

An Overview of Property Taxation in Lusophone Africa

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Abstract

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

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1. Background

1.1 Introduction

In most recent years property taxes seem to have gained importance as a source of revenue at municipal level. In many countries legislation prohibits national and provincial levels to impose taxes on properties, but allowing municipalities to do so. In fact, property taxes are generally the main source of municipal source of revenue. It sometimes also serves as an important source of intergovernmental transfer (Bell and Bowman, 2002 and Bahl, 2002). Therefore, the use of property taxes as a source of revenue can be of crucial importance in most African countries, although its application requires a careful evaluation given the level of poverty in the majority of these countries.

Property taxes have been well used in South Africa and many other developing and developed countries with some degree of success in terms of reducing the dependence of local government from provincial and national government transfers. However, in the Lusophone African countries the importance of property taxes have not received much attention despite the fact that it could play an important role as source of revenue (in the form of taxes on site and/or improvements on it), since most of the properties are not taxed at all or if so taxed unduly. This situation can be related to the political systems adopted after their independence that discouraged private ownership, which is the base for property taxes.

With privatization of the majority of the state enterprises during the 1990s and the adoption of the market economy properties became one of the most important investments of the private sector. With the growing of the population of these countries accompanied with the end of the wars (Mozambique and Angola), for example, huge investment in residential and business properties have occurred that are not actually taxed neither at the municipal or national levels. Therefore, property taxes in general could be an important source of

revenue in these countries (at municipal level), especially because in many cases it has never been implemented formally and consistently and in many cases no proper legislation exists.

The lack of proper property taxes legislation at municipal and local government levels is somehow a reflection of political systems adopted after the independence of Lusophone countries in Africa, particularly the largest countries of this group (Mozambique and Angola). The lack of existing and enforceable legislation in these countries can also be regarded as one of the weaknesses of the tax revenue system. There is, however, a hot and inconclusive discussion on the topic of the use of property tax. For example, the question whether tax should be on land, improvements or both. Some argue in favour of land tax since it may encourage investment in land with taxes on land much easier to administer than taxes on improvements, given the difficulties local and even national governments have to deal with when assessing the market value of properties. Therefore, property taxes merit the necessary attention particularly in a world where the importance of financial decentralization (with local government given more financial powers) is growing.

1.2 Defining property tax

Property tax is an ad valorem real property tax based on fair market property value. In its current format property taxes can be applied on land (or site) value, on improvements or on both (land and improvement). These taxes can be levied on a flat rate basis (same tax rates for land and improvement) or composite or differential (different tax rates on land and improvements). Property taxes are best fixed after determination of the budget at municipal level and deducted all other revenues as it is done in the United States.

Property taxes can simply be defined as taxes that are paid annually on real property. The value of the tax to be paid is based on the assessed market value of the property.

1.3 Justification of the study

Property taxes in many African countries do not play the necessary role as a source of revenue, because of political systems adopted after independence which did not favour private property ownership and due to lack of proper legislation and most importantly enforcement. The lack of enforcement is a result of the absence of strong institutions and qualified individuals to be involved in the process of assessment of properties. Therefore, the introduction or the implementation of property taxes requires a careful study and education of individuals living in these countries and in particular within municipal boundaries.

Given the actual situation of relative peace in many countries and the desire to implement fiscal decentralization, property taxes appear to be an important source of revenue, at least at municipal level. In this case, studying property taxes in Lusophone Africa appears to be of crucial importance because:

1. Most of the Lusophone countries are new emerging democracies.
2. Only now most of these countries have adopted institutional structures that allow for local governments (or municipalities), for example the first local government in Mozambique was instituted in 1998.
3. Being countries with limited resources, the introduction and implementation of property taxes could help in alleviating budgetary constraints at the local government level.
4. More decentralised government with more autonomy could play an important role in improving the standards of living of the individuals living under that jurisdiction, through better quality services offered.
5. If well designed, property taxes may limit free-riding in the use of municipal services.

Therefore, the study of property taxes in Lusophone Africa seems to be justifiable and of crucial importance for the soundness of both local and national government finances.

1.4 Problem statement

Property tax is a contested issue since it touches upon individual properties and sensitivities. It has been said that the acceptance of the tax depends on its legitimacy, that is, individuals must accept the tax (Bell and Bowman, 2002). For individuals to accept the tax it must be open, that is, taxpayers should understand how the tax works. Therefore, understanding how property taxes works in the Lusophone countries could help in comparing with countries of other origin and draw lessons on how properties taxes could be designed and implemented in countries with different political and administrative structures like these. In general, this study investigates the importance of property taxes in the Lusophone Africa as source of revenue for either national or municipal levels. In reality, this study involves the collection of information regarding existing property tax legislation and practices in the Lusophone African countries.

1.5 Objective of this study

This study is basically intended to collect data available on property taxes and develop a template that could help the Lusophone African countries to update in future.

Therefore the main objectives of this study are:

- 1 To conduct an exploratory study in order to understand the actual situation in each of the countries involved. This will include a study of the existing legislation (if any) on property taxes in these countries.
- 2 Visit these countries, study and discuss with the relevant authorities the actual situation of Property Tax Policy.

- 3 Analyze the different types of property taxes used at municipal and national level and identifying possible conflicting interests between different tiers of government.
- 4 Analyze the degree of importance of property taxes as a component of total tax revenue by, for example, calculating different ratios such as property tax revenue as a percentage of total tax revenue, total revenue and GDP. This analysis will allow the verification of the extent to which the Lusophone countries in Africa depend on property taxes to finance their budgets.
- 5 The analysis and study of the actual performance of property tax will help in analyzing the importance of transfers as source of both national and municipal levels.

1.6 Significance of the study

Bell and Bowman (2002) argue: “The power to tax is essential to allow for sustainable, accountable local government.” Studying the various options available to a local government to sustain its own expenditures is fundamental for an analysis of the the sustainability and autonomy potential of local governments and requires quality information on local sources of revenue. In this study an attempt has been made to collect data on existing (if relevant) property taxes in the Lusophone Africa from which lessons could be learned and recommendations made. The study provides for a comparative base of analysis which might be useful in similar analysis of other countries (where possible an econometric model for local property tax revenue forecasting will be constructed). This study will raise an awareness of the importance of property taxes in the Lusophone countries, which is crucial to the financing of local autonomous governments, as well as in the switching from central to decentralized environment, respecting the principles of good taxation.

1.7 Limitations

The major limitation in accomplishing some of the objective of this study has been the availability and quality of data and information to assess the extent to which property taxes are used as source of revenue both at national and local government. As is known the majority of developing countries suffer from a lack of data recorded and even legislation is outdated (most of the Lusophone countries still use draconic colonial type of legislation, with many limitations). Also, various differences regarding government structures due to many challenges posed by transformation during independence also complicate comparisons between countries. Wars and natural disasters have constrained the administrative processes within these countries and as a consequence local governments are not yet well institutionalised and/or structured. This may constitute important limitations in assessing the importance of property taxes as a source of revenue to local government.

2. Literature review

There is a vast theoretical and empirical literature discussing the usefulness of property taxes, including their format and factors affecting them. For example, Bell and Bowman (2002) run a regression to investigate which property tax option a municipality can choose given a number of factors influencing them. However, given the nature of this study (essentially data collection of what exists – also practices) there will no in depth theoretical literature review.

The fact that property taxes are seen as an important source of revenue to local government is important in assessing the power of local government in providing its citizens with quality services, like better schools, well equipped police, sanitation, health services, etc. This fact regarding the finances of local government has been supported by a number of studies (Bell and Bowman, 2002; Bell, 2002; Solomon, et al. 2002; Lall and Deichmann,

2006). Although there is general agreement regarding the distributive effects of property taxes, many authors regard property taxes as distortionary compared to tax on capital which is applied uniformly across all sectors in all jurisdictions (Mieszkowski and Zodrow, 1989).

A study conducted for South Africa indicates that property taxes contribute to about 20 percent of local revenue (Bahl, 2002). In an Indian case study (for Bangalore and Pune) property taxes have shown to represent a significant share of local revenue (Lall and Deichmann, 2006). However, the scenario of revenue from property taxes in developing countries and African countries in particular is disappointing; except for South Africa where Bahl (2002) indicates that the revenue performance from property taxes measured by property taxes revenue to GDP ratio is similar to that of industrialized countries (see Table 1 drawn from Bahl, 2002).

Table 1 shows that developing countries on average have been underutilizing property taxes as a source of revenue as found by Lall and Deichmann (2006) for the Indian case. In this Table property tax revenue as a percentage of GDP is on average 0.48 for all developing countries while for South Africa it is 1.64 per cent and for industrialized countries 1.93 per cent. These numbers show that the majority of developing countries are underutilizing property taxes.

The main challenges when thinking of introducing property taxes is related to the definition of the tax base and tax rates. Also, expertise for property assessment, law enforcement and collection are important challenges, especially in Lusophone Africa. Different methods of taxing properties have different outcomes depending on the structure of the property tax base and method of taxing this property base. In the Indian Bangalore City Corporation study (Lall and Deichmann, 2006) it was found that property taxes based on market rents and capital value were much better than using rental values and a unit value system because it increased aggregate tax revenue apart from also increasing improving redistribution through a reduction of the tax burden. According to these authors a similar situation occurred in the Indian case in Pune.

Table 1

Revenue Performance of Property Tax: South Africa in International Perspective			
<i>Property tax revenue as a percent of total government tax revenue</i>	<i>1970s</i>	<i>1980s</i>	<i>1990s</i>
South Africa	7.36	5.82	6.74
Average for developing countries	3.45	3.24	3.30
Average for industrialized countries	5.23	6.37	5.54
<hr/>			
<i>Property tax revenue as a percent of GDP</i>			
South Africa	1.66	1.41	1.87
Average for developing countries	0.50	0.46	0.48
Average for industrialized countries	1.63	2.22	1.93
<hr/>			
<i>Sub-national government property tax revenue as a percent of sub-national government revenue</i>			
South Africa	12.22	11.49	11.44
Average for developing countries	15.86	16.21	9.63
Average for industrialized countries	12.68	13.54	12.99

Source: Bahl, R. W. 2002. Fiscal Decentralization, Revenue Assignment and the Case for the Property tax. In Property Taxes in South Africa: Challenges in the Post-Apartheid Era, edited by Michael E. Bell and John H. Bowman.

According to them the improvements in tax revenue were due to structural reforms that linked tax assessment to market rental or the capital values of properties.

In the African and in particular the Lusophone African case the situation may even be worse given the lack of well functioning models of property taxes, especially after their independence. .

The most difficult task in assessing property taxes is to determine which tax base to target and the tax rate to be applied (flat tax or composite (South Africa terminology) or differentiated tax). It has been reported that a well chosen tax base is important for meeting the basic principle of fairness, uniform and openness of property tax. But all these face a fundamental problem: administration of the tax system, which includes valuation of

properties subject to taxation in order to meet the fairness of the tax and avoids the tax from being biased when changes in expectations are correlated with actual taxes (Palmon and Smith, 1998). According to Palmon and Smith if any of the structural and locational characteristics of the property is correlated with unmeasured factor or local services then the estimation of the property tax rate will be biased.

In general, the selection of the tax base and tax system to be used is fundamental for legitimacy, openness and technical proficiency of the property tax. This was found to be useful in the context of South African property tax reforms initiated in 1994 and also in the Indian case of Bangalore and Pune.

3. Methodology

Surveys are widely used to collect data and information about the status of property taxes in a country or local jurisdiction. However, in this study the use of surveys has been limited and instead comprised of the following procedures and processes:

- 1 During the visit interviews were conducted with government officials and other relevant authorities to discuss property tax legislation and practices in that country. Where possible the private sector was also consulted in order to get their inputs on the impact of property taxes and possible best practices from their experience in other countries. Of importance also was to collect information on the cost of collection of property taxes.
- 2 A comparative analysis of the structure of property tax within the Lusophone Africa and also, where possible, with other African countries.
- 3 Collection of relevant existing legislation on property taxes in the Lusophone African countries. All existing and available information on property taxes in these countries have been considered.

As part of the methodology but with the objective of improving the quality of the study with regard to the structure of property taxes in these countries and future trends in property taxes, some models (where data is available) have been designed and used for simulation. This is crucial in terms of property tax policy selection and with regard to revenue forecasting. These models can also be used to compare the performance between countries in the Lusophone Africa and other countries in Africa.

