to correctly assess the requirements level of infrastructure and services needed by the community.

#### **4.1.3 Property Tax Assessment**

Prior to 1996, property tax assessment in Dar es Salaam was done in accordance with the provisions of the Local Government Finances Act of 1982, whereby property tax was levied based on flat amount (Kayuza, 2006). Under this system, various graduated rates were imposed on rateable properties according to the property use. Levying property tax on the basis of the value of the property in Dar es Salaam came into effect in 1996 when the first valuation roll was prepared under the Dar es Salaam rating valuation (Phase I) exercise which took place in 1993/94. An interview with the Municipal Valuer indicated that, in order to come up with taxable value, valuation process is to be done basing on improvement only as per section 21 of Urban Authority (Rating) Act of 1983. However, current property taxation valuation in Dar es Salaam is characterized by various features. Major features which pose challenges to local property tax assessment in Kinondoni Municipal Council include poor coverage of property tax assessment and lack of staff, particularly valuers required to cater for the increased number of taxable properties. For instance, the municipal council with a total of 136,000 taxable properties has only 7 qualified valuers. Apart from that, uncontrolled growth of informal settlements as well as inadequate funds required to undertake effective rating valuation exercises are also obstacles.

#### **4.1.4 Property Tax Collection**

Section 48 of the Urban Authority (Rating) Act of 1983, stipulates the responsibility of every property owner in the taxable area to pay property tax. Also, Section 46 requires a tenant or occupier of a taxable property to pay property tax in absence of property owner. However, the tenant or occupier can recover the paid amount by deducting it from the rent he/she pay to the property owner. Tax collection is made through billing, collection and implementing the enforcement procedure as provided by the law. The interview conducted with the municipal valuer revealed that, the valuation section is the one which prepares the bill and delivers them to property owners either by mail or by hand. After receiving the tax bill, a taxpayer decides on how and when to pay the tax either through bank, electronic money transfer through mobile



phones or pay to municipal cash office. Despite the fact that Rating Act does not provide statutory billing and payment dates (McCluskey et al, 2003), Kinondoni Municipal Council Property tax bylaws requires a taxpayer to settle the bill within 30 days upon receipt of demand notice. However interviews conducted with taxpayers in Mbezi Beach and Makongo Juu revealed that one third of taxpayers do not pay property tax because they never received the tax bills. This indicates that there is no proper follow up on the Municipal side, as the Municipal Valuer claimed that they send the tax bills to the local leaders who distribute them.

Nevertheless, data provided by Municipal Accounts section indicates performance of property tax collection in Kinondoni Municipality has increased over time from 689,000 US\$ in 2006/2007 financial year to 3,612,062.06 US\$ in 2015/2016 as shown in table 5. However, much of the growth has been attributed by various reforms which have been undertaken by the government. This was established from an interview with the Municipal Valuer when explaining on the reasons for revenue increases for the financial year 2012/2013 to 2015/2016 compared with 2009/2010 and 2011/2012. He narrated that:

*“The increase was due to implementation of the government program which aims at solving development challenges; known as Big Results Now (BRN). This government initiative is aimed at adopting new methods of working under specified timeframe for delivery of the step change required where resource mobilization was among priority areas. In order to implement that, temporary valuers were hired and mass valuations were carried out in each ward, demand notices were distributed on time and much attention was given to big taxpayers”.*

Also, Municipal Valuer pointed out that, some efforts are done by the Municipal Council to increase revenue collections like to remind taxpayers to clear their bill through public media such as radio and televisions. Table 5 shows the increase rate of property tax collection for a term of ten years.

**Table 5: Property Tax Collection and Rate of Increase from 2006/07 to 2015/16 Financial Years**

Financial year	Property tax revenue in US\$	Amount increase in US\$	Increase in %
2006/7	689,000.00	-	-
2007/8	909,100.00	220,100.00	32%
2008/9	1,000,000.00	90,900.00	10%
2009/10	833,636.36	-166,363.64	-16.6%
2010/11	1,003,181.82	169,545.46	20.3%
2011/12	1,054,545.45	51,363.63	5.1%
2012/13	1,163,636.36	109,090.91	10.3%
2013/14	2,045,454.55	881,818.19	75.8%
2014/15	2,422,727.27	377,272.72	18.4%
2015/16	3,612,062.06	1,189,334.79	49.1%
<b>Average</b>	<b>1,473,334.39</b>	<b>292,306.21</b>	<b>20.4%</b>

Source: Kinondoni Municipal Council and Author's analysis, 2016.

The results in table 5 show that there is a high increase of property tax revenue collection for the financial years **2012/2013** to **2015/2016** compared to the previous years; **2008/2009** to **2011/012**. This indicates that, government initiatives have an impact on increase in revenue.

Although figures presented in table 5 indicate that property tax collections are increasing, in reality the targets have never been met (See table 6), hence confirming that the Municipal Council has not been able to exploit the existing potentials in property taxation.

#### **4.1.5 Property Tax Exemption**

Procedures for rateable value assessment have also been stipulated in the urban Authorities (Rating) Act, 1983, whereas Section 6 of the Act requires the declaration of the area within the urban boundaries to be a rateable area. However, some properties are exempted from the tax base, and those exempted properties have been listed under section 7 to include;

*“property in the personal occupation of the president, property used wholly for the operational purposes of any public utility undertaking concerned with the storage or processing or distribution of public water supplies, or the collection or treatment of water-borne sewerage; property used primarily for public worship but excluding property used for other user other than worship; public libraries and public museums; cemeteries and crematoria; civil and military aerodromes except for the buildings thereon and their cartilage; property used for sporting purposes and which is used solely by a full-time educational institution; railways track including all related infrastructure and such any other property as the urban authority may prescribe”.*

An interview with Municipal Valuer indicated that in Kinondoni Municipality there are about 10,000 substantial government, educational and religious properties, which are about 7% of total taxable properties located in the prime areas which are exempted from paying property tax. Apart from that, the Minister responsible for Local Governments is empowered by section 13(5) of the Local Government Financial Act of 1982 to exempt any person or group of people from paying property tax which also reduces the tax base. The Municipal Valuer pointed out that, there are some properties with high values which are exempted from tax by the Minister on the reasons known to him/her. As argued by Kelly (2013) that, in order to increase property tax revenue in developing countries, there is a need of improving tax administration and reduce exemptions which erode tax base. In Kinondoni Municipal Council tax exemption has eroded tax base hence reduced amount of revenue collected which could have been used to provide infrastructure and services in the informal settlements. One of the local government officials pointed out that, the majority of exempted properties are allocated in planned areas and most of them are private education institutions which are making profit, but enjoy free infrastructure and services while tax payers in informal settlements who are paying property tax are suffering from poor infrastructure.

#### **4.1.6 Property Tax Enforcement**

The Local Government Finance Act of 1982 and Urban Authority (Rating) Act of 1983 provide procedures for enforcing property tax compliance. Measures include imposing penalty on unpaid tax (1% per month), seizure of the property of tax defaulter to recover the amount of tax owed, imprisonment for the term not exceeding 12 months or penalty of 25% of arrears per year. For the case of employed tax defaulter deduction from defaulter's salary to recover the unpaid tax is done as per Section 30 of the Local Government Finances Act of 1982. Despite these measures provided by laws, implementation of the same is difficult especially when court procedures are involved. For the past ten years the Municipal Council has never implemented these measures due to the reasons explained by Kinondoni Municipal Legal Officer as follows:

*“It is difficult for our council to implement them because going through court procedure is time consuming and costly, and due to financial problems facing our council, these measures are hardly undertaken”.*

Table 6 shows the property tax revenue gap between the tax payable (target) and the actual collection per year. That gap is mostly caused by poor enforcement of property tax compliance measures in both formal and informal settlements.

**Table 6: Property Tax Gap between Tax Payable and Actual Collected**

Year	Tax payable (target) in US\$	Actual collection in US\$	Gap % decrease
2006/07	1,968,571.43	689,000.00	65%
2007/08	1,336,911.76	909,100.00	32%
2008/09	4,347,826.00	1,000,000.00	77%
2009/10	896,383.18	833,636.36	7%
2010/11	1,393,308.00	1,003,181.82	28%
2011/12	1,171,717.17	1,054,545.45	10%
2012/13	1,594,022.41	1,163,636.36	27%
2013/14	2,556,818.19	2,045,454.55	20%
2014/15	2,497,565.98	2,422,727.27	3%
2015/16	3,969,298.97	3,612,062.06	9%
<b>Average</b>	<b>2,173,242.31</b>	<b>1,473,334.39</b>	<b>28%</b>

Source: KMC and Author's analysis, 2016.