The model to be tested at national level (where data is available) is given by Bahl (2002):

$$PT = \gamma + \beta_1 Y_{pc} + \beta_2 Pop$$

Where: PT is the property tax revenue as a percentage of GDP

Y_{pc} is the per capita GDP

Pop is the country's population.

This model might be useful in assessing the importance of property taxes in a selected economy. It should also be useful in analyzing the stability of property taxes in the economy. In other words, how property taxes are affected with the buoyancy of the economy.

4. Empirical analysis

Section 2 analysed the impact of property taxes on government tax revenue. This impact is more significant for local government finances (Table 1 of section 2). The discussion in that section hinted that the majority of African countries, in particular the Lusophone countries, are still far behind with regard to including property taxes as a significant source of revenue at local and even at central, levels.

The results of the present study show that only now some of Lusophone countries are considering the inclusion of property taxes as an important source of revenue at local level.

But there is still a long way to go as discussed below. The reasons for this delay were given, in part, in section 2.

This section is divided into five sub-sections, corresponding to the findings in each country included in this study. Section 1 discusses the situation of African Portuguese provinces (colonies). Section 2 discusses the situation in Angola, section 3 discusses the situation of property taxes in Cabo Verde and section 4 discusses the situation in Mozambique with Maputo Municipality taken as an example. The reason for this is the fact that Maputo is the capital city and that it could serve as a good example for others to simulate with only slight modifications. Also, the Maputo Municipality is now undertaking several studies within the Maputo area such as the Municipal Development Project (MMDP) supported by the World Bank which highlights property taxes as one of the major sources of revenue for the municipality. The remaining two sections on Guinea Bissau and Sao Tome and Principe are contained in part 2 of this report.

4.1 The African Portuguese provinces (colonies)

During approximately five centuries, Portugal colonized five countries in Africa, namely: Angola, Cabo Verde, Guinea-Bissau, Mozambique and Sao Tome and Principe. All colonies (called overseas provinces) were under the overseas ministry. During the period of colonisation the administrative organization of Portuguese colonies was complex and sometimes confusing, mainly because of the need to strengthen its position in Africa and ensures Portuguese control. Thus over a period of close to 300 years these colonies were governed by militaries.

During this period various decrees regarding ruling were published in order to preserve the integrity of Portuguese interests. For example, the first signs of the administrative organisation in Cabo Verde were about 1570 with Dr. Gaspar Andrade Rodrigues Velho. In order to defend its presence in Cabo verde and Guinea Portugal published on 15 January of 1650 a rule that put Guinea under the Cabo Verde jurisdiction. On 27 August 1731 a law

establishing the first justice officials with a mission to execute the laws of the Kingdom was published. From this date onwards various laws were published as an attempt to organise the administrative structures of these colonies, with special reference to the law-letter of 18 of March of 1879, which separated Guinea from Cabo Verde and Decree of 23 of December of 1892 that approved the administrative organisation of Cabo Verde and established its administrative structures, authority and administrative tribunals. Since then various decree-laws were approved and published, for example a letter dated 01 July 1917 was published as supplement no 25 of the official Bulletin of the province which contained the organic administrative structures of the province of Cabo Verde, similar to that of Guinea and Sao Tome and Principe,. These administrative structures lasted for the rest of the colonisation period. In part, the actual administrative structures of Cabo Verde and other former Portuguese colonies are the reflection of different letters ruling the administration of the colonies.

Although, Portugal treated Cabo Verde, Guinea-Bissau and Sao Tome and Principe, similarly, Mozambique and Angola were differently treated from the other three African colonies. But the two colonies were treated similarly, because of their economic importance to Portugal. Mozambique, which remained under jurisdiction of the government of India until 1752, served as an important centre of trade and also as a centre for re-stocking Portuguese caravans during their expedition to India and Brazil.

Mozambique, as other former Portuguese colonies, was governed for long periods by militaries and in between 1779 and 1834 the governor was also chairing the council of justice for eastern Africa. The board for the province of Mozambique was constituted through Decree of 14 of October of 1856 and formed by 13 attorneys from equal number of districts. From this point the administrative structures of the Mozambican territory were several times modified. This process seems to have ended in between 1908 and 1912 with publication of the following legislations: by provincial decree no 671-A of 23 of May of 1907, the regulation of civil districts of Lourenco Marques and Inhambane was published; Decree no 252, of 19 of October of 1912 a new regulation with some changes but only applicable to Inhambane was published. Article 2nd of the same regulation created the

municipality of Inhambane.

While Mozambique had more transformations in terms of its administrative organisation, Angola, though treated similarly to Mozambique, seems not to have had many major changes to its administrative structures. The first references to the administrative structures of Angola are those of S. Paulo of Luanda and S. Filipe of Benguela, indicating that the structures were governed by militaries. This composition of administrative organisation was changed in 1703 (no reference of any decree is made). By decree of 20 of April of 1869 the districts of Benguela and Mossamedes are joined together with Benguela as capital. Another decree of 6 of December of the same year divided the province of Angola in three districts. This administrative structure of Angola was several times changed with no deep modifications but by the law no 3:365, of 15 of September of 1917, the administrative structures of Angola were changed again. This law brought with it several fundamental changes, including delimitations of the Angolan territory. By Decree no 3:621, of 28 of September of 1917, a letter containing the organisation of Angolan administration, similar to what happened in other Portuguese colonies, was approved. In fact, the administration of the province of Angola was regulated by the new decree no 375, of 17 of April of 1913, which was already authorised by the then minister of colonies by Decree of 2 of November of 1912. The actual administrative structures of Angola reflect, in part, the organisation of colonial administration.

This background lights why African Portuguese colonies introduced property taxes only during the first quarter of the 1900's. Administrative structures are important for introduction and enforcement of any legislation that is influenced by territory organisation, like property taxes. It was only after 1917 that Portugal started the introduction of most consistent property taxes laws. However, there are documentations (though not systematic) reporting the existence of property taxes since the mid of 1800's.

4.2 Property taxes in the former Portuguese colonies

All Portuguese colonies were governed under the Ministry of Overseas (Ministerio

Ultramarino) and all legislation in the colonies had to be approved by the metropolis before implementation through this ministry. With the administrative organisation of the colonies not properly set and the need of Portugal to re-enforce its presence in the colonies, it seems as if Portugal was not much interested in establishing proper property taxes systems in the colonies. This argument can be supported by the fact that during approximately 450 years of colonisation, Portuguese colonies were mostly governed by militaries. As matter of facts even in Portugal more elaborated property taxes legislation was only introduced on 31 December 1952, but the code on it was approved in 1913 by Decree of 5 of June and followed by changes introduced by Decree no 15467 of 30 of March of 1928. Further amendments were introduced in the following years and sometimes these amendments influenced changes in the property taxes in the Portuguese colonies with the objective of harmonising the law on these matters in the Portuguese empire.

The delays in the development of Portugal itself, including property tax systems, affected the organisation and development of administrative structures of African Portuguese colonies as described in previous section, which only became clearer after 1917. As a consequence it introduced a more systematic legislation on property taxes, called building property contribution in urban areas, only in 1918. The first law regulating the payment of property taxes on building in African Portuguese colonies was introduced in Angola by Decree no 222, of 13 of September of 1918, which was replaced by the diploma no 2:149 of 04 of May of 1949. The publication of this diploma had been authorized by the article no 47 of Decree no 37:215 of 16 of December of 1948 of the colony government.

After the publication of this regulation a number of changes and adjustments to the regulation were published, with reference to the following law publications:

- (i) Legislative diploma no 2:428 of 17 of December of 1952, which extended the exemption to buildings used by the operators of fishing industry.
- (ii) Using the competences attributed by articles 28th and 30th of the colonial act and by the article 43rd of the letter containing the organisation of Portuguese empire,

the General-Governor of Angola, determined in its first article of legislative diploma no 2:325 of 13 of June of 1951, that the exemption conferred by paragraph 18th of the 3rd article of the regulation on building property contribution in urban areas, approved by the diploma legislative no 149 of 04 of May of 1949, will only be allowed to buildings whose owners have proven the right of land property where they are built and that the building has been approved by the administrative structures of the area where it is built. In the second article of the same diploma the General-Governor states that in order to benefit from the exemption the presentation of documentation proving the ownership referred to in the first article to tax authority is compulsory and independent from the certificate required in the 2nd paragraph of article 6th of the building contribution regulation.

The majority of regulation on building property contribution in urban areas for the African Portuguese colonies was similar to that of Angola. In this regard, in 1933 a regulation introducing building property contribution in urban areas in Cabo Verde was published. While in Mozambique a regulation introducing amendments to earlier regulations on building property contribution in urban areas was published by the legislative diploma no 810 of 05 of September of 1942. In Guinea-Bissau and Sao Tome and Principe, similar laws were also introduced, respectively.

Along with the establishment of building property contribution in urban areas, a regulation on donation, succession and Sisa on onerous transmission of real estate properties was changed in Angola by the legislative diploma no 230 of 18 of May 1931 with further amendments in 1960, by the legislative diploma no 3082 of 12 of November. Taxes on donation, succession and Sisa on onerous transmission of real estate properties were introduced in Cabo Verde by Decree of 22 of June of 1898, revoked by the regulation sent for publication by the Government of the Cabo Verde colony on 25 of March of 1946. In the case of Mozambique is not clear when it was introduced but the legislative diploma no 1:687 of 06 July of 1957 approved the rates of Sisa to be applied in the case of Sisa on onerous transmission of real estate properties.

Although not stated in legislation of most of these countries, it is believed that most of the legislation on donation, succession and Sisa on onerous transmission of real estate properties was introduced during the period of strong transformations in the administrative structure both in Portugal and colonies. As it can be seen, most of these transformations occurred mainly during the last 20 years of the XIX century and the first 20 years of the XX century.

4.2.1 On valuation and administration of property taxes

For property taxes purpose, most of these countries required the declaration of properties by owners or legal representatives. Municipalities or local government were authorised by law to nominate a permanent commission of valuation. The commission intervened mostly in cases where the tax authority did not agree with or doubted on the value declared by the taxpayer. In this case the tax authority was required to collect as much information as possible, such as taxpayer declaration on the value of the building in the case where the owner have used mortgage with any bank, the registration of the building with the conservatoires, books of the revenues, judicial inventories, deed contracts on the urban properties that remain in the archive of the notaries, and all possible information that constitute evidence of the value of the property.

The commission after joining all the necessary information was required to fill the form containing the valuation it has done and notify the taxpayer about the changes that eventually it has made on the declared value. On this valuation taxpayers may contest through the tribunal within 20 days justifying why he/she is contesting. Therefore, the taxpayer has the right for second valuation in the case where he/she is not happy with the valuation made to his/her property.

The valuation roll of the property was supposed to be in the name of the owner or any other legal representative who could respond, based in legal documentation proving the ownership or representation, before law on building property contribution. For the purpose

of registration of buildings subject to contribution, the owners, persons enjoying the use of buildings or legal representatives were required to fill and file the necessary forms regarding the previous year during January and February of each. Modifications or changes in buildings as well as new buildings, including religious missions, administrative and state buildings in the overseas provinces had to be notified to allow the necessary correction in the valuation rolls by the tax authority of the area where the building is located. Municipal secretaries, municipal commissions or local boards of valuation and administrators of the districts were compelled by law to send all licenses issued for building or re-building and renovation of urban properties in areas where they control.

The valuation is done for all urban components of the property and the tax rate applicable for Angola was 10 per cent and for Mozambique was 12 per cent on the taxable value of the property as described and identified in the valuation roll. The taxable value was considered after deduction of 20 per cent for expenses of maintenance. The taxable value for rented building was supposed to be listed according to components of the building being rented or rentable. The taxable value can be changed only if there is duplication of the valuation roll and in case of re-valuation if the taxable value results to be higher or lower than the actual or the revenue from renting result to be higher than the declared. The period of registration of building for tax purpose was fixed to be 30th of September of each year.

There is an extensive list of exemption from the valuation roll, ranging from government, religious, diplomatic buildings to indigenous houses built for own used and not rented for non-indigenous person. Included in these exemptions are building whose owners are entitled for under the legislation was in place in those countries and have requested for such exemption, which can be up to 10 years maximum, after which an individual is subjected to building property contribution as other are. In the case of rejection of the request for exemption, the taxpayer is notified with the possibility to contest the result as established by law in place in these countries (former Portuguese overseas provinces). Also in the case of building non-occupied, no-contribution is due during the period the building is vacant. However, for purpose of tax, buildings rented but whose tenants are not effectively occupying them, furnished buildings and other buildings specified by law are not

considered vacant.

In order to make the system of payment of the contribution (tax) more effective, easier and less costly, the tax collector was required to send the bill to the taxpayer by 10 of December, after a careful check and verification of taxable value or else the officer responsible of that valuation have to correct the mistakes before it is sent to the taxpayer. The authority of tax collection was required to announce publicly in January when the tax payment is due, as well as the penalties facing the taxpayers in the case of non-compliance with the law. In the case of contesting, this should be done within 60 days following the announcement, together with all necessary elements sustaining the claim. The tax collectors were bounded by law to send the bills to the taxpayers through the post offices. 10 days before the deadline of voluntary payment of the contribution, the tax authority was required to send a second bill following the same formalities as in the first bill sent by 10 of December.

Commissions of valuation of urban buildings were composed by three vowels chosen among the following list: civil engineers, architects, support engineers, technical agents of engineers, leaders of public works, building masters with professional title or urban owners; one position for the director of the tax authority in the province, one position for municipal, municipal commission or local board of the area of building location. Tax secretary shall nominate the old tax inspector to act as vowel-secretary. However, in the case where there is no old tax inspector, the secretary was allowed to nominate any other person. The vowel nominated by the director of the tax authority in the province is, by rule, the president of the commission, but in the case of presence of an engineers or architect the presidency will be assigned to him/her. It was forbidden to belong to the same commission father and son, brothers, or other next of skin of the same degree or uncle and nephews. None of the vowels were allowed to intervene in the valuation of own buildings, parents or buildings he administer.

During the inspection the commission was required to check the book of registration according to attached form no 6, which was called: "Book of direct inspection of urban properties". It was in this book where, monthly, the commission was suppose to revise,

briefly, the work done and the changes made in the value of properties.

A lack of compliance with regulation on new buildings, re-built, improved or omitted is equivalent to a lack of filing the rent contract. The fine to be applied will be equal to the number of years corresponding to the lack of filing, but not superior to five years and will be calculated according to the value recommended by the commission of valuation. An official not complying with regulation and do not file information requested by the tax authority for verification of values of buildings will be punished by disciplinary hearing according to what is established in paragraph 1 of article 234th of administrative reform for overseas. The disciplinary process will be based on information supplied by the secretary of the tax authority in the province to the immediate chief to whom the official is subordinated. Members of the permanent commission accused of being partial in the process of valuing urban buildings will be dismissed without all guarantees to which are entitled for and constrained to re-pay all salaries earned during the period of exercising their duties and independent of criminal responsibilities.

4.2.2 Revenue from the building environment (property taxes) and Sisa in the five African Lusophone countries

The aim of all reforms in the system of contribution related to building properties in urban areas was to collect as much as possible revenue with the objective of improving service delivery to the citizens living in the overseas provinces, without jeopardizing the requirement of tax fairness, equality, capacity to pay, etc.

Property tax revenue in African lusophone varied, on average, from 0.62 per cent in Mozambique to 7.18 per cent in Sao Tome and Principe of total revenue and from 4.25 per cent in Mozambique to 47.37 per cent in Sao Tome and Principe of total direct tax revenue. While, taxes on property transaction and donation varied, on average, from 0.11 per cent in Guinea-Bissau to 0.98 per cent in Cabo Verde of total revenue and from 0.66 per cent in Guinea-Bissau to 10.82 per cent in Cabo Verde of total direct tax revenue. These simple

statistics show that taxes on buildings in the Lusophone African countries played an important role as source of revenue, at least, during the period with data available (1943-1973). It can be seen that Sao Tome and Principe had the highest share of building property contribution to total direct revenue, implying that during the period under consideration property taxes in this country played a major role in service delivery of this overseas province. This pattern can also be observed for countries like Cabo Verde and Guinea-Bissau and it can, probably, be explained by limited sources of revenue compared to Angola and Mozambique, which have the lowest share of building property contribution to total direct tax revenue.

Although, complex and difficult to administer property taxes, since its introduction in the Portuguese overseas colonies, seem to have played an important role in terms of contribution to revenue collected in those provinces. According to the legislation in place at the time, seems as if the metropolis was also concerned about the status of housing to the indigenous population. Tables and Figures below reproduce revenue resulting from the contribution on building properties in urban areas collected during the period 1942 (Cabo Verde from 1943) to 1973 for the five lusophone African provinces.

Table 2: Contribution of building property (property taxes) and Sisa (taxes on property transaction) and donations

Years	Cabo Verde		Guinea Bissau		Sao Tome & Principe		Angola		Mozambique	
	Cpredial	Sisa	Cpredial	Sisa	Cpredial	Sisa	Cpredial	Sisa	Cpredial	Sisa
1942			1573	68	1415	213	3529	1549	5491	4024
1943	1454	963	2604	128	1401	269	3680	2219	10243	4251
1944	1331	687	1939	119	1405	426	3770	2510	11126	7098
1945	1412	670	2345	164	1400	280	3982	3603	11773	5742
1946	1432	588	2481	87	1354	145	3958	5620	12983	9027
1947	939	482	2334	164	1577	367	5103	4752	13999	5113
1948	766	508	5669	126	1753	367	5482	5950	13991	6455
1949	767	606	6783	197	1734	352	5996	5412	14832	6316
1950	2173	819	5555	157	1741	437	4278	8536	15495	8783
1951	2596	964	630	108	6198	1219	5238	11360	16353	6784
1952	2095	1200	8367	102	5582	889	6405	12709	16893	8992
1953	2028	1375	7931	173	5917	229			17245	8977
1954	2079	1267	7992	276	6724	1409			18223	10450
1955	2277	1176	7060	235	6612	2390	11509	19308	18390	11463
1956	2302	845	9048	680	7803	1119	13372	23247	19713	11128

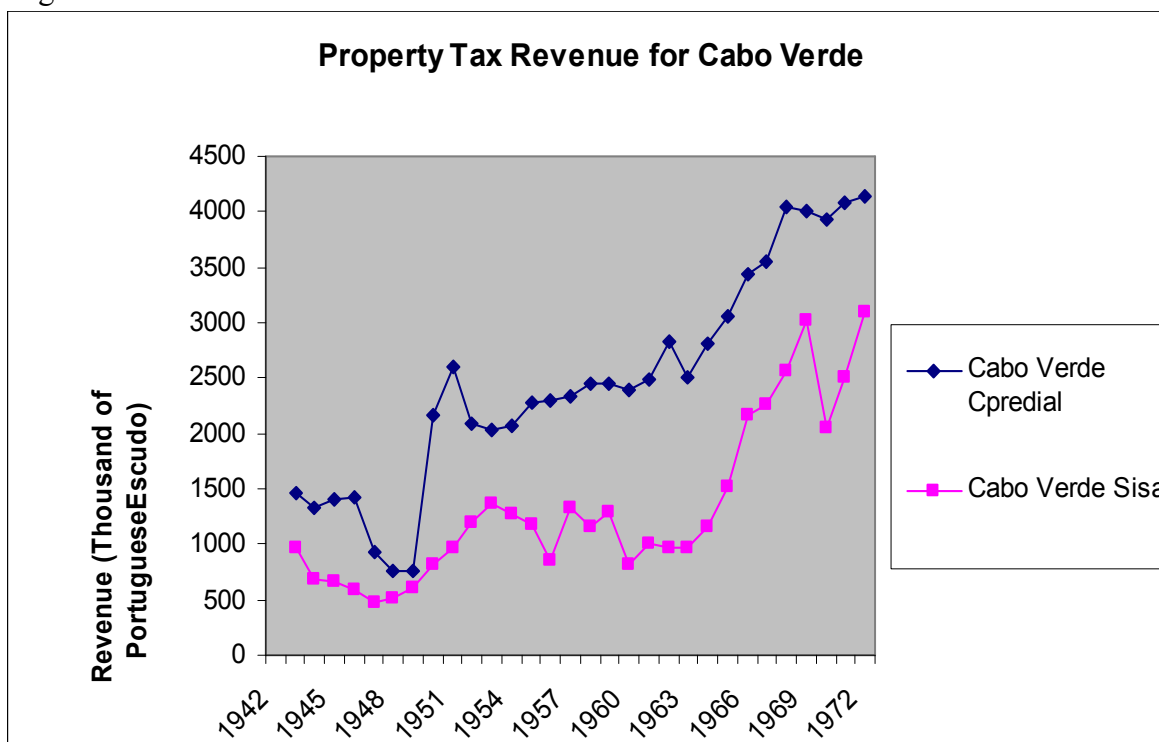
1957	2340	1325	9207	258	7250	572	14535	23327	19807	16936
1958	2444	1160	9132	186	7883	1046	15976	26994	19917	28429
1959	2445	1292	9140	100	8434	583	19736	21997	21055	21982
1960	2400	819	6126	150	7883	1547	19532	18071	24635	19201
1961	2489	1010	9844	162	7628	402	20878	15298	26237	15350
1962	2822	976	9803	67	8170	297	24014	14489	29417	14864
1963	2515	971	8856	58	8863	773	27454	18087	30276	15049
1964	2803	1160	7796	158	9116	412	31884	22176	35009	21884
1965	3059	1516	5762	285	9122	316	35865		36514	23727
1966	3445	2162	5106	124	9398	852	42994		38486	26547
1967	3555	2261	5936	104	9408	1803	51957	41384	41350	37102
1968	4053	2555	6713	228	9916	996	68840	52859	42912	33579
1969	4015	3022	8123	380	9642	2340	76360	57086	42279	38802
1970	3937	2059	7803	393	9120	2188	87731	79111	47352	60619
1971	4079	2507	6478	726	9337	1016	108972	101666	52335	68792
1972	4144	3092	8016	355	9608	430	113741	129682	58881	82095
1973					9151	1481	125681	161814	77682	109575

Source: Overseas Statistics at National Institute of Statistics of Portugal
 Cpredial: Building property contribution (property taxes) and Sisa: taxes on transaction and donation

The following Figures illustrates the evolution of property taxes in the African Lusophone countries:

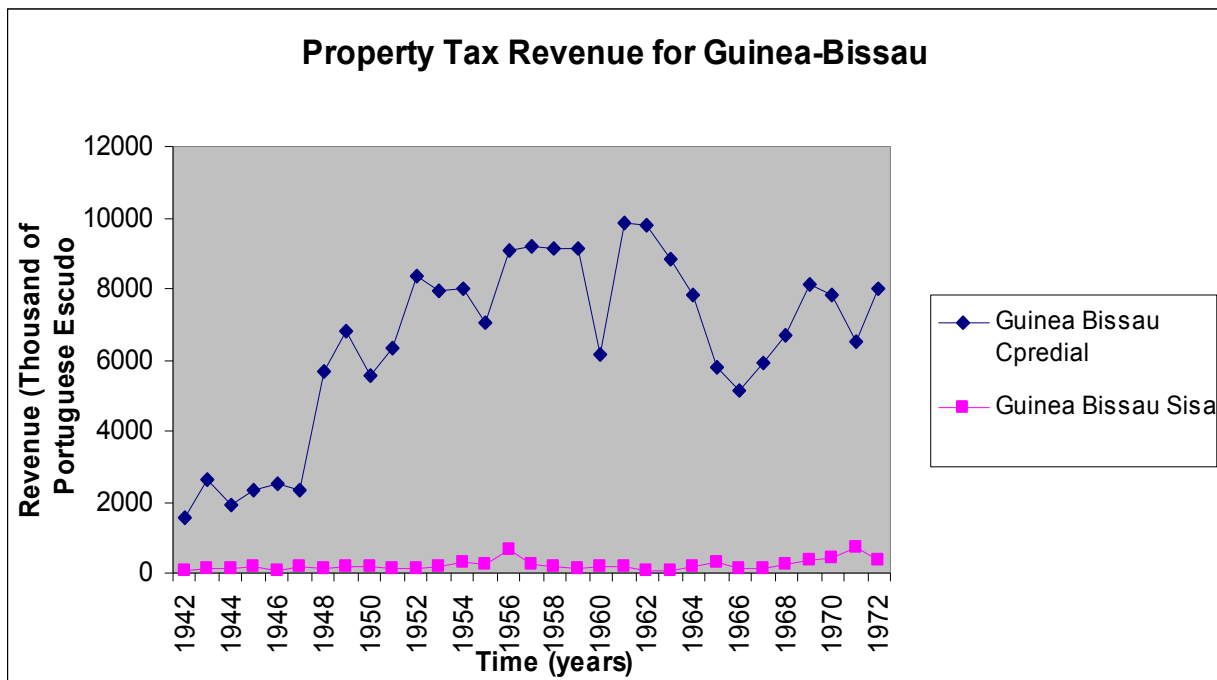
Figure 1 shows that property taxes in Cabo Verde evolved significantly over the period under consideration. The share of property taxes in the direct tax revenue was, on average, 20.05 per cent, meaning that building property contribution played an important role in Cabo Verde during the period.