The figures shown in table 6 above reveal that the gap between total tax payable per annum and actual collection is considerably decreasing. However, even if this gap has been reduced in the last 5 years, it indicates the weakness of property tax enforcement and collections which lead to revenue loss of average of **28%** per annum of the total tax payable (budgeted) in each year. Therefore, Kinondoni Municipality is losing revenue from property tax due to weaknesses in compliance, enforcement and collection. But this is only for properties which are already registered in the valuation roll. According to Municipal Valuer only **80%** of properties are captured in the valuation roll and **20%** are not yet captured which means they are not paying property tax which also results in loss of revenue to the Municipality.

#### 4.1.7 Summary

This section has basically showed the impact of legal and institutional set up on property taxation practice in Kinondoni Municipality. The aim was to establish how legal and institutional setup determines the whole process of property taxation; that is tax base, assessment, collection and compliance enforcement. The result indicates that poor enforcement of tax compliance measures result into poor tax collection; also the exemptions provided by the law and powers conferred to the Minister responsible for Local Governments erodes the tax base and hence lower revenue for Kinondoni Municipal Council. In addition to that, the Municipal council is losing a lot of revenue through calculating tax basing on outdated valuation rates, as a result, payable tax is unrealistic. This results into low revenue to finance infrastructure and services in formal and informal settlements.

## 4.2 THE AIMS AND GOALS OF PROPERTY TAXATION IN KINONDONI MUNICIPAL COUNCIL

Interviews conducted with Kinondoni local authority officials' revealed that property tax plays a significant role in revenue contribution for Kinondoni Municipal Council. According to Urban Authorities (Rating) Act, 1983 and The Local Government Finances Act, 1982 the aim and goals of property taxation is to generate income in order to finance local government expenditures like provision of public goods and services in the area of their jurisdiction. Information obtained from interviews conducted show that property tax is the second largest local source of revenue after the Municipal Service Levy. This support the argument made by Kayuza (2006) that property tax is major source of revenue in Dar es Salaam; which contributes about 15% of total local government revenue. In the **2015/2016** local budget, Kinondoni Municipal Council's projections for property tax and Municipal Service Levy were US\$ **3,969,298.97** and US\$ **6,003,000** respectively out of US\$ **23,251,205.64** total projected budget, which means that property tax, contributes to **17%** of council's revenue. The interview conducted with Municipal Legal Officer revealed that the laws governing property taxation are silent on how to use the revenue, but generally all experts interviewed at the Kinondoni Municipality indicated that property tax is always used mainly for provision and maintenance of public goods and services. The contribution of property tax in the total local government own sources of revenue for the past ten years from **2006/2007** to **2015/2016** is shown in table 7.

**Table 7: Contribution of Property Tax Revenue to General Local Government Revenue**

Financial Year	Property tax Revenue in US\$(A)	Revenue from other LG own sources in US\$(B)	Total revenue in US\$ (A+B)	% of property tax over total revenue
<b>2006/07</b>	689,000.00	2,65,943.79	3,374,943.79	20.42
<b>2007/08</b>	909,100.00	2,727,272.73	3,636,372.73	25.00
<b>2008/09</b>	1,000,000.00	3,327,896.36	4,327,896.36	23.11
<b>2009/10</b>	833,636.36	3,163,985.15	3,997,621.51	20.85
<b>2010/11</b>	1,003,181.82	3,330,820.61	4,334,002.43	23.15
<b>2011/12</b>	1,054,545.45	5,500,176.23	6,554,721.68	16.09
<b>2012/13</b>	1,163,636.36	6,730,633.89	7,894,270.25	14.74
<b>2013/14</b>	2,045,454.55	12,454,708.73	14,500,163.27	14.11
<b>2014/15</b>	2,422,727.27	14,188,339.24	16,611,066.51	14.59
<b>2015/16</b>	3,612,062.06	17,436,440.21	21,048,502.27	17.16
<b>Average</b>	<b>1,473,334.39</b>	<b>7,154,621.69</b>	<b>8,627,956.08</b>	<b>18.92</b>

Source: KMC and Author's analysis (2016)

From table 7, there is an indication that property tax contribution in total local authority's revenue was high in the 2006/07 to 2010/11 period compared to 2011/12 to 2015/16. The fact is that from financial year 2011/12 Kinondoni Municipality introduced new charges and fees which were not available before and thus reduced the property tax percentage in the total local revenue.

But the reality is that the contribution of property tax in local government revenue has increased for the past three years. However, the average contribution of property taxation revenue for the term of ten years is **19%**. Generally this indicates that the contribution of property tax in total local government revenue is remarkable and if it is well planned it can have an impact in financing infrastructure services.

#### 4.2.1 Local Government Budget Allocation on Road Infrastructure and Other Services

The local authorities prepare annual budget basing on the Finance Act of 2014. This law requires a prepared local authority budget to be submitted to the President's Office - Regional Administration and Local Government for approval. Due to the fact that, the share of local authorities budget is very small compared to expenditure responsibilities assigned to them the property tax is mainly aimed at supplementing local government budget which is used for expenditure responsibilities like local road infrastructure and other services provision. However the revenue from property tax is not designated for the specific use in areas they were collected. They are collected as the general fund and distributed according to local expenditure responsibilities.

Kinondoni Municipal Council annual budget relies on three sources of fund; that is, local government own source, grants from central government and donors' fund. The interview conducted with Kinondoni Municipal Economist revealed that local authority is free to spend funds from its own sources, rather than funds from central government grants and donors which most of the time come with specific instructions on how to spend it. On how they spend funds from the mentioned sources, the Municipal Economist narrated that:

*"The funds from our own sources are only reliable source for financing local roads in our budget because the funds from donors and central government always come with specific instructions on how to use them. For example, in the 2014/2015 and 2015/2016 financial years World Bank provided US\$ 2,879,545.45 and 4,527,677.03 respectively specifically for DART bus stops construction".*

Table 8 shows fund allocation from three sources for a term of five years.

**Table 8: Funds Allocated for Road Infrastructure and Other Services in Kinondoni**

Financial Year		2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	Total
Own source	Road	2,609,008.30	1,202,272.73	2,447,727.27	1,593,436.41	1,688,890.96	9,541,335.67
	others	1,491,779.44	1,876,093.36	7,216,912.46	4,190,254.59	6,758,121.81	<b>21,533,161.66</b>
Grants	Road	159,090.91	204,545.45	2,549,166.91	251,818.18	254,090.91	<b>3,418,712.36</b>
	Others	1,505,425.68	1,123,995.74	2,422,298.55	1,791,500.95	1,321,909.16	<b>8,165,130.08</b>
Donors fund	Road	1,474,627.73	-	-	2,879,545.45	4,527,677.03	<b>8,881,850.22</b>
	others	733,989.09	48,035.95	-	44,937.73	19,461.36	<b>846,424.09</b>
<b>Total</b>		<b>5,364,912.85</b>	<b>3,252,670.47</b>	<b>12,188,377.91</b>	<b>9,158,056.91</b>	<b>12,881,260.27</b>	<b>42,845,278.41</b>

Source: KMC, 2016.

Moreover, table 9 shows the total fund allocated to road infrastructure in relation to other services delivered by Kinondoni Municipality from three main sources of local government

revenue for term of five years in order to establish the amount spent on road infrastructure compared to other services.

**Table 9: Percentage of Fund Allocated to Road Infrastructure in Relation to Other Services**

Source	Road infrastructure(A)	Other services (B)	Total (A+B)	% of A over (A+B)
Own source	9,541,335.67	21,533,161.66	31,074,497.33	30.70%
Grants	3,418,712.36	8,165,130.08	11,583,842.44	29.50%
Donors	8,165,130.08	846,424.09	9,011,554.17	90.60%

Source: KMC and Author's analysis, 2016.

From table 9 it is shown that roads infrastructure is funded by **31%** of local government revenue, **30%** of central government grants and about **91%** of funds from donors. This indicates that high percentage of local government funds are allocated for road infrastructure. However, interviews with local authority officials revealed that, much emphasis has been put on local roads in the formal settlements, although the local roads in informal settlements have been in poor condition for years. The reasons for neglecting local roads in informal settlement were provided by the Municipal Valuer as follows:

*“It is easier to improve or upgrade roads from one level to another in the formal settlements because the road provisions are well planned before the settlements were occupied. On the contrary, in informal settlements there are no planned road provision and the existing ones are not according to standards hence they need to be expanded. Expansion of roads entails paying compensation to the informal property owners which is an expensive exercise considering the financial position of our Municipality.*

However, the Municipality depends much on own source to finance local roads which is about **31%** as pointed out by Municipal Economist. The results indicate that investment in local roads done by KMC is very high compared to the property tax collected.

#### **4.2.4 Property tax collection in the Makongo Juu and Mbezi Beach in relation to Road Infrastructure Provision**

In order to know how much is collected from Makongo Juu and Mbezi Beach settlements and how much is spent on local road infrastructure in the two settlements, interviews with the Municipal treasurer who deals with revenue collection and the Municipal Economist who deals with fund allocation in Kinondoni Municipal council were made. The Municipal treasurer produced five years data of estimated and actual collected property tax revenue for each settlement. However, the response from the Municipal Economist on how local authority spends on local road infrastructure in Makongo Juu and Mbezi Beach indicates that there is no plan on financing local road infrastructure for a specific settlement. Furthermore, he pointed out that, the allocation of funds for infrastructure on a certain settlement depends on the power of a councillor of that area as well as the influential people who are staying in that area. This is what he said:

*“In local governments, decisions are always made by politicians; therefore, the areas without strong representatives in the council can easily be left out. And as you know, most of influential people and political leaders live in the formal settlements so the development projects are mostly implemented in their areas”.*

#### 4.2.4.1 Makongo Juu Settlement

Makongo juu is an informal settlement located outside the city centre, near higher learning institutions which are the University of Dar es Salaam and Ardhi University. According to the Kinondoni Municipal Valuer, the area comprises **4,538** rateable properties which according to him they are about **80%** of all properties suppose to be taxed. The interview conducted with the local leader concerning the settlement welfare indicates that the area comprises residents from different income groups. The Ward official (local leader) classified the tax payers in four groups; high income group who are about **15%** of the total number of tax payers, **25 %** are the middle (upper) income group; **26%** are the middle (lower) income group and about **34%** are the low income group. This was supported by the data given by Layson and Nankai (2014) that 16%, 52% and 33% of residents in Makongo Juu are high, medium and low income earners respectively. However, confirmation of these data from residents was not possible as they were not ready to disclose information on their income levels. In order to establish to what extent property owners in Makongo are complying by paying property taxation, analysis of five years tax collected versus tax payable (budgeted) for that settlement was done as shown in table 10.

**Table 10: Property Tax Compliance Ratio and the Evasion Rate in Makongo Juu(in US\$)**

Year	Tax payable(A)	Actual amount collected(B)	Compliance in %	Evasion in %
2011/2012	220,000.00	176,772.92	80%	20%
2012/2013	257,002.52	175,952.31	68.5%	31.5%
2013/2014	260,100.10	192,001.00	74%	26%
2014/2015	300,000.00	278,233.05	92%	8%
2015/2016	338,078.21	319,289.78	94%	6%
<b>Average</b>	<b>280,051.81</b>	<b>228,449.81</b>	<b>82%</b>	<b>18%</b>

Source: KMC and Author's analysis, 2016.

From table 10 it can be concluded that tax evasion rate is reducing for the past two years that is financial year 2014/15 and 2015/16 to **8%** and **6%** respectively. However, findings indicated that the average evasion rate in Makongo Juu settlement is around **18%** for 5 financial years. Also, it has been noted that the average ratio of property tax collection in Makongo Juu settlement is **82%** of total tax payable (budgeted) per annum. This indicates that majority of tax payers in Makongo Juu settlement are complying by paying property tax annually. However, the local authority has no any data on how they spent on infrastructure services in the area, the only data found in the local government budget was the amount spent on constructing a bridge connecting Makongo Juu and Goba settlement in the financial year **2011/12** with a total of **US\$ 204,545.45**. Figure 5 shows a bridge as visited by a researcher.



**Figure 5 The Bridge between Makongo Juu Settlement and Goba Area**



Furthermore, it was revealed from the interview with the Municipal Valuer that, people in Makongo are complying with paying property tax as compared to Mbezi Beach because they believe by paying property tax they gain security of tenure. However, despite this situation, the roads in Makongo juu are in bad condition as compared to those in Mbezi Beach and the reasons were given by the Municipal Engineer as follows,

*“Unregulated developments are the major hindrance in Makongo Juu and other informal settlements when constructing or improving roads, it is difficult in some roads even the grader to pass through. Lack of drainage discharge caused by informal construction of houses is a big challenge especially during the rainy season; rain water settles on the roads and hence leads to big holes. Also the fact that roads in informal settlements are earth and gravel types, it requires regular maintenance which is costly. In Mbezi beach at least some roads are paved different from Makongo Juu where all roads are earth and few gravel roads hence higher maintenance costs”.*

However, interviews with Makongo Juu local leaders revealed that no any regular maintenance has been carried out despite regular notification report to the local authority.

#### **4.2.4.2 Mbezi Beach Settlements**

Mbezi Beach is a formal settlement located about 15 Kilometres outside the city centre, the area comprises of properties of different uses and type; residential, commercial complexes, mixed use properties and tourist hotels along the beach. However, amount of property tax collected does not match with the existing properties in the area. In other words, the total amount of property tax collected in the area annually is low compared to the type of structures. The physical observation in the area revealed that Mbezi Beach settlement is developed by high class residential properties together with tourist hotels. Below are the pictures of one of the tourist hotel allocated along the beach and a high class residential property as taken by the researcher in Mbezi Beach area.

**Figure 6 High Class Residential Property**



**Figure 7 Ramada Hotel**



According to Kinondoni Municipal Valuer the area comprises about 5,655 rateable properties. He further pointed out that properties in Mbezi Beach are of high value if compared to Makongo Juu area. Moreover, on income levels of the Mbezi Beach residents the local leader narrated that:

*“This settlement is for rich people. A poor person cannot afford to buy a plot here, as we speak a plot with 500 square meter is sold at 100,000 USD, do you think a poor person can afford that? About 60% of residents here are high income earners, 35% middle income earners and 5% low income earners, you see”.*

In order to establish the extent to which property owners in Makongo Juu comply with property taxation in relation to road infrastructure in the area, analysis of five years tax collected versus tax payable (budgeted) for that settlement was done in table 11.

**Table 11: Property Tax Compliance Ratio and the Evasion Rate in Mbezi Beach (in US\$)**

Year	Tax payable(A)	Actual amount collected(B)	Ratio in %	Gap between A&B in %
2011/2012	270,000.00	184,205.00	68%	32%
2012/2013	300,102.00	187,970.31	63%	37%
2013/2014	354,200.35	201,000.00	57%	43%
2014/2015	500,814.00	312,540.00	62%	38%
2015/2016	713,522.30	416,971.40	54%	46%
Average	427,727.73	260,537.37	61%	39%

Source: KMC and Author's analysis, 2016.

Results on table 11 show that the tax evasion rate in Mbezi beach was very high for the financial year 2015/16; that is 46%, which means that only 54% of registered taxpayers complied by paying property tax. However the average ratio of property tax collection and evasion in Mbezi Beach settlement is 61% and 39% respectively. This indicates that a considerable number of tax payers in Mbezi Beach settlement are not complying by paying property tax annually. The interview conducted with the Municipal Valuer disclosed that, the tourist hotels owners are

complying by paying property taxation, but the majority of residential property owners are not complying. Also, it was revealed that taxpayers in Mbezi Beach have been taking advantage of local government failure to enforce the non compliance measures as provided by the law. Lack of efficient tax collection strategies which lead into unnecessary bureaucracy also discourage tax payers from paying tax. For instance, one respondent in Mbezi Beach stated that;

*“I visited Kinondoni municipal office once to clear my property tax bill, surprisingly the official responsible told me to wait, because he was going out for tea break. I tried to persuade him to provide me with the bill as I had an appointment in an hour, but he just ignored me and left. Because I could no longer wait I decided to leave the office with money and from that day I have never paid property tax. If they real need that money they have to come and collect it at my house”.*

It is worth noting that most of taxpayers in Mbezi Beach are not paying property tax believing that they are going to be pardoned in the future. This is a common practice in Tanzania whereby, whenever the government feels the need of collecting more revenue for a certain financial year usually the arrears are erased as a means of encouraging the tax payers to pay for that particular year. Also, for the rich people even if they are taken to court they are able to hire the advocates to defend them while the poor ones cannot afford.