Figure 1



This is important for countries like Cabo Verde with limited resources to rely on as a tax base. Therefore, property taxes were considered as one of the most fundamental base for direct tax revenue. Data also show that taxes on transaction and donation played a similar role to that of building property contribution. Figure 1 shows that Sisa followed the same pattern to that of building property contribution. The share of the two direct taxes to total revenue is 2.80 percent and it represents 30.87 per cent of direct tax revenue a share that show significant country's dependence on property taxes. The share of property taxes to total revenue for the entire period (1943-1973) is below the average share of developing countries in 1970s through 1990s. This implies that although property taxes had significant weight in the revenue of Cabo Verde, its performance was still far below the average of all developing countries considered together (see Table 1).

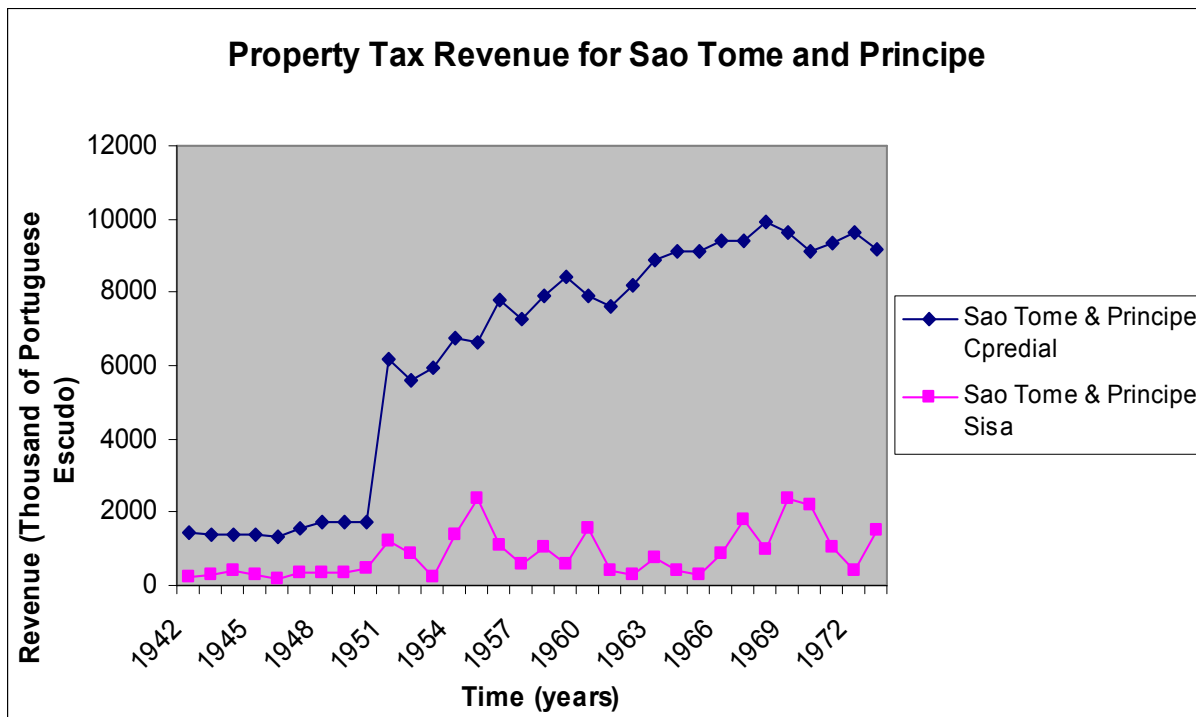
Figure 2



While in Cabo Verde property taxes and Sisa on onerous transmission, succession and

donation followed almost the same pattern, in Guinea-Bissau only building property contribution played an important role compared to Sisa. Property taxes for Guinea-Bissau showed a significant decline between 1962 and 1966, the reasons for such decline are not clear and recovered the trend thereafter. However, the share of building property contribution to direct taxes is 20.38 per cent, while its share together with Sisa on onerous transmission, succession and donations to total revenue is 3.60 per cent, which is in line with average share for developing countries considered together (see Table 2) and this share to total direct tax revenue is 21.04 per cent. The two shares are relatively higher in Guinea-Bissau compared to Cabo Verde, but such differences may display differences in the structure of buildings, ownership and other structural differences in the two countries. These shares show importance of property taxes in Guinea-Bissau during the period in analysis, which may be explained by the similar reasons as in the case of Cabo Verde, that is, limited resources at that time may have induced these province to rely more on property taxes.

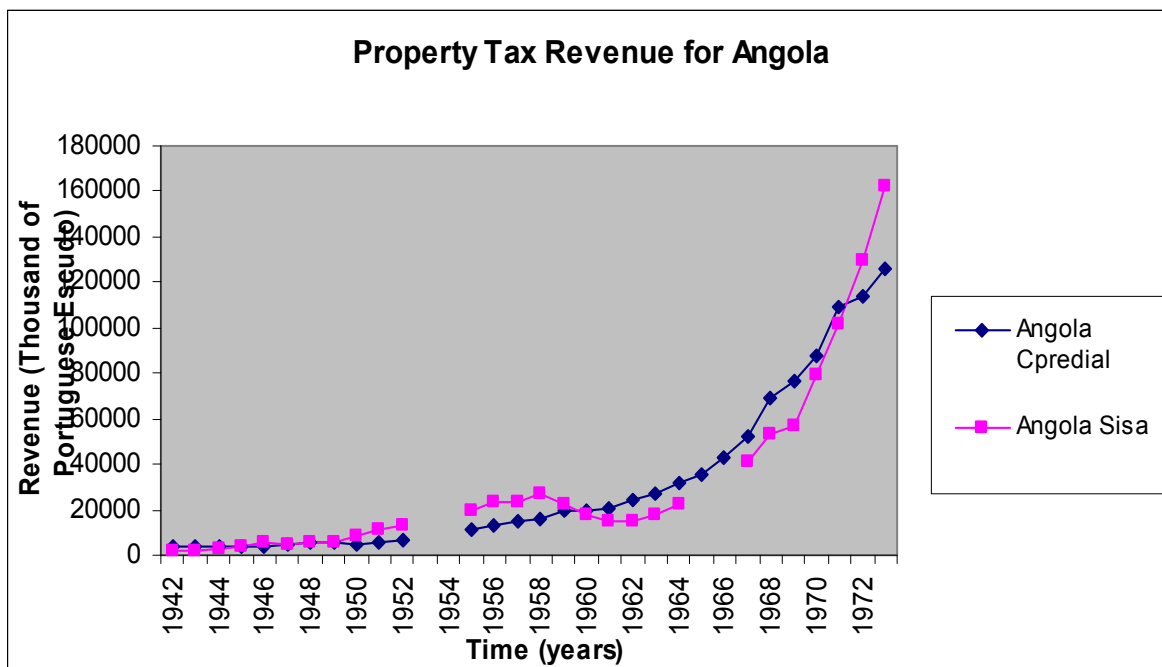
Figure 3



In the case of Sao Tome and Principe, the share of building property contribution to total

direct tax revenue is 47.37 per cent, implying that almost 50 per cent of direct tax revenue in Sao Tome and Principe during the period under consideration was from property taxes. The level of dependence on property taxes for Sao Tome and Principe was the highest among the Lusophone African countries during the period. The two trends of property taxes and Sisa on onerous transmission, succession and donations were similar over the same period although, property taxes played the major role compared to Sisa on onerous transmission and donations (6.35 per cent). The combined effect of the two taxes on total revenue is 8.14 per cent (a share that is well above the average of all developing countries together and even above South Africa during the 1970s through 1990s in Table 2), while the combined effect on total direct tax revenue is 53.73 per cent. This statistics shows that property taxes and Sisa on onerous transmission, succession and donations were the main sources of direct tax revenue in Sao Tome and Principe. These results may be justified from possible lack of diversified sources (tax base) of revenue.

Figure 4



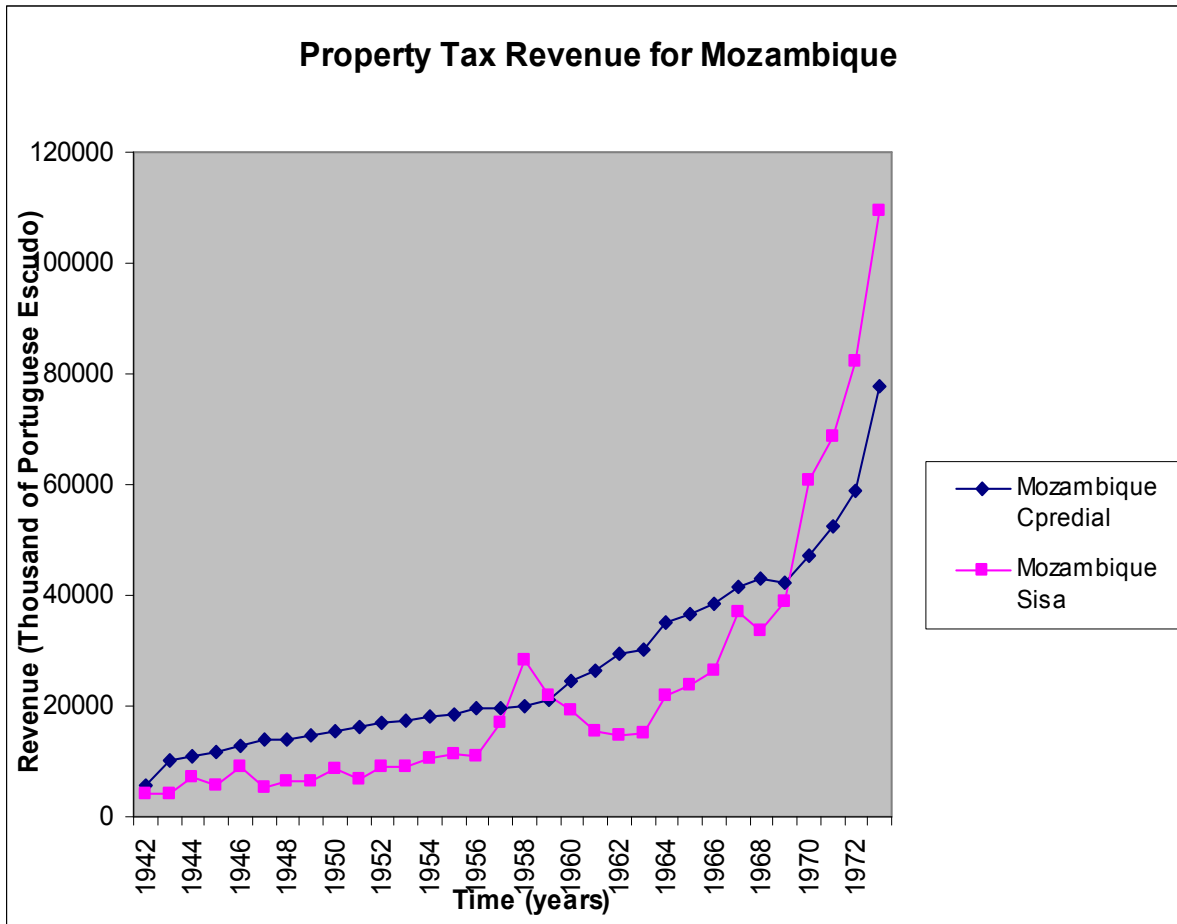
Note: in the case of Angola there was data reported for 1953 and 1954

The Angolan situation can be compared to the situation in Cabo Verde, where the

behaviour of building property contribution and Sisa on onerous transmission, succession and donations was similar. They seem to be cointegrated, that is, moved together over the period under analysis. The share of contribution on property taxes to total direct tax revenue is 6.08 per cent, while the combined share of building property contribution and Sisa on onerous transmission, succession and donations on total revenue is 1.53 per cent, the lowest in the group of lusophone African countries and also far below the average of developing countries, and similarly the combined share to total direct tax revenue is 12.10 per cent. These low shares of building property contribution may imply that Angola had more alternative sources of revenue than do Cabo Verde, Guinea-Bissau and Sao Tome and Principe and therefore, less pressure was put to property taxes and Sisa on onerous transmission donation and succession.

Figure 5 on Mozambique illustrates the fact that building property contribution and Sisa on onerous transmission donation and succession had similar pattern over the period 1942 and 1973. The share of building property contribution to total direct tax revenue is 4.25 per cent, the lowest in this group of countries. This may imply that property taxes in Mozambique, on average, did not play as much importance as in other countries, like Cabo Verde and Sao Tome and Principe and that the level and structure of direct tax base influence these shares. The combined share of property taxes and Sisa to total revenue is 1.56 per cent that is well below the average of developing countries in Table 1, while similar share to total direct tax revenue is 7.96 per cent, the lowest in the group of lusophone African countries. Similar to the Angolan situation lower shares of property taxes in Mozambique may signal the availability of other alternatives sources of revenue (tax base), in other words, revenue in Mozambique did not depend heavily on property taxes as it was in the case of Cabo Verde, Guinea-Bissau and Sao Tome and Principe.

Figure 5



4.3 Property taxes forecasting for five Lusophone African countries

This section attempt to forecast property taxes (period 1974-2006¹) based on information available and reported in Table 3. Lack of additional data on GDP prevents the use of more sophisticated techniques based on econometric models as the one specified in the methodology (page 10). Therefore, in forecasting, average growth rates of the entire period of the available sample are used. These rates are 7 per cent for Cabo Verde, 9.52 per cent for Guinea-Bissau, 10.42 per cent for Sao Tome and Principe, 11.92 per cent for Angola and 9.73 per cent for Mozambique. The disadvantage of this method of forecasting is that it

¹ We are aware of the negative effects of trying to forecast long periods. This kind of forecasting are econometrically difficult (or impossible) to rely on , but it is important to see how property tax revenue could have evolved had there not been a break in 1974 and 1975 due to the independence of these countries.

does not take into account the developments in the property market, it consider fixed the value of properties. Moreover, forecasting long periods may induce to serious errors (simulations shown in Table 3). However, it is important to illustrate possible scenarios of no break in the property tax revenue in these African Portuguese speaking countries.

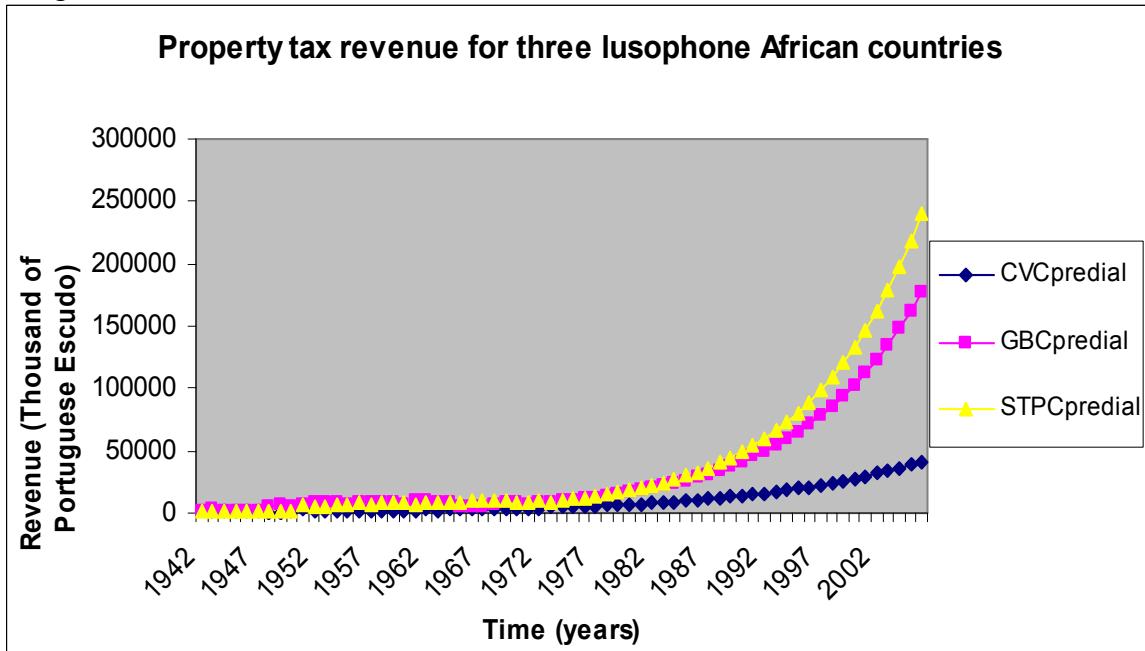
Table 3: Forecasting property tax revenue in five lusophone countries

	CVCpredial	GBCpredial	STPCpredial	ACpredial	MCpredial
1942		1573	1415	3529	5491
1943	1454	2604	1401	3680	10243
1944	1331	1939	1405	3770	11126
1945	1412	2345	1400	3982	11773
1946	1432	2481	1354	3958	12983
1947	939	2334	1577	5103	13999
1948	766	5669	1753	5482	13991
1949	767	6783	1734	5996	14832
1950	2173	5555	1741	4278	15495
1951	2596	6330	6198	5238	16353
1952	2095	8367	5582	6405	16893
1953	2028	7931	5917		17245
1954	2079	7992	6724		18223
1955	2277	7060	6612	11509	18390
1956	2302	9048	7803	13372	19713
1957	2340	9207	7250	14535	19807
1958	2444	9132	7883	15976	19917
1959	2445	9140	8434	19736	21055
1960	2400	6126	7883	19532	24635
1961	2489	9844	7628	20878	26237
1962	2822	9803	8170	24014	29417
1963	2515	8856	8863	27454	30276
1964	2803	7796	9116	31884	35009
1965	3059	5762	9122	35865	36514
1966	3445	5106	9398	42994	38486
1967	3555	5936	9408	51957	41350
1968	4053	6713	9916	68840	42912
1969	4015	8123	9642	76360	42279
1970	3937	7803	9120	87731	47352
1971	4079	6478	9337	108972	52335
1972	4144	8016	9608	113741	58881
1973	4434	8780	9151	125681	77682
1974	4744	9616	10104	140665	85238
1975	5076	10533	11157	157435	93529
1976	5432	11536	12319	176205	102627
1977	5812	12635	13602	197213	112610
1978	6219	13839	15019	220725	123563
1979	6654	15158	16583	247040	135582
1980	7120	16602	18311	276493	148770
1981	7618	18184	20218	309457	163241

1982	8151	19916	22324	346352	179120
1983	8722	21814	24649	387644	196543
1984	9332	23892	27217	433860	215661
1985	9985	26168	30052	485586	236638
1986	10684	28662	33182	543479	259656
1987	11432	31393	36639	608274	284913
1988	12232	34384	40455	680794	312627
1989	13088	37660	44669	761959	343036
1990	14004	41248	49322	852802	376404
1991	14984	45178	54460	954475	413017
1992	16033	49482	60132	1068270	453191
1993	17155	54197	66396	1195632	497273
1994	18355	59361	73312	1338178	545644
1995	19640	65017	80949	1497719	598719
1996	21015	71211	89381	1676280	656956
1997	22485	77996	98691	1876130	720859
1998	24059	85428	108971	2099807	790977
1999	25743	93567	120322	2350151	867916
2000	27545	102482	132855	2630342	952339
2001	29473	112246	146694	2943937	1044973
2002	31535	122941	161974	3294921	1146619
2003	33742	134655	178846	3687749	1258151
2004	36104	147485	197475	4127411	1380532
2005	38631	161537	218045	4619491	1514817
2006	41335	176928	240758	5170238	1662164

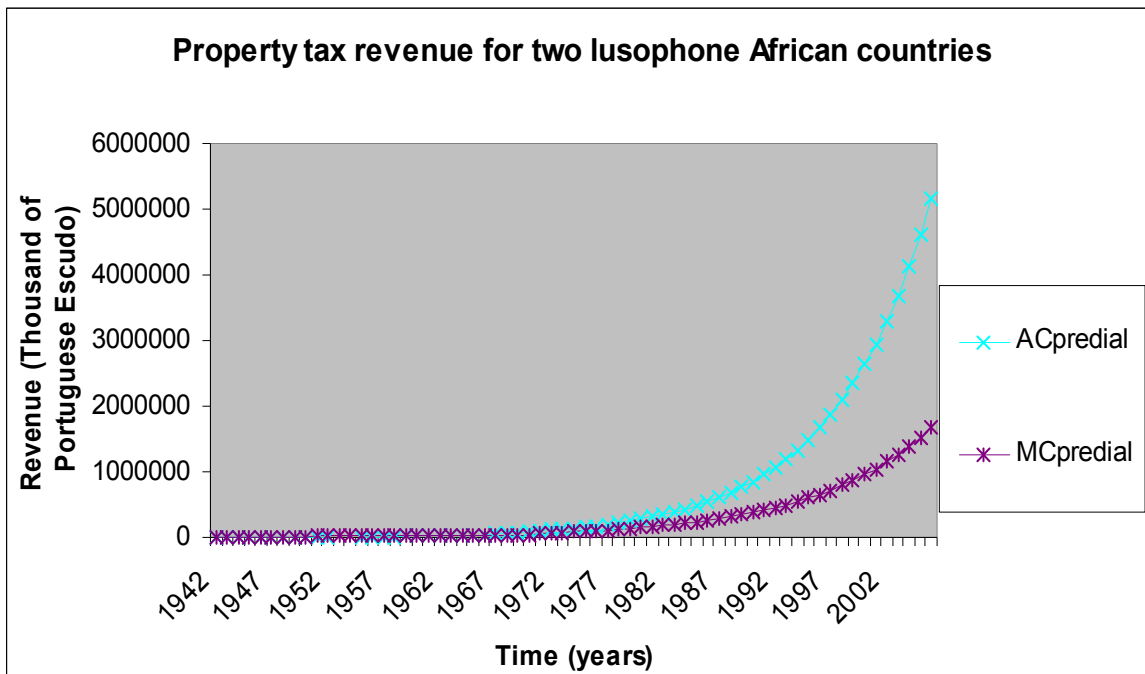
The idea is to illustrate what could have happened with property tax revenue if there was no break due to the independence (structural break) of these countries in mid 1970's. The Table show different pattern of evolution of property tax revenue in the lusophone African countries over the period under consideration. Unfortunately, there is no data available on exchange rate between Portuguese Escudo and currencies of these countries after independence that would enable the conversion of these values to the countries' currencies or vice-versa. This conversion would enable the comparison of the evolution of property taxes after independence of these countries with the values of revenue forecasted above. All countries present similar growth rates in property tax revenue, which reflect the fact that property taxes in these countries were regulated from the same basic law that allowed very little manoeuvre for tax authorities of these Portuguese provinces. Figures 6 and 7 illustrate data shown in Table 3.

Figure 6



The reason for two figures is simply to better illustrate the data in the Table, since there are significant differences in the magnitude of the data in the Table. CVCpredial is the property tax revenue in Cabo Verde, GBCpredial is the property tax revenue in Guinea-Bissau, STPCpredial is the property tax revenue in Sao Tome and Principe, ACpredial is the property tax revenue in Angola and MCpredial is the property tax revenue in Mozambique.

Figure 7



4.4 Angola

Angola is the largest country of the former Portuguese colonies in Africa, followed by Mozambique, and it became independent in 1975. The geographical size of Angola is about 1, 246,700 square meters with Luanda as the capital of the country. The government system is democratic multi-party following approximately 21 years of civil war. The estimated population for 2006 is 12,127,071, the number of municipalities in Angola is 161 with USD\$ 1,880.1 per capita GDP and USD\$ 22.8 billion of GDP.

Related to the fact that war in Angola ended a few years ago, there is still some sort of suspicion with regard to the supply of data to the public, especially in this case where the research has been conducted by foreign institutions, although academic in nature with no political motivations. Official contacts through the embassy and commercial representation of Angola in Pretoria and Sandton respectively, all in South Africa, were unsuccessful. However, it was possible to collect some data but unfortunately not as consistent as in the case of Mozambique and Cabo Verde where government institutions were directly involved in the process.