#### **4.3 CLASSIFICATION OF ROAD INFRASTRUCTURE IN KINONDONI MUNICIPAL COUNCIL**

Kinondoni Municipal Council like other Municipalities in Dar es Salaam city has been taking various efforts to develop infrastructures in its area of jurisdiction. Since development of trunk roads and regional roads has been left under central government care, local governments are charged with responsibilities of managing and developing local roads, drainage systems, education, health and other services. Like other municipalities Kinondoni is faced with high growth of informal settlements. One among the Kinondoni Municipality responsibilities is to improve the living conditions, by improving the infrastructure services in the formal and informal settlements as per Article 13 of the United Republic of Tanzania Constitution which provides that all people shall be treated equally before the law. Therefore all Tanzanian citizens have the right to access public services regardless of their social or economic status.

According to the interviews with Municipal engineers local roads construction and maintenance is undertaken by local authorities. They are charged with quality assurance in constructing, maintaining, upgrading and rehabilitating the local roads by using different sources of revenue, property taxation being one of them. However, the extent to which property tax revenue is employed to local road infrastructure delivery is not entirely clear. The local roads are classified into three categories, namely tarmac (paved) road, gravel and earth roads. Table 12 shows road classification in Mbezi Beach and Makongo Juu Settlements.

**Table 12: Road Classification in the Case Areas**

Location	Tarmac (paved) in km	Gravel in km	Earth in km	Total
Mbezi Beach	50.6	202.4	0	253
Makongo Juu	0	94.8	142.2	237
<b>Total</b>	<b>50.6</b>	<b>297.2</b>	<b>142.2</b>	

Source: Kinondoni Municipal Council

Table 12 shows that, only 40% of Makongo Juu roads are of gravel type and the remaining 60% is earth roads; whereas in Mbezi Beach 20% of local roads are paved and 80% are gravel roads. This implies that local roads in Makongo Juu need special attention from the local authority compared to Mbezi Beach where the roads can be passable even during rain seasons.

#### **4.3.1 To what Extent Property Tax can Finance Local Road Infrastructure Provision and Maintenance**

Studies show that, road infrastructure increase the property value in the vicinity and the local government capture that increment value through various tools, property tax being one of them, to finance infrastructure improvement (Ingram and Hong, 2012). The interview conducted with the municipal engineers revealed that construction of new roads in the formal and informal settlement is done occasionally compared to maintenance which is always done regularly. Though, interviews with Makongo Juu local leaders revealed that no regular maintenance has been carried out in the area despite regular notification report to the local authority.

However, the cost of road construction and maintenance was established and analysed by comparing with the property tax collected and property tax lost due to evasion in both settlements. This analysis was done basing on the assumption that all revenue from property tax will be invested in road infrastructure. More details are given on the following topics;

##### **4.3.1.1 Cost of Road Construction and Maintenance in Makongo Juu**

To establish the impact of property tax on local road provision and maintenance, analysis is made by comparing revenue generated from property tax and property tax revenue lost due to evasion with cost of road construction as well as maintenance. Cost of constructing 1km of tarmac road as provided by Municipal Engineer is **363,636.36** US\$ while revenue from property tax for a period of 5 years is **1,142,249.06** US\$, therefore it can concluded that revenue from property tax accumulated for 5 years in Makongo Juu can finance the construction of **3.14** km of tarmac road. Either, cost of constructing gravel road is **45,454.55** US\$ with the same revenue from property tax a total of **25.13** km can be constructed. Also, the cost of maintaining 1km of tarmac road is **45,454.55** US\$ and 1km of gravel road is **13,636.36** US\$, therefore with the total amount of revenue collected for five years in Makongo Juu i.e. **1,142,249.06** US\$ the total of **25.13** km of tarmac road and **84** km of gravel road can be maintained. However, the revenue lost due to tax evasion was analysed to see if it was collected how many kilometres of tarmac and gravel roads could have been built or maintained in Makongo Juu. Table 13 shows the total

kilometres of tarmac and gravel roads which could have been financed by the property tax lost due to tax evasion.

**Table 13: Total km of Tarmac and Gravel Road which can be financed by Lost Revenue in Makongo Juu**

Year	Revenue lost in US\$	Tarmac cost of construction	Gravel Cost of construction	Total Km of Tarmac road	Total Km of Gravel road
2011/12	43,227.08	363,636.36	45,454.55	0.12	0.95
2012/13	81,050.21			0.22	1.8
2013/14	68,099.10			0.2	1.5
2014/15	21,766.95			0.06	0.5
2015/16	18,788.43			0.05	0.41
<b>Total</b>	<b>232,931.77</b>			<b>0.65</b>	<b>5.16</b>

Source: KMC and Author's analysis, 2016.

Results on table 13, indicates that an extra of 0.65 km of tarmac road and 5.16 km of gravel road can be constructed by using the revenue lost due to tax evasion. Also the total kilometres of tarmac and gravel roads which could be maintained by using the revenue lost was established on table 14.

**Table 14: Total km of Road to be maintained by Revenue Lost in Makongo Juu**

Year	Revenue lost in US\$	Tarmac cost of maintenance	Gravel Cost of maintenance	Total Km of Tarmac road	Total Km of Gravel road
2011/12	43,227.08	45,454.55	13,636.36	0.95	3.2
2012/13	81,050.21			1.8	6
2013/14	68,099.10			1.5	5
2014/15	21,766.95			0.5	1.6
2015/16	18,788.43			0.41	1.4
<b>Total</b>	<b>232,931.77</b>			<b>5.16</b>	<b>17.2</b>

Source: KMC and Author's Analysis, 2016

The results on table 14 reveals that 5.16 kilometres and 17.2 kilometres of tarmac and gravel roads respectively, can be maintained by using the revenue lost in Makongo Juu.

#### 4.3.1.2 Cost of Local Road Construction and Maintenance in Mbezi Beach

To establish the impact of property tax on local road provision and maintenance, analysis is made by comparing revenue generated from property tax and cost of road construction as well as maintenance in Mbezi Beach. Cost of constructing 1km of tarmac road as provided by Municipal Engineer is **363,636.36** US\$ and property tax collected for 5 years in Mbezi Beach settlement is **1,302,686.71** US\$, therefore it can concluded that revenue from property tax accumulated for 5 years in Mbezi Beach can finance the construction of **3.6** Kilometres of tarmac road. Either, cost

of constructing gravel road is **45,454.55** US\$ with the same revenue from property tax a total of **29** Kilometres can be constructed. Also, the cost of maintaining 1km of tarmac road is **45,454.55** US\$ and 1 Kilometres of gravel road is **13,636.36** US\$, therefore with the total amount of revenue collected for five years in Mbezi Beach i.e. **1,302,686.71** US\$ the total of **29** Kilometres of tarmac road and **95.5** Kilometres of gravel road can be maintained. However, the revenue lost due to tax evasion was analysed to see if it was collected, how many kilometres of tarmac and gravel roads could have been built or maintained in Mbezi Beach. Table 15 shows the total Kilometres of tarmac and gravel roads which could have been financed by the property tax lost due to evasion.

**Table 15: Total km of Road which can be constructed by revenue lost in Mbezi Beach**

Year	Revenue lost in US\$	Tarmac cost of construction	Gravel Cost of construction	Total Km of Tarmac road	Total Km of Gravel road
2011/12	85,795.00	363,636.36	45,454.55	0.24	2
2012/13	112,131.69			0.31	2.5
2013/14	153,200.35			0.42	3.4
2014/15	188,274.00			0.52	4.14
2015/16	296,550.90			0.82	6.5
<b>Total</b>	<b>835,951.94</b>			<b>2.31</b>	<b>18.54</b>

Source: KMC and Author's analysis, 2016.

Results from table 15, indicates that the lost revenue from property taxation in Mbezi Beach could have been able to supplement the construction of 2.31 Kilometres and 18.54 kilometres of tarmac and gravel road respectively in Makongo Juu settlement where the roads are in poor condition. Also table 16 shows that total kilometres of tarmac and gravel road which can be maintained by using the lost revenue from property taxation in Mbezi Beach which is 18.54 kilometres for tarmac road and 61.7 Kilometres for gravel road.

**Table 16: Total km of road which can be maintained by revenue lost in Mbezi Beach**

Year	Revenue lost in US\$	Tarmac cost of maintenance	Gravel Cost of maintenance	Total Km of Tarmac road	Total Km of Gravel road
2011/12	85,795.00	45,454.55	13,636.36	2	6.3
2012/13	112,131.69			2.5	8.2
2013/14	153,200.35			3.4	11.2
2014/15	188,274.00			4.14	14.0
2015/16	296,550.90			6.5	22.0
<b>Total</b>	<b>835,951.94</b>			<b>18.54</b>	<b>61.7</b>

Source: KMC and author's analysis

The results in table 16 indicate that local government is losing a considerable amount of revenue from Mbezi Beach Settlement compared to Makongo Juu settlement. The lost revenue could have been used to finance infrastructure provision in Makongo juu to some extent. For instance,



the revenue lost in Mbezi Beach is able to construct 18.54 kilometres of gravel road in Makongo Juu; this can be done in phases by involving taxpayers in the area.