4.4 Property Taxes in Angola

Similar to other Portuguese colonies, property taxes were one of the most important sources of revenue for the provincial government of Angola during the period of colonisation. The first reference of legislation available on property taxes for Angola was through Decree no 222 of 13 of September of 1918, substituted by the legislative diploma no 2:149 of 04 of May of 1949 after several amendments. The objective of this legislative diploma was basically to put together all the amendments up to date on Decree no 222. Data collected in the Portuguese archives show that during 1950's (for example legislative diplomas no 2:325 of 13 of June of 1951 and no 2:428 of 17 of December of 1952) and 1960's several amendments on the legislative diploma no 2:149 were done. The legislative diploma no 4044 of 13 September of 1970 substituted the legislative diploma no 2:149, and

was the last legislative diploma on property taxes (building contribution tax) of the period of Portuguese colonisation in Angola. After the independence in 1975, property taxes in Angola were never amended until a new law (law no 6/96 of 19 of April) was introduced in 1996. The objective of this law was to adjust some of the contents existing in the code of urban building tax (property taxes). These adjustments were within the process of re-structuring the fiscal system in Angola, such that the valuation rolls had to be adjusted to the actual situation and evolution of Angolan economy. Therefore, the law no 6/96 of 19 of April amended the article 17th of the code on determination of renting value of a building and article 28th of the code on determination of taxable income for property tax purpose.

In the same vein, the legislation on taxes on succession, donation and Sisa on onerous transmission properties dating from 1931 (the same for all former Portuguese colonies) and published by the legislative diploma no 230 of 18 of May was adjusted by law no 15/92 of 03 of July. According to the law no 15/92 if the value of an urban building is not accepted as declared [by the taxpayer], then the value of the building will be calculated as thirty times the income as fixed in the valuation roll or if there is valuation, the value of the building will be fixed as thirty times the income resulting from the valuation. If the value of a transmission in favour of descendants, ascendants and husband/wife, even in different times, does not exceed KNz 500,000.00 (five hundred thousand Kwanzas²) is exempted from paying the tax on succession and donation. If the transmission exceeds that value, then it pays the due tax. Rates on succession and donation fixed by article 9th of the regulation are now fixed as follows:

² Kwanzas is the denomination of Angolan currency

Table 4

	Rates in per cent	
	Up to: 3,000,000 KNz	Above: 3,000,000 KNz
Transmission		
Between husband/wife or in favour of descendants and ascendants	10	15
Between any other persons	20	30

Source: Diary of the Republic of Angola no 26 of 03 of July of 1992

Law no 15/92 outlines a progressive tax such that if the amount subject to taxes exceeds KNz 3,000,000 (three million Kwanzas), the amount will be divided into two parts. The first part is limited at a value of KNz 3,000,000 and the second part to the value in excess of this amount with rates according to Table 13 above.

4.4.1 The valuation and administration of property taxes

Since there were no significant changes in the Angolan legislation relative on property taxes, all matters related to the valuation and administration of property taxes outlined in section 4.1 on African Portuguese Provinces (colonies) are still valid Angolan except changes referred to by Laws no 15/92 and 6/96. During the contacts with the Ministry of Administration of Territory of Angola it was indicated that a new law on local finances would be published in 2008 with proposed changes the actual methods of valuation, administration and other aspects of property taxes.

However, Law 6/96 of April 19 of that year changed some methods of valuation of urban buildings in order to adjust the procedures to the existing conditions in Angola. For example, Article 17 of the law determines that if a building or part of it is rented at a value below the annual minimum rent, this building or part of it will be considered not rented for the determination of taxable income. It also considers as not rented all buildings not registered on the valuation roll, but with taxable income below the rentable income as described in paragraph 3 of article 28 of the relevant Law. Registration is done by filling

out declaration form Model 1, as referred to in Article 19 of the code on property taxes. However, this is not applicable if there is a general decline in the value of rent or if a building that was being rented as furnished is now rented without furnish. If rent had not been adjusted, new rent structures should be introduced by comparing the rent charged on a similar building or part of a similar building.

Article 28 of the same law determines that taxable income of a non-rented building is calculated after deducting 20 per cent of the cost of maintenance as indicated in article 16 of the code. The rent should correspond to an annual rent in a free contractual regime. The rent thus calculated should not be below the value of the rent of government buildings established by legislation.

4.4.2 Revenue from property taxes and Sisa in Angola

Data and other statistical information that could have been important in analysing the evolution of Angolan finances regarding property taxes were extremely difficult to obtain, especially because none of the departments (for example, the National Institute of Statistics of Angola) could provide not provide such information (in some instances the data is only available within the departmental domain). Therefore, the procedures followed in the case of the other two countries were not possible in the Angolan case.

However, municipalities as well as provinces are regarded as Central Government budget units. Municipal revenue originates partly from the Central Government budget, taxes on income from informal work, taxes on industries within groups B and C, taxes on urban buildings (property taxes), taxes on succession, donation and Sisa on onerous transmission of building properties, tax on consumption, stamp duty, fines, state house rents, revenue from community services, 10 per cent of fines according to Article 2 of Decree no 17/98 of 29 July and finally, rent from the use of land and use of other services and state properties or goods under the management of local authorities. The municipality receives 50 per cent of fines on circulation and road traffic control according to Executive Decree no 61/95 of 14 of November.

4.4.3 The administration of local territory in Angola

The same difficulties existed to obtain the land law in Angola, although the law of territory administration of Angola was obtained. The law on territory administration in Angola shows that there is still a strong dependence of municipalities and other local authorities on Central government financing (as was the case in Mozambique and still is in Guinea Bissau). According to Decree-Law no 2/07 of January 03 which replaced (with only some minor differences) Decree-Law no 17/99 of 29 October, municipalities are basically agents of Central government to provide local goods and services. Thus, municipalities and local authorities still depend on central government finances. This process limits the exercise of powers of local and/or municipality authorities, although, it seems as if the government is beginning to make some changes with regard to power transfer to such levels of government. Also important is the transfer of financial powers from which municipalities and/or local authorities may accomplish programs promised to voters.

Resources affected to municipalities are distributed as follows: 35 per cent goes to administration, 60 per cent goes to social and economic infra-structures of local domain and the remaining 5 per cent goes to emergence interventions.

For accountability and transparency, the government of Angola requires that fiscal departments of municipalities report to provincial treasuries before the 5th of each month regarding revenue collected in the previous month, while provincial departments have to do a similar report before the 10th of each month to Central Government regarding their own finances. Investments by local authorities are limited to projects classified as of D dimension according to article 8 of Decree no 120/03 of 14 November 2003. The execution of the municipal budget is done according to the integrated system of financial management of state of Angola and differences between municipalities are allowed according to their degree of economic, social, and cultural development.

4.5 Cabo Verde

Cabo Verde is one of the former Portuguese colonies, that became independent in 1975. Its geographical size is 4,033 square meters, scattered over small islands. The main islands based on population numbers are Praia, Sao Vicente, Santa Catarina, Fogo, Santa Cruz and Tarrafal. However, Sal is among the most important islands in Cabo Verde due to its tourism potential. Therefore, Sal has seen strong development especially in the construction of accommodation facilities for tourists. These developments have triggered the demand for land and consequently also land speculation. The total population in Cabo Verde is about 501,569. The projection of the population in Cabo Verde up to 2010 is shown in Figure 8.

4.5.1 Property Taxes in Cabo Verde

Property taxes in Cabo Verde were introduced in 1933, similar to other former Portuguese colonies. Unfortunately, no legislation in this regard could be found. Current legislation have been amended several times since independence in the 1980s. Law 56/80 specified temporary exemptions in the case of new urban buildings and the methodology of calculating taxable income on urban buildings that qualify to be taxed. For example, the condition that a building has to be completed and occupied in order to be taxed was relaxed to imply that a building only has to be occupied (not necessarily completed) to be taxed or exempted from tax...

Table 5: Projections of the Population in Cabo Verde by municipalities and local authorities

Municipalities and Local Authorities	2000*	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
TOTAL	436,766	444,681	452,712	460,968	469,456	478,163	487,121	496,319	505,756	515,423	525,310
Ribeira Grande	21,684	21,798	21,804	21,842	21,887	21,916	21,961	21,988	22,006	22,051	22,071
Paúl	8,420	8,468	8,532	8,580	8,629	8,681	8,738	8,782	8,842	8,893	8,941
Porto Novo	17,265	17,440	17,587	17,743	17,909	18,075	18,230	18,393	18,573	18,770	18,920
São Vicente	67,451	68,819	70,177	71,575	72,984	74,470	75,995	77,535	79,171	80,795	82,463
São Nicolau	13,713	13,664	13,600	13,531	13,454	13,376	13,279	13,192	13,092	12,972	12,875
Sal	14,873	15,422	15,972	16,525	17,115	17,719	18,333	18,966	19,630	20,294	20,956
Boa Vista	4,212	4,407	4,590	4,792	4,985	5,192	5,401	5,621	5,833	6,058	6,305
Maio	6,786	6,934	7,069	7,232	7,375	7,541	7,705	7,868	8,052	8,266	8,431
Tarrafal	17,891	18,426	18,987	19,571	20,173	20,786	21,436	22,078	22,737	23,409	24,137
Santa Catarina	50,304	51,164	52,098	53,008	53,990	54,996	56,010	57,083	58,139	59,236	60,368
Santa Cruz	33,196	33,775	34,388	35,017	35,667	36,320	37,015	37,717	38,454	39,169	39,911
Praia	106,921	110,033	113,296	116,629	120,093	123,645	127,305	131,114	134,950	138,984	143,179
São Domingos	13,391	13,485	13,589	13,696	13,798	13,897	14,016	14,118	14,235	14,349	14,460
São Miguel	16,224	16,364	16,522	16,683	16,833	17,008	17,155	17,339	17,506	17,693	17,865
Mosteiros	9,511	9,566	9,612	9,671	9,714	9,760	9,806	9,853	9,908	9,951	10,000
São Filipe	28,086	28,138	28,180	28,221	28,266	28,288	28,321	28,339	28,379	28,375	28,379
Brava	6,838	6,778	6,709	6,652	6,584	6,493	6,415	6,333	6,249	6,158	6,049

* Adjusted for RGPH 2000 Effective

The use of commission payments for the determination of the taxable value of urban buildings was substituted by the practice of appointing finance secretaries and valuations were based on declarations by taxpayers and information obtained from own monitoring. These changes were apparently introduced as an experiment to deal with the various difficulties encountered by commissions.

Therefore, Articles 3, 6, 10, and 20 were altered. According to these alterations the number of years of exemption was set to vary from a minimum of three and maximum of ten years for buildings (re-built and new). Exemptions for building stands within urban areas expire after two years from the date of acquisition should the construction not be completed. Exemption is considered from the date of completion or occupation if not completed. Requests for exemption can be directed to the secretary of finances accompanied by the required documentation proving the status of completeness of a building and has to be presented within 60 days. If later than 60 days, the taxpayer will not be exempted for the number of days that has passed after the cut-off date. Changes also include the use of valuation rolls of urban and rustic buildings in which case valuation rolls are supposed to be closed by 31st of December of each year by the secretary of finances with an indication of articles enrolled and the total amount of income registered. The fixing the taxable income from urban buildings has to be completed by the 31st of July each year.

At the same time that Decree-Law no 56/80 of 26 of July introduced changes in the previous legislation regarding the contribution of urban buildings, while Decree-Law no 55/80 of 26 of July introduced changes on regulation regarding taxes on succession, donation and Sisa on onerous transmission of properties. The main argument for such changes was that this regulation was dated in all legal and tax aspects, including rates. Decree-Law no 55/80 changed Article 91 paragraph 4, and Article 92 which specifies that the secretary of finances should remit jointly with the monthly account a list of paid taxes on succession and donation of the previous month, indicating in a note whether those processes have been finalised or still pending. Article 96 was changed to indicate that the Director General of Finance should inform the Secretary of State Finances about poor performance at the decentralised level in which case remediating steps have to be taken.

It is important to note that most of the changes introduced by Decree no 56/80 of 26 of July may have had political motivations and the emotional need to serve the people, which were the speech of the time by the majority of African political leaders, especially in the former Portuguese colonies. Therefore, some of those changes may not have had technical or legal motivation as expressed in the spirit of the legislation but the need to correspond with the expectations of the people brought about by the independence. This may be justified by changes that soon followed the changes in Decree 56/80, where Decree-Law no 136/85 of 06 December changed article 3rd and its paragraph 13th, article 6th and its paragraph 4th, article 10th and its paragraph 2nd, article 13th and its paragraphs 1st, 2nd, 110th, 125th and article 226th and its paragraphs 2nd and 3rd of the regulation of building contribution. These changes included exemptions of income of urban building if the building is used as permanent residence of the owner or his/her family. The duration of exemptions was fixed in ten years from the date the building is considered complete or from the date of occupation and that the value of the building should not exceed 2,500,000\$00 (Two millions and five hundred thousand Escudos) and five years if that value exceeds 2,500,000\$00 (Two millions and five hundred thousand Escudos) but not exceed 5,000,000\$00 (five millions Escudos). If during the period of exemption such buildings are no longer used as permanent residence of the owner or his/her family then the exemption will be terminated and informed to the tax collector of the area where the building is located for payment of the property tax relative to the value of the building considered.