Therefore, the analysis of property tax lost due to tax evasion was done in order to establish how many kilometers could have been constructed or maintained if that revenue was properly collected and invested in road infrastructure especial in Makongo Juu Settlement where the roads are in poor condition. The results indicated that the total revenue lost for five years in Makongo Juu was **232,931.77 US\$** which could have constructed **0.65** kilometer of tarmac road and **5.16** gravel road and maintained **5.16** kilometers of tarmac and **18.54** kilometers of gravel road. Also in Mbezi Beach a total of **835,951.94 US\$** was lost which is about **39%** of a total estimated revenue from property tax in Mbezi Beach settlement for five years. The revenue lost could have been able to finance the construction of **2.3** kilometers and **18.54** kilometers of tarmac and gravel roads respectively. Likewise the maintenance of **18.54** kilometers of tarmac road and **61.7** kilometers gravel road.

#### 4.3.2 Observation

Roads in Makongo Juu area, especially the inner streets roads are very narrow and do not allow vehicles to bypass or overtake one another. The width of roads varies from 2 to 6 meters. To cope with this situation, residents in this settlement established some small humps to minimize the speed of vehicles passing near their residences. However, in some areas which are highly densely developed, access roads are missing. The settlement depends on one main road which passes through University of Dar es Salaam and Ardhi University. The only means of public transport is daladala (buses), though the respondents from the area pointed out that, daladala (buses) are rarely seen during rainy season due to poor road condition. Figure 8 and 9 are the pictures showing one of the inner roads in Makongo Juu and the only main road which passes through Makongo Juu settlement with Daladala bus, the only means of public transport in the area.

**Figure 8 A Daladala on Makongo Main Road    Figure 9 Inner Road in Makongo Settlement**



However, the situation is different in Mbezi beach area, two main roads are crossing through the settlement; Old Bagamoyo road and Ally Hassan Mwinyi road, and several paved roads are passing through the settlement together with gravel road. The width of roads in Mbezi Beach meets the standards which range from 4 to 8 meters. Figure 11 and 12 are the pictures of gravel and tarmac roads in Mbezi Beach.

**Figure 10 Tarmac Road**



**Figure 11 Gravel Road**



Also, it was observed that, there is a water pipe leakage problem in Mbezi Beach contributes a lot in damaging local road infrastructure. The residents who were interviewed complained that they have reported the matter several times to the responsible authority but no action has taken.

Generally, the total revenue collected from both settlements is low compared to the cost of construction of new roads, although road maintenance presents a much cheaper option compared to new road construction.

#### **4.4 GOVERNMENT AND TAXPAYERS PERCEPTIONS ON PROPERTY TAX**

Interviews were conducted with taxpayers from Makongo Juu and Mbezi Beach and officials from Kinondoni Municipal council in order to get their views concerning property taxation. The intention was to establish the level of acceptability of property taxation among taxpayers and the general view concerning property taxation and its administration. The selected cases were meant to represent formal and informal settlements in Dar es Salaam. Also it was aimed at gathering views from both settlements on infrastructure services in their areas. Different views on property taxation and infrastructure services from three different groups of respondents i.e. taxpayers from Mbezi Beach, Makongo Juu and experts from Kinondoni Municipal Council were collected.

##### **4.4.1 Knowledge on Property Taxation**

Interviews conducted with the taxpayers in Mbezi Beach and Makongo Juu indicated that majority of property owners understand the importance of property tax for local government and



that every property owner is obliged to pay. They also expressed that, local authority has obligation to pay back in the form of infrastructure and services provision. This confirms the relationship between property tax and public services provision by local authority. However, it was revealed that, majority of tax payers are not aware of property tax valuation which is supposed to be conducted before tax assessment. Respondents complained about the high tax paid but when asked about the values of their properties after valuation they were totally unaware. This indicates that, local authorities did not play their role of educating tax payers which could have reduced some of the complaints. However, local government officials were of the opinion that the tax payers are well informed on the importance and processes of property taxation.

#### **4.4.2 Tax Compliance**

Findings show that some of the tax payers do not pay taxes as already discussed in section 4.2.4. Generally 3 out of 10 respondents from the two settlements do not pay taxes; 2 from Mbezi Beach and 1 from Makong Juu. The two respondents from Mbezi Beach argued that, they do not pay property tax because they are not served with demand notices. A respondent from Makong Juu claimed to have stopped from paying property tax due to the reasons explained as follows:

*“I stopped paying property tax after realizing that Local government raised tax amount while no any development or services improvement has done in our settlement. We always organize ourselves in the settlement and contribute money to improve our local roads especially after rain seasons. So why should I pay property tax”.*

On the other hand, those who are paying property tax pointed out that they are paying because it is compulsory and they do not want to get into troubles with the government, but they do not see any return of this tax in terms of public services. Nevertheless, the proportional number of tax payers who comply with tax obligation appears to be reasonably high in the informal settlement as compared to the formal settlement. This study revealed that the prospective taxpayers do not comply with paying property tax because they are sure that, no measures will be taken against them. Poor tax collection strategies were also mentioned as a reason for non-compliance.

#### **4.4.3 Local Government Ability**

Majority of tax payers from both settlements were of opinion that the local government has no ability to deal with infrastructure provision and maintenance. One of the respondents argued that:

*“Our Local Governments have no ability to deal with road problems because of politics. It is better to have an independent entity which deals with property taxation processes and infrastructure provision like the way TANESCO is dealing with electricity supply. For example, here we do not have electricity supply problems, only that the price per unit is very high”.*

Nevertheless, some respondents pointed out that, the local government has the ability to deal with road infrastructure, but the problem is corruption and misallocation of funds.

#### **4.4.4 Fairness and Ability to Pay**

Respondents from both settlements and local government officials were asked their opinion on fairness and ability to pay property tax. Contrary to expectations, one of the local government officials revealed that property tax charged is not taking into account the principal of fairness or ability to pay. He claimed that, the only factors which are taken into account when doing valuation for property taxation is building materials and design; location factor is not considered. The tax rates which are used also do not differ with the location but rather with the building materials and design of the subject property. In explaining this he narrated that:

*“.....it differs depending on building materials and design. The location factor is not considered. However, this is not fair for the poor people who are living in informal settlements, because what is considered is the cost of construction per square meter hence ignoring the location aspect. That means, a property in informal settlement can be charged the same amount with the property in the formal settlements as long as they are built with the same construction materials, but in reality you cannot compare the market value of property in informal settlement like Manzese and the one in Oysterbay, Masaki or Mbezi beach”.*

Also, among the taxpayers interviewed in Makongo Juu, some were of the opinion that income levels need to be taken into account when assessing property tax rather than property ownership. Property ownership alone does not guarantee individual's ability to pay property tax. Majority of urban dwellers in Dar es Salaam city are forced to construct houses in solving urban housing problem and not because they are capable of supporting their living. Moreover, others might be retired officers or might have acquired their houses from their relatives, through inheritance, whose incomes are not sufficient enough to pay the taxes in accordance with the values of their properties.

#### **4.4.5 Benefit Received**

Tax payers in Makongo Juu and Mbezi Beach were asked to give their opinion on the benefits they receive as property tax payers. Majority of respondents from Makongo Juu claimed that there is no benefit received as a result of paying property tax, because no new road infrastructure is provided and the existing ones are in a deteriorating state. One of the taxpayers in Makongo Juu responded that:

*“Property tax is levied but nothing in return can be observed in our settlement. The money is always used to improve infrastructures in some planned areas like Oysterbay, Mbezi Beach and Masaki where the political leaders and rich people live”.*

Although some of the tax payers in Mbezi Beach had their views that they benefit from property tax by enjoying constant water supply and some of their local roads are of tarmac level which is quite opposite with Makongo Juu settlement.