In the late 1990's more fundamental reforms regarding property taxes in Cabo Verde were introduced. The most fundamental change introduced is related to the unification of regulations of all taxes related to properties, to what they called Unique Tax on Property (IUP – Imposto Unico Sobre Patrimonio). This tax substituted a set of taxes on properties that included property taxes, Sisa on onerous transmission of properties, donation and succession of properties in Cabo Verde. Therefore, Law no 79/V/98 of 07 of December revoked the previous law and amendments that followed; transferring powers of collecting property tax revenue to municipalities. This process was meant to be introduced on 1st January of 1999. Municipalities were required to make technical evaluation of urban and rustic building and proceed with actualization of municipal valuation rolls of all existing

buildings including land for building based on declaration submitted to municipalities. However, the transfer of the Unique Tax on Property (UTP) was effective only in 2000 through Decree-Law no 22/2000 of 22 of May. The objective of this transfer according to spirit of the law was to guarantee the correct management as well as to increment an efficient fiscal administration, therefore, transferring certain competences to municipalities as expressed in the Law-Base on UTP.

The Unique Tax on Property introduced by Law no 79/V/98 of 07 of December is regulated by Decree-Law no 18/99 of 26 of April. One of the objectives of unifying property taxes was to extend the tax base by reducing the rates and pooling together all taxes on properties and also to reduce the distance between the taxpayer and the service provider, which will allow a better control of evasion and fraud. According to this regulation the shift of the tax collection to municipalities will also help increase levels of revenue collected and consequently better service delivery at municipal level. The regulation foresees that all modifications on buildings should be reflected in the valuation roll and all rolls are actualised annually by 31st of December in each municipality.

Are exempt from paying property taxes the habitual clients, that is, the state and municipal and local buildings, building classified as part of national heritage or of public interest and all other fiscal benefits fixed by special legislation as well as those that results from state accord and any legal public or private person and international convention according to legislation authorising such exemption.

According to the regulation published through Decree-Law no 18/99 of 26 of April taxpayers have the right to contest the valuation rolls at any time, the assessment of taxable value and obtain all documents containing registered elements of valuation. Taxpayers should present in July declarations of property in an appropriate application form in the fiscal administration of the municipality where the building is located. If the taxpayer does not declare on time, he/she will be punished according to General Tax Code.

Another important element of the reform was the introduction of the Law no 79/VI/2005 of

05 of September on local finances, which empowers the municipalities to prepare, approve, change and execute plans of activity and own budget; prepare and approve the balance and accounts of management. Launch, liquidate and collect revenue at municipal domain; resort to credit as established by law; to order, process and liquidate their own budgeted expenditures; realise public investment at municipal domain and to have, manage and have available its own properties.

The law of municipal finances foresees that project-laws or law proposals that confer or transfer new competences or privileges to municipalities should be discussed after written consultation with Municipal association of Cabo Verde (Associação Nacional dos Municípios Cabo Verdianos – ANMCV). In such cases, the law should also empower municipalities with necessary resources for exercising and supporting the expenditures incurred and such empowerment includes decision on levels of rates, tariffs and prices corresponding to acts and activities related to new powers and taxes assigned to municipalities by law. The resources are used to finance temporarily total or part of expenditures incurred for a period not exceeding five years and those that are aimed to increase fiscal revenue to municipalities.

The law establishes that the Municipal Assembly will fix, as proposed by the municipality, rates, and the regime of exemptions or reductions to entities presenting projects of investment of special interest for development of the municipality. It also establishes the conditions under which the municipalities may resort to credit, for example it establishes that short-run credit can only be contracted to finance difficulties of treasury and the amount should not exceed 10 per cent of effectively collected revenue during the previous year, excluding current account, among many other recommendations.

Municipalities in Cabo Verde are involved in a fund, through the General Government Budget by using the revenue collected from Unique Tax on Income (IUR – Imposto Único sobre os Rendimentos), VAT, Excises and stamp and customs duties. This fund is called Fund of Municipal Financing (FFM – Fundo de Financiamento dos Municípios). There is another fund called Fund of Municipal Financing (FMF) funded by 10 per cent from the

General Government Budget using revenue collected from direct and indirect taxes during the previous year, including taxes assigned to municipalities, charges and other possible municipal taxes collected by the government tax administration. The FMF is distributed according to the following formulae: 75 per cent to Common Municipal Fund (FMC – Fundo Municipal Comum) and 25 per cent to Fund of Municipal Solidarity (FSM – Fundo de Solidariedade Municipal). The Common Municipal Fund (CMF) is distributed according to the following formulae: 20 per cent is distributed equally for all municipalities, 50 per cent according to the population residing in each municipality, 15 per cent according to the infant and young population (from zero to seventeen years) residing in each municipality and the final 15 per cent is distributed according to the size (area) of the municipality.

The Fund of Municipal Solidarity (FMS) with the objective of re-enforcing the strength of municipalities and correct for municipal asymmetries, benefits the poor municipalities, and therefore, only municipalities with average revenue collection below the national average and with the proportion of the population far from the national poverty line as defined by the National Institute of Statistics benefit from the fund. This fund is distributed according to the following formulae:

$$CF = P_m * (C_{ni} - C_{mi})$$

Where: CF is the value of fiscal correction for municipal, P_m is the population residing in the municipality, C_{ni} is the tax revenue collected in all municipalities in Cabo Verde and C_{mi} is the tax revenue collected in the specific municipality. The remaining amount of the fund from the distribution is again distributed using the following formulae:

$$P = v_i / \sum v_i$$

Where: P is the weight attributed to municipality i in the distribution of FMS and $\sum v_i$ correspond to the sum of v_i of all municipalities included in the FMS distribution and v_i is calculated as follows:

$$v_i = pop_i * P_i * \square$$

Where: pop_i is the population residing in each municipality included in the FMS, P_i is the deepness of poverty in each of the municipalities included in the fund and \square corresponds to the poverty line as calculated by National Institute of Statistics. This formula implies that each municipality may calculate its own poverty line and compare with the national level of poverty line. Therefore, this formula can be used as measure of asymmetries between poverty in the municipality and the country. According to Decree no 79/VI/2005 of 05 of September there are other measures aimed at correcting asymmetries between municipalities. For example, no municipality participating in the FMS should receive an amount of fund that is below the amount received in the previous year (article 13th of Decree).

Decree also establishes the conditions under which municipalities and government will cooperate in the process of strengthening and developing municipalities in Cabo Verde, including technical and financial cooperation, monitoring in the execution of the budget and revenue collection. All this are features of what Cabo Verde have been doing in most recent years with regard to returning the powers to local government. However, these developments require an appropriate recording in order to track history and, therefore, correct for problems of local management and policy design, which is one of the most important constraints in Cabo Verde.

Contrary to some western countries in Cabo Verde as well as other developing countries, particularly the African Portuguese speaking countries, rates on properties are fixed; the power of changing these rates is assigned to municipal assemblies. The problem with this method relies on the fact that such rates are not frequently determined according to the needs of the municipal budgets, resulting, therefore, on overcharged or undercharged property. Other important problem reside on lack of valuation rolls for the majority of properties, especially because properties where allegedly people's properties and resulting in low rents, lower level of revenue from properties, weak levels of maintenance, etc. This

implies that Cabo Verde still long way to go in reforming all areas local governments. However, there are some significant important steps in the direction of democratic reforms that returns powers to local governments, which is the base for local development and the source of poverty elimination.

4.5.2 On valuation and administration of property taxes

Valuation is one of the most important steps determining the level of revenue collected from properties. The knowledge of how many properties, which properties are exempt from paying tax, who is the taxpayer, the tax base (rent value or value of the property), etc determines the level of revenue to be collected as well as the enforcement.

It was mentioned in section 4.1, on African Portuguese colonies, that most of the legislation used in the African Portuguese colonies was coordinated by the Ministry of overseas and it was also monitoring policies and politics to and in the Portuguese colonies. Immediately after their independence, these countries started the design of policies that were more adequate for them, and therefore, changing the way things were done and adequate them for new dynamics brought about by independencies. Property taxes were among the majority of policies improved with the first change in the legislation of property taxes being made in 1980's, through Decree-Laws no 55/80 and 56/80 of 26 of July.

With regard to valuation Decree 56/80 eliminated the use of commissions of valuation in the determination of taxable value of urban buildings and determined that the taxable value of these buildings should be fixed by the secretaries of finances on the base of declarations from taxpayers. This measure was introduced as an experiment to reduce difficulties encountered in constituting and functioning of permanent commissions of valuation in Cabo Verde. Therefore, with regard to valuation Decree fixed 31st of December as the deadline of registration of all urban and rustic buildings and the power of closing the registration was attributed to the secretaries of finances with indication of articles used as well as the total amount of income registered.

This Decree also fixed, as an experiment, that taxable income on urban buildings should be determined by the secretaries of finances based on declarations from taxpayers and supported by information attached from supervision. If the taxpayer does not present the necessary declaration, the secretaries will determine the taxable income based only on information supplied by the supervisors. The information collected during the supervision should be submitted to the secretaries of finances in the following deadlines:

- (i) 30th of April each year for building which valuation forms have the deadlines established in article 34th of the Regulation of Building Contribution,
- (ii) Within 30 days from the date of declaration if the declaration forms are presented in period other than January and February, and
- (iii) Up to 31st of May if the buildings subject to valuation are covered by the article 45th Regulation of Building Contribution.

The income subject to tax should be determined by 31st of July. For those building not included in the annual proposal or the registration in the valuation roll is anticipated due to justifiable reasons, this income should be determined 30 days immediately after the information from supervision and informed to the taxpayers as fixed by the Regulation of Building Contribution. Taxpayers are required to claim the result of valuation by the secretaries of finances in eight days from the date of notification.

In 1985 another Decree-Law no 136/85 of 06 of December was approved and producing effects from 01 of January of 1986. The objective of Decree was to introduce changes in some arrangements of Regulation of Building Contribution. This Decree increased the value of taxable income by 50 per cent for urban buildings in the valuation roll up 1983. These changes produced effects on taxable income of urban building contribution from year 1987. Decree indicated that all changes should be informed by billing the taxpayers or by using any other method of advertisement as established in the Regulation of Building Contribution. According to this Decree-Law, taxpayers not satisfied with the rate used in

the process of updating the taxable income were free to claim within 30 days from the billing day.

The most important reform on property taxes in Cabo Verde occurred in 1998 when the government introduced the new law no 79/V/98 of 07 of December on Unique Tax on Property and Decree-Law no 18/99 of 26 of April regulating the unique tax on property. These reforms established that the municipalities have the right to resort to external valuer's or they can organise themselves internally through the establishment of specialised services with administrative and financial autonomy to value technically both urban and rustic buildings, update the valuation rolls by municipal areas, bill the taxpayers after the valuation and send the bills to municipalities for collection.

The regulation establishes that taxable income is calculated after the deduction of expenditures on maintenance and it divides the valuation task in two important sections. The first consider that if there is one main part and other parts of the building are considered accessories, the valuation is done using the rule of the main part, having attention of the valuation resulting from the accessories. The second section consider that if the parts are economically independents, each part is valued according to rule of valuation applicable to them and total value of the property will be the sum of all parts composing the property. The taxable income is then calculated as 25 per cent of the value resulted from the valuation process.

In the case of donation, succession and Sisa onerous transmission of properties taxable income is calculate according to the value declared by the beneficiary (buyer or receiver) as approved by the member of government responsible for finances department. In the case of donations property tax is paid on the value declared by the taxpayer confronted with official documents, while on onerous transmission of buildings the unique tax on property is paid on the value written in the contracts or value resulting from valuation done by the service of municipal fiscal administration if the value declared by the taxpayer is deemed to be incorrect. No update or change in the valuation roll should be made before the payment of the due property tax is confirmed.

The unique tax on property is due annually to the municipality where the property is located and it appears in the valuation roll by 31st of December. For donation, Sisa on onerous transmission of properties and value added the tax is paid by the taxpayer during the following month after the transaction has been made.