#### **4.4.6 Available Road Infrastructure**

Interviews with taxpayers in Makongo Juu and physical observation revealed that the increasing population and diminishing capacity of the government to provide infrastructure needed, has overburdened the existing infrastructure in the settlement. These led to deterioration of few infrastructures available. It was also observed that there is poor and inadequate road

infrastructure. Interview with Makongo Juu residents revealed that apart from road infrastructure they have a problem with potable water, the only reliable source of water available is from individuals' drilled well and water vendors. Piped water is available once per a week or sometimes after two or more weeks. One of the respondents in describing the road condition in Makongo Juu settlement argued that;

*“The state of infrastructure is not improving; it is in the same poor condition because local government is not doing anything to improve it except for the funds collected from residents. The funds contributed by residents are inadequate to improve the road at the required standards. Also population is increasing very fast in this area but no efforts have been done by the local government to expand the existing road, and some roads are introduced after housing construction which makes the situation even worse”.*

However, long discussion was done with taxpayers in both settlement and local government officials and different views were given as summarized in Annex 1.

## **CHAPTER 5: CONCLUSION AND RECOMMENDATIONS**

### **5.0 INTRODUCTION**

It is argued that property tax collected by local authority is supposed to be used for infrastructure developments and maintenance in the respective area. This study was aimed at explaining the impact of property taxes in provision and maintenance of infrastructure mainly local roads in formal and informal settlements of Dar es Salaam City in Tanzania. This chapter therefore, discusses the conclusions based on the findings and theories that underlie this study. Moreover, it provides recommendations which are aimed at improving property taxation system in Tanzania in order to capture enough revenue to finance road infrastructure in the areas they are collected.

### **5.1 CONCLUSION**

Generally, conclusion of this study is done based on the main research question which is: “to what extent does property taxation influence provision and maintenance of infrastructure mainly local roads in Mbezi Beach and Makongo Juu settlements in Kinondoni Municipal Council”. Moreover, in order to be able to properly conclude based on the main question attention is placed on the sub questions which are: “what is the legal and institutional set-up of property taxation in Kinondoni Municipal Council; what is the difference in aims and goals of property taxes collected by government in formal and informal settlements; to what extent are the collected property taxes adequate to finance local roads infrastructure provision and maintenance; and what are the taxpayers’ and government’s perceptions on the use of property taxes to finance local road infrastructure in Mbezi Beach formal settlement and Makongo Juu informal settlement. Each sub research question is analytically addressed in this chapter.

#### **5.1.1 What is the Legal and Institutional Set-up of Property Taxation in Kinondoni Municipal Council?**

Legal and institutional set-up provides the underlying support of which property taxation operates. In Tanzania the main legislations that govern property taxation practice are the Local Government Finance Act of 1982 and Urban Authorities (Rating) Act of 1983. The Urban Authority (Rating) Act guides the imposition and practice of property taxation while the Local Government Finance Act provides guidance on financial management.

Findings showed that, Kinondoni Municipal Council like any other Municipal Council in Tanzania is under the leadership of a Mayor and a Municipal Director and the sections which are dealing directly with property taxation are Valuation and Finance sections. The Municipal Council has legal rights to collect property tax from the area of its jurisdiction and obligation to provide public goods and services whereby road infrastructure is one of them. The rights and obligations are stipulated in the laws explained above as well as The Local Government (Urban Authorities) Act, 1982 which do not distinguish the procedures for property taxation and infrastructure provision in both formal and informal settlements. As put by Ingram et al. (2013), public goods attributes inherent in infrastructure services require government intervention to ensure efficiency and equitable distribution.

However, many provisions in the Legislations governing property taxation in Tanzania are generally outdated and have provided discretionary powers to the Minister which has effects on collections. Use of outdated tax rates and exemption powers conferred to the Minister are the main problems which cause poor collections. Kelly (2013) supports the exemption issue by arguing that; in order to improve collections of revenue from property tax, reviewing tax policy like reducing exemption which normally reduces tax base must be done. Poor enforcement mechanisms as well as inefficient tax collection strategies also affect tax collection. Based on the

fact that poor collections affect the local authorities ability to provide infrastructure services it is clearly seen that legislations have a great role to play.

### **5.1.2 What is the Difference in Aims and Goals of Property Taxes Collected by Government in Formal and Informal Settlements?**

According to Urban Authorities (Rating) Act, 1983 and The Local Government Finances Act, 1982 the aim and goals of property taxation is to generate income in order to finance local government expenditures like provision of public goods and services in the area of their jurisdiction. Since the aim and goal of property taxation is to generate income for financing public goods and services whereby the road infrastructure is among the public services, property taxation has a considerable contribution in the local government own source revenue. It is the second largest local source of revenue. This supports the argument made by Alm (2011) that property tax is the attractive revenue source for local authorities due to the fact that its base expands proportionately with the urban growth. However, expenditure on road infrastructure alone has even exceeded the amount collected; collections forms 19% Vs expenditures which forms 31% of own source revenue. Moreover, based on the fact that property tax is collected and administered by the local governments at the Municipal/ district levels, one can conclude that there is no distinction between the aims and goals of property tax collected by the government in the formal and Informal Settlements. They are all geared towards provision of services to the people in their areas of jurisdiction as stipulated in the Local Government (Urban Authorities) Act, 1982.

Despite inexistence of disparities in the goals and aims of tax collected, tax evasion rates in the formal settlement of Mbezi Beach is high (46%) as compared to an informal settlement of Makongo Juu which is 6% for the financial year 2015/16. However, although data on how much is returned in each settlement in terms of road infrastructure investments could not be obtained; physical observations showed that roads in Informal settlement of Makongo Juu were in poor condition as compared to those in the formal settlement of Mbezi Beach. These might be attributed by; lack of strong ward representative and influential people living in Makongo Juu settlement; lack of funds to compensate for properties that have to be removed to pave ways for road construction; residents' unwillingness to contribute their land free for road construction; and unregulated land developments which hinder road infrastructure provision and maintenance in the area.

Therefore, generally, there is no difference in aims and goal of property tax collected in both settlements. As argued by Kitchen (2013) and Youngman (2016) that due to the benefit offered by property tax to the local government worldwide, it is viewed as an essential source of revenue and tax tool to support local authorities' expenditures. Also, in Kinondoni Municipality the aim and goals of imposing property taxation in formal and informal settlements is to generate income in order to finance public goods and services within the areas of jurisdiction. Although the practice is different, the formal areas have been given more attention compared to unplanned areas, as the result the infrastructure in informal are in poor condition. This contradict the argument made by Durand-Lasserve (2006) by recognizing the informal settlement through property taxation may prompt the local authority to provide basic infrastructure services and thus open a room for other social and economic opportunities in the neighborhood. This also may be the results of laws being silent on how to use the revenue collected which leads to misallocation of collected revenue.

### **5.1.3 To What Extent are Collected Property Taxes Adequate to Finance Local Roads Infrastructure Provision and Maintenance?**

As stated earlier, property tax is the second largest source of local revenue for Kinondoni Municipality. However, this study has found that the amount collected per year is not sufficient enough to finance road construction. For instance, the amount collected from each settlement per a year is not enough to finance one

kilometre of a tarmac road. This is contrary to studies conducted by Kitchen (2013) and Youngman (2016) who argue that the contribution of property tax revenue in financing road infrastructure is notable. Not only that, but also even all the taxpayers (including those who evade taxes) were paying property tax, still the amount that would have been collected could be enough to finance almost 4 Kilometres of tarmac road in Makongo Juu and 6 Kilometres in Mbezi Beach in 5 years. Also 30.3 kilometres of gravel road in Makongo Juu and 47.5 kilometre of gravel road in Mbezi Beach for a term of 5 years. Moreover, the total revenue collected and evaded can finance the maintenance of 30.3 kilometers of tarmac road and 101.2 kilometers of gravel road in Makongo Juu and **47.54** kilometers and **157.2** kilometers of tarmac and gravel in Mbezi Beach. However, data related to road construction and maintenance projects in each settlement could not be found.

#### **5.1.4 What are the Taxpayers' and Government Perceptions on the Use of Property Taxes to Finance Local Road Infrastructure in Mbezi Beach Formal Settlement and Makongo Juu Informal Settlement?**

Generally, property tax levying is directly associated with infrastructure services provision. Findings have indicated that majority of property owners in both settlements are aware of property tax, its importance for local governments and their obligations to pay the same. Moreover, they are aware of the local government's obligations to pay back in the form of infrastructure and services provision' which to a greater extent associate property tax and public services provided by the local governments. However, they are not aware of the procedures that are involved such as valuation process and they perceive property tax as unfair tax as it does not take into account the aspect of individual's ability to pay. Apart from that, property tax seem not to benefit those living in informal settlements such as Makongo Juu as compared to those in formal settlements which contradicts with Alm (2011) who argued that property tax is the attractive revenue source for local authorities due to its visibility and fairness nature of the tax in providing services which benefits the local community at large.

On the other hand, the Municipality officials also understand the importance of involving the taxpayers and argued that there is full participation in the planning and decision making and that the tax payers are aware of property taxation process. Moreover, they understand their rights and obligations as far as property taxation is concerned although their obligation related to infrastructure provision is mostly done in the formal settlements despite the fact that taxes are collected from both informal and formal settlements. This practice is contrary to the argument made by Durand-Lasserve (2006) that, by recognizing the informal settlements through property taxation prompts the local authority to provide basic infrastructure services in the areas.

#### **5.1.5 Summary**

The main aim of this research was to investigate on the extent to which property taxation influence provision and maintenance of infrastructure mainly local roads in the informal and formal settlements by comparing Makongo Juu which is an informal settlement and Mbezi Beach which is a formal settlement. We have seen that people who are living in both areas pay property tax as per laws administering the same in the country. The legal and institutional set up does not distinguish collection as well as use of property tax between the formal and informal settlements. Nevertheless, despite the fact that those who live in informal settlements, in this case Makongo Juu comply more with payment of the tax as compared to those living in Mbezi Beach which is a formal settlement, the formal areas have been given more attention in terms of infrastructure provision and maintenance as compared to informal areas. Moreover, the taxes collected from both areas are not sufficient enough to meet the expenditures related to road provision and maintenance due to use of outdated valuation rates, exemptions, poor law enforcements on tax evaders, as well as lack of proper collection strategies. Apart from that, there is greater awareness of the rights and obligations to both the tax payers and the Municipal officials as they both showed that there is a relationship between property taxation and service provision, of

which the practice proved to be different especially in the informal settlements. As stated earlier not only collections influence service provision in a specific location but also political influence, physical planning as well as poor fund allocation mechanisms. Therefore, based on the discussions it suffices to conclude that property taxation in Tanzania does not influence **much** on provision and maintenance of infrastructure mainly local roads in the informal and formal settlements.

## 5.2 RECOMMENDATIONS

Basing on concepts, theories, studied areas and findings in chapter four on property taxation and infrastructure provision and maintenance, the following recommendation were made.

1. Laws governing property taxation in Tanzania are outdated hence they need to be reviewed in order to cope with the current social and economic development. For instance the extent of exemptions provided under section 7 of UARA should be reviewed to exclude profit making properties from exemption like private educational institutions and some of government properties which are purely commercial. Also powers granted to the Minister responsible with local government should be limited. This may lead to revenue increase local and hence increase the local governments' capability to finance infrastructure in informal settlements.
2. Also progressive taxation should be adopted in order to take into account fairness and ability to pay principles whereby the high valued property located in the best areas (rich areas) is taxed at higher rate compared to the property located in low valued areas (poor areas). Also the inclusion of land aspect on property taxation instead of taxing improvement only. This will increase the revenue and hence finance local road infrastructure in the informal settlements.
3. Review property tax administration strategies e.g. increase efficient in tax collection and enforcement to suit the required standard like timely and strictly enforcement against non compliance; since poor law enforcement mechanisms have impacted the property tax collected. By so doing tax evasion will be reduces and hence increase revenue to finance infrastructure in informal settlement. Also, local government need to be determined to improve local roads in Makongo Juu by using property taxation and other sources of revenue including residents contributions, since the residents showed the willingness to contribute in terms of finance and human resources during the interviews.

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## Annex 1: Government and Taxpayers Perceptions on Property Tax and Infrastructure Provision

S/N	ISSUE	INFORMAL	FORMAL	GOVERNMENT
1	Right	Have right for infrastructure	Have right for infrastructure	Have right to collect property tax
2	Obligation	Have obligation to pay property tax in exchange with public services	Have obligation to pay property tax and receive services	Have obligation to provide infrastructure and services
3	Road condition	Very bad	Inner roads are in bad condition but major roads are in good condition	Maintenance are done whenever is required depending on resources available
4	Causes of poor road infrastructure	Lack of maintenance, Corruption of local government officials and lack of political will	Poor maintenance, Pipe water leakage and Poor surface water drainage system	Inadequate resources to carry out regular maintenance and Unregulated developments in the informal settlements
5	Use of property tax revenue	<ul style="list-style-type: none"> <li>• Allowances</li> <li>• Invest in rich areas</li> <li>• Should be used for infrastructure provision</li> </ul>	<ul style="list-style-type: none"> <li>• Misallocation of fund</li> <li>• Used to activities with little benefit to taxpayers</li> <li>• Should be used for public services</li> </ul>	<ul style="list-style-type: none"> <li>• General fund for LG expenditure</li> <li>• To provide public goods and services</li> </ul>
6	Participation	<ul style="list-style-type: none"> <li>• Not involved in any local government decision</li> </ul>	<ul style="list-style-type: none"> <li>• Not involved in any local government decision</li> </ul>	<ul style="list-style-type: none"> <li>• Full participation from the lower level in planning and decision making.</li> </ul>
7	LG ability to provide road infrastructure	<ul style="list-style-type: none"> <li>• No ability we need an independent entity to deal with property taxation and service provision</li> </ul>	<ul style="list-style-type: none"> <li>• Has ability but lack proper planning</li> </ul>	We have ability to collect property tax and provide infrastructure services
8	Why are you paying	<ul style="list-style-type: none"> <li>• To improve land tenure status</li> <li>• To avoid going to jail</li> </ul>	<ul style="list-style-type: none"> <li>• It is compulsory</li> <li>• To maintain status</li> <li>• To enable LG to improve services</li> </ul>	Compulsory according to the law
9	Main problems	<ul style="list-style-type: none"> <li>• Poor road infrastructure</li> <li>• Lack of pipe water supply</li> </ul>	<ul style="list-style-type: none"> <li>• Poor surface water drainage system</li> <li>• Water pipes leakage which destroys the roads</li> </ul>	Inadequate finance to finance infrastructure and human resource

<b>10</b>	Why not paying	Not billed, Tax is very high, No benefit received after paying property tax and Never heard about property tax	<ul style="list-style-type: none"> <li>• Not billed</li> <li>• Local government officials bureaucracy</li> <li>• No benefit received after paying property tax</li> </ul>	<ul style="list-style-type: none"> <li>• Slow enforcing compliance measure</li> <li>• Lack of political will</li> </ul>
<b>11</b>	Fairness	Lack of fairness e.g. it does not take into account factors such as type, quality and location of taxable property	Not fair because no return in terms of services	Tax is fair
<b>12</b>	What local government should do	Invest in infrastructure, Provide education, Involve community in decision making and Consider income level	Invest in infrastructure, Provide education and Involve community in decision making	Provide education and Enforcement of compliance measures.

Source, Field Data June 2016

## **Annex 2: Interview Guide Questions**

### **Interview Guide Questions for local leaders**

1. What are your major roles and responsibilities?
2. What are your views about property taxation?
3. Do you participate in property taxation processes?
4. What is your role as far as property tax is concern?
5. What is the residents' reaction when it comes to property taxation?
6. Do you keep the records of residents in your jurisdiction who pays property tax and who is not paying? Can I have a total number of taxpayers in your ward?
7. What are the uses property tax revenue collected?
8. What do you think revenue from property tax should be used for?
9. How many projects have been implemented in your ward for the term of ten years as a return of property tax collected?
10. What is your opinion concerning the road condition in your ward?
11. Do you think the state of infrastructure is improving or getting worse? Why?
12. Do you participate in local government annual budget preparation?
13. Which type of infrastructure services you have been presenting as a priority in your jurisdiction area for past ten years? Why?
14. Did it appear in the final budget report? How was it implemented?
15. Who in your view is responsible for ensuring that local road infrastructure in your ward is up to the required standard?
16. What do you think about the ability of Municipality to deal with road infrastructure problem in your ward?
17. Where do you think Municipality can obtain money to finance road infrastructure improvement?
18. Do you have any opinion on what the Municipality should do to motivate taxpayers to comply?
19. What is your opinion or suggestion on how road infrastructure can be improved in Mbezi Beach?
20. What is your opinion on population increase in your ward in relation to existing infrastructure services in the area?

### **Interview guide questions for taxpayer**

1. Are you a property owner or a tenant?
2. For how long you have been living in this settlement?
3. What made you chose to live in this settlement compared to other settlements in the city?
4. What is your opinion concerning the road condition in your ward?
5. Do you think the state of infrastructure is improving or getting worse? Why?



6. What are your views about property taxation?
7. Do you pay property tax annually? Why?
8. What do you think property tax is used for?
9. What do you think property tax should be used for?
10. Who in your view is responsible for ensuring that local road infrastructure in your ward is up to the required standard?
11. What do you think is your role in ensuring the state of road infrastructure is at the required standard?
12. What do you think about the ability of Municipality to deal with road infrastructure problem in Mbezi Beach?
13. Do you have any opinion on what the Municipality should do to motivate taxpayers to comply?
14. What is your opinion or suggestion on how road infrastructure can be improved in your area?
15. What is your opinion on population increase in your area in relation to existing infrastructure services in the area?
16. Apart from roads what other services in your area which is your not satisfied with?

### **Interview guide questions for Municipal Valuers**

#### **Tax Base**

1. How do you identify taxable properties?
2. How many taxable properties have you captured in your database in Makongo Juu and Mbezi Beach settlements?
3. Do you think property tax basing on improvement only can generate enough revenue to finance local road infrastructure? What is your suggestion?

#### **Tax Rate and Assessment Approach**

4. Which valuation approaches are you using for property taxation and why?
5. Can you explain on what criteria you are using to arrive at rate of construction per square meter as well as depreciation rate in case of replacement cost approach?
6. Can you tell me on how you calculate the flat tax amount which are imposed to properties which are not valued?
7. Does the rate per square meter differ based on property value and location? Why?
8. Which factors do you take into consideration while doing valuation for property taxation?
9. What is your opinion on property tax coverage in Makongo and Mbezi areas?
10. How often do you update properties value and rates?
11. Do you have capacity in terms of human and financial resource to carry on property taxation process?

#### **Property Tax Collection**

12. Can you explain the procedures you use to ensure the tax bill reach to the taxpayer?
13. Can you tell me the methods you use to collect property tax?
14. What do you think about the revenue potential based on the number of properties in Makongo Juu and Mbezi Beach area compared to amount actual collected?
15. Can you tell me the average cost you incur in collecting property tax from Makongo compared to Mbezi Beach?
16. What the reasons of increase in revenue for 2014/2015 and 2015/2016 financial years?

### **Compliance, Tax Relief and Exemption**

17. Which settlement has many defaulters compared to the other and why?
18. What measures do you use to make sure taxpayers are complying? Are they effective?
19. Can you explain how do you facilitate appeal process?
20. In your opinion who is responsible in provision and maintenance of local roads in Makongo Juu and Mbezi Beach area?
21. Can you explain why local roads in informal settlement are in poor condition compared to formal settlement?
22. What do you think revenue generated from property taxation should be used for?
23. In your opinion what should be done to motivate taxpayers' compliance?

### **Government Perceptions**

24. How does the local government perceive the responsibility of local road provision and maintenance in informal and formal settlement?
25. Does the local government have a right to collect property tax without investing public services in the taxable area?
26. What is the use of property tax collected?

### **Interview guide questions for Municipal engineers (road construction)**

1. What are the major roles and responsibilities of your section?
2. What is the standard of local roads compared to highways?
3. How does provision and maintenance of local roads infrastructure financed in your local government?
4. Can you tell me the total length of local roads in Makongo Juu and Mbezi Beach settlements?
5. What do you think are the major roads maintenance problems in Makongo Juu and Mbezi Beach area?
6. How frequency the maintenance has been carried out in Makongo Juu compared to Mbezi Beach?
7. Can you give me the estimated cost you spent annually on road maintenances in Makongo Juu compared to Mbezi Beach for the period of 2006 to 2015?
8. How many local road kilometers need to be maintained in Makongo Juu and Mbezi Beach? At what level?
9. Can you give me the cost of local road construction incurred for the period between 2006/7 to 2015/16?
10. How many kilometer of local road need to be constructed in Makongo juu and Mbezi Beach?
11. What is the cost of road construction per kilometer?
12. Do you think property taxation can generate enough income to finance provision and maintenance of local roads?
13. Do you have any suggestion on what should be done to improve the collection of property tax?
14. Who in your view is responsible for ensuring that local road infrastructure in Makongo Juu and Mbezi Beach settlement are up to the required standard?
15. What do you think are the responsibilities of local government to the taxpayers?
16. Is there any complaints or comments have been made by residents of Makongo Juu and Mbezi Beach concerning the road condition in their neighborhood? What is your opinion on that and what is the local government reaction?

### **Interview guide questions for Municipal Economist**

1. Can you tell me the major roles and responsibilities of your section/department?
2. Can you explain how do you set your priorities in financing infrastructure?
3. Can you rank the infrastructure according to local government priority?
4. What criteria do you use to allocate road construction and maintenance funds in informal and formal settlement?
5. Can you give the records of expenditure on road infrastructure and other infrastructure services for the period of 2006 to 2015?
6. What are the sources of fund to finance local road infrastructure?
7. What is the intended budget for local road provision and maintenance?
8. Do the revenue generated from property tax enough to finance maintenance and provision of local roads?
9. What do you think revenue generated from property taxation should be used for?
10. Who in your view is responsible for ensuring that local road infrastructure in Makongo Juu and Mbezi Beach settlement are up to the required standard?
11. In your opinion what should be done to motivate taxpayers' compliance?

### **Interview guide questions for Municipal Treasurer**

1. Can you tell me the major roles and responsibilities of your section/department?
2. What is the legal basis of collecting property tax?
3. How do you calculate the property tax?
4. Can you explain the intention of local government in collecting property tax?
5. Does the revenue collected from each settlement earmarked?
6. Can you provide me the records of estimated revenue from property tax and actual amount collected for the year 2006 to 2015?
7. What are the other sources of revenue for local government?
8. Can you tell me what does the money collected from property tax used for?
9. Can you explain how infrastructure services are financed in your local government?
10. Is there any challenge you are facing in collecting property tax in informal settlements compared to formal settlements? Mention please?
11. Do you have enough capacity in terms of human and financial resources to carry on your daily responsibilities?
12. Can you tell me to what extent the residents from Makongo Juu respond in paying property tax compared to residents in Mbezi Beach?
13. In your opinion what should be done to motivate taxpayers' compliance?
14. What do you think revenue generated from property taxation should be used for?
15. Do you think revenue from property tax is enough to finance road infrastructure provision and maintenance?
16. In your view do you think is justifiable local government to levy property tax?
17. Who in your view is responsible for ensuring that local road infrastructure in Makongo Juu and Mbezi Beach settlement are up to the required standard?
18. Do you have any additional comment or question?

### **Interview guide questions for Chief Government Valuer**

1. How property tax exemption does affect tax base?
2. Do you think property tax basing on improvement only can generate enough revenue for local government to finance local road infrastructure? What is your suggestion?
3. Which valuation approaches are appropriate for property taxation and why?
4. Can you explain on what criteria are used to arrive at the rate of construction per square meter as well as depreciation rate in case of replacement cost approach?
5. Does the tax rate differ basing on property value and location? Why?
6. Do think local governments have capacity in terms of human and financial resource to carry on property taxation process?
7. What are measures to be employed by local governments to make sure taxpayers are complying?
8. In your opinion who is responsible in provision and maintenance of local roads in formal and informal settlements?
9. Can you explain why local roads in informal settlement are in poor condition compared to formal settlements?
10. What do you think revenue generated from property taxation should be used for?
11. Apart from property tax what other source do you think local government can obtain money

### **Interview guide questions for Legal Officer**

1. Can you tell me the major roles and responsibilities of your section/department?
2. Can you explain to me the legal basis of property taxation in Tanzania?
3. Who does the law empowers to determine property tax to be charged and how?
4. What is the legal justification of property tax base and rate?
5. How does the law determine valuation approaches, tax relief and exemption?
6. How do you enforce property tax compliance?
7. What is the use of revenue collected from property tax according to the law?
8. Can you explain to me the rights and obligations of Local government concerning property taxation?
9. Is there any law which provides right to all citizens to access public services? Can please talk about that law?
10. Does a taxpayer have any right to claim services provision after paying property tax?
11. What do you think revenue generated from property taxation should be used for?
12. Who in your view is responsible for ensuring that local road infrastructure in Makongo Juu and Mbezi Beach settlement are up to the required standard?
13. In your opinion what should be done to motivate taxpayers' compliance?

### **Annex 3 Code List**

Tax base

Tax rate

Assessment approach

Tax collection

Tax compliance

Taxpayers' perception

Government perception

Local road construction and maintenance

Ownership

Property Tax Revenue

Property tax collection

Use of property tax

Financial perspective

Institutional framework

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