The service of municipal fiscal administration will send to the taxpayer up to one month before the month of payment the bill with description of the building, all parts with independent use, the taxable income and the tax due. The service of municipal fiscal administration should also put the list containing all elements included in the bill sent to the taxpayers for consultation. In the case where the taxpayer has not received the bill, he/she should consult the service of the municipality where his/her building is located. The unique tax on property is paid during April, but it can be paid in two equal instalments during April and September if the amount of the tax exceeds 5,000 (five thousand Cabo Verde Escudos). In the case where the payment of the tax is made after the deadline, the taxpayer will be notified and the payment should be made in the following month after the notification. The non payment of the tax within the expected period will imply the payment of the interest due. If the taxpayer has accumulated debt, corresponding to two or more years and the value of the tax due exceeds 10,000 (ten thousand Cabo Verde Escudos), the payment can be made in instalments of three months each and it should correspond to the oldest debt.

The task of supervision of payment of unique tax on property is assigned to municipalities without affecting negatively the technical co-operation with General Directorate of contribution and taxes. Public entities should request with regard to transactions, conflict resolution and other rights on properties the exhibition or presentation of documents proving that the building under consideration has been registered in the valuation roll.

The law no 79/V/98 of 07 of December on Unique Tax on Property and Decree-Law no 18/99 of 26 of April, offer all the necessary legal guarantees according to General Fiscal Code and the process of Fiscal Code. The taxpayer or any legal person is allowed to consult or obtain documents proving the elements in the valuation roll. The taxpayers may also

claim the registration in the valuation roll of the building.

On tax collection the subsidiary legislation is the Regulation of the unique tax on income (IUR – Imposto Unico sobre o Rendimento) with the necessary changes on liquidation and collection, interest for compensation due to arrears or total or partial cancellation of liquidation, interests due to arrears and other cases not included in Decree-Law no 18/99 of 26 of April. The law on unique tax on property and its regulation were accompanied by decentralising the powers to local or municipal authorities. The transfer of these powers was confirmed by Decree-Law no 22/2000. This law regulated the transfer to municipalities the competences of administration of municipal taxes, process initiated some years before with the municipality of Praia.

In general the reforms in the property taxes introduced in 1998 in Cabo Verde represent a significant and important step in the development of municipalities, especially with regard to powers that allow local governments to decide and execute local finances. The creation of the Association of Municipalities of Cabo Verde brought a new dynamic with regard to municipal policy co-ordination and inputs to reduction of municipal asymmetries. The strategy followed by Cabo Verde was to re-write the law on property taxes and reduce the tax rates in order to expand the tax base and re-value the properties. The main problem with the property valuation in Cabo Verde is similar to that in other developing world, especially due to lack of expertises and financial resources to contract consultants and training of expertises. For Cabo Verde this problem is severe since it relies only on tourism as the main source of revenue. There is no significant industry due to lack of natural resources different from some of its neighbours and other former Portuguese colonies, like Angola, Mozambique and most recently Sao Tome and Principe.

4.5.3 Revenue from property taxes and Sisa in Cabo Verde

Governments impose taxes and collect revenue to provide citizens with goods and services. In the former Portuguese colonies property taxes (building contribution) are beginning to play an important role as source of revenue for services and goods delivery. Although,

Cabo Verde during the colonisation had the lowest property tax growth rate among the Portuguese colonies, these taxes were among the main source of revenue for municipalities and local authorities in this country.

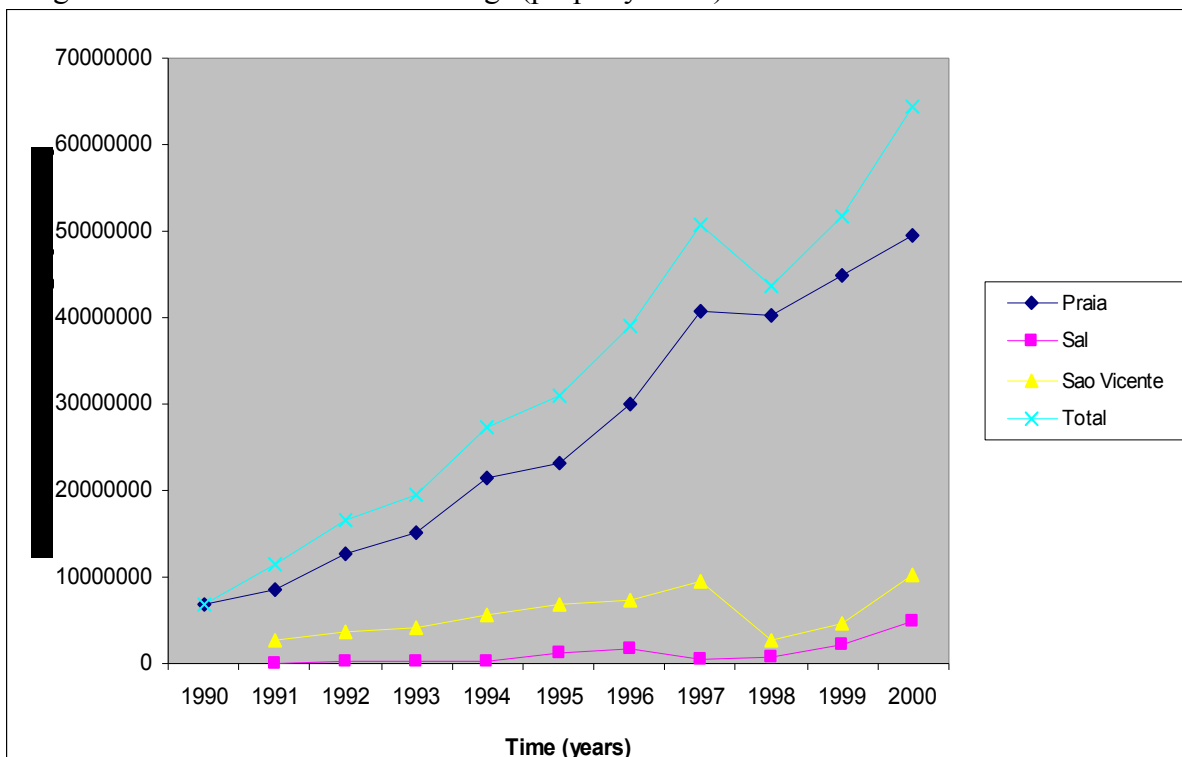
Actually, with decentralisation, it is the government intention to make property taxes the main source of revenue at local authority and municipal levels. This is the main objective of Decree-Law no 22/2000 that regulate the transfer to the municipalities the power of municipal tax administration and Law no 79/VI/2005 that approve a new regime of local finances. Cabo Verde has already given fundamental steps in reforming its fiscal administration as well as the transfer of powers to the local authority and municipalities. This process shows important improvements in the way services and goods have been delivered in Cabo Verde, and as a result Cabo Verde from 2008 will be included in the group of middle income countries, representing an important challenge for the government, municipalities and local authorities including the capacity of these entities to collect revenue and deliver goods and services to the citizens.

There is problem with data recording, especially on property taxes, after the independence in Cabo Verde. However, there are data for some municipalities (Praia, Sao Vicente and Sal representing 2.11 per cent of total revenue and 35.37 per cent of direct taxes), particularly after 1990, showing that, on average, the share of property taxes to total revenue is 5.73 per cent and it is 36.41 per cent of direct taxes. These figures show that property taxes are becoming important sources of revenue in Cabo Verde. With reforms currently in place, property taxes may soon be considered the main source of municipal and local authority finances which will improve the delivery of services and goods for citizens of Cabo Verde. Being one of the most important references of tourism destination in Africa, these improvements will also increase the confidence on the country. An important example of such confidence is shown by the notorious development in most recent years in the tourism infra-structure of the Sal Ireland (Ilha do Sal).

Praia, the capital, is one of the three municipalities used as a reference with 8.24 per cent of the share of property taxes to total revenue. This share is 1 and 3.24 per cent for Sal and Sao

Vicente, respectively. The share of property taxes to direct tax revenue for Praia is 49.83 per cent, while in the other two municipalities this share is 19.87 and 18.48 per cent for Sal and Sao Vicente, respectively. These statistics show that Praia depends heavily on property taxes as source of direct tax revenue. Property taxes (building contribution) represent 0.1 per cent of GDP in Cabo Verde, which is far below the average of developing countries. Although, not including revenue from all municipalities and local authorities this share is quite representative enough to show what property taxes can do in Cabo Verde. The trend of property taxes in between 1990 and 2000 of these three representative municipalities is shown in Figure 8.

Figure 8: Contribution from buildings (property taxes) in Cabo Verde



Source: General-Directorate of Contribution and Taxes and National institute of Statistics

There is no enough data available on revenue collected from donation, succession and Sisa on onerous transmission of properties in independent Cabo Verde that could be used statistically for comparative analysis.

In general the new reforms have been improving the financial status of the majority of municipalities in Cabo Verde. However, it needs to invest more on human resources

capable to handle the new developments accompanying these improvements, improve the use of available resources and also fundamental is the improvement of data management in either monthly or quarterly and annual basis to allow the development in future of models that will better forecast municipal revenue. Forecasting revenue using more accurate techniques improve the management of municipalities and/or local authorities, since such institutions can plan better for their expenditures, including self-control of indebtedness in the case they are allowed as the case in Cabo Verde.

4.5.4 Property taxes forecasting for Cabo Verde

Although important, this section is reduced to nothing due to lack of important data required to perform the exercise of revenue forecasting. As referred in the previous section, revenue forecasting is crucial in the management because an official is able to plan expenditures and indebtedness for the entity he/she manage. In most recent years, more accurate knowledge of financial status of the institution or company in advance is part fundamental of prudential management, especially where monitoring and transparency of use and application of public funds is required. Forecasted revenues are available to public as well as the expected expenditures, allowing for better understanding of how and where public funds are channelled. Therefore, this exercise should have been of crucial importance for municipalities, particularly those large in population like Praia, Santa Catarina, Santa Cruz, Sao Vicente, Sao Filipe, Ribeira Grande and Tarrafal.

4.5.5 Land in Cabo Verde

Immediately after independence, most African countries declared land as the state property with exception of a few, like Kenya and South Africa. The nationalisation of land eliminated the regime of private property and in most of the cases even the regime of land renting was abolished. However, with the end of the cold war and the introduction of market economy by the former socialist countries was accompanied by more deep reforms, including re-privatisation. This process included the reformulation in many countries of land laws to encompass the need of attracting investments. In some cases, land law was

completely reformulated and in other cases parts of the land law were changed to include the challenges of developments.

Up to most recently, the land in Cabo Verde was been regulated by Decree-Law no 576/70 of 21 of November. This Decree-Law was the land law in the Portuguese colonies and it was extended to Cabo Verde by Decree no 421/72 of 01 of August. However, the law that regulated the use and distribution of land in the overseas provinces was approved through Decree no 43894 of 06 of September of 1961 applied firstly in Angola, Mozambique and Guinea Bissau and extended to Cabo Verde by Decree no 24229 of 09 of August of 1969.

It was only now through Decree-Law no 2/2007 of 19 of July that Cabo Verde initiated the introduction of more deep reforms in the land law. The main objective of that Decree is to define the use and distribution of land, regulate the transfer of land from the state land to municipal domain, clear classification of land, adopt a general regime of reserves, the regime of exchange of land, regulate the licence of precarious use of land and transfer the powers of land regulation to municipalities in Cabo Verde.

Decree-Law no 2/2007 defines the administrative procedures regarding use and protection of land property (public and private) and also allows all citizens of Cabo Verde to own land. Decree specifies state property to have the following characteristics: Under-water areas, continental platforms and exclusive economic zones, the air space under national sovereignty, mineral deposits, existing underground natural cavities, beaches, streets, public roads, territories reserved for military defence, land occupied by airports, existing islands or those that may exist in future, etc. If the land contains the following characteristics: streets, gardens, squares, municipal monuments, municipal streets, and roads generally used by the public, cemeteries and the land used by pedestrians, it will be considered to be municipal domain. Land is considered to be private property if it is registered as such.

In Cabo Verde land is classified as urban and rustic. Urban land is occupied by people in urban areas while rustic land is defined as all land not included in the urban definition, like

land for planting trees and vegetable gardens. The land for agriculture, livestock and rural tourism is defined in special legislation.

All the necessary conditions to obtain, use, exchange, rent, etc. land in Cabo Verde are contained in Decree 2/2007 of 19 July. There is still a long way to go in order to see the results of the implementation of this law. It contains important aspects of reform with regard to the acquiring, renting and selling through public bidding, but it also contains weaknesses with regard to how the poor population should access the land. However, this law represents a significant step forward with regard to reforms initiated in Cabo Verde. Many aspects such as land policy and regulation still have to be outlined though.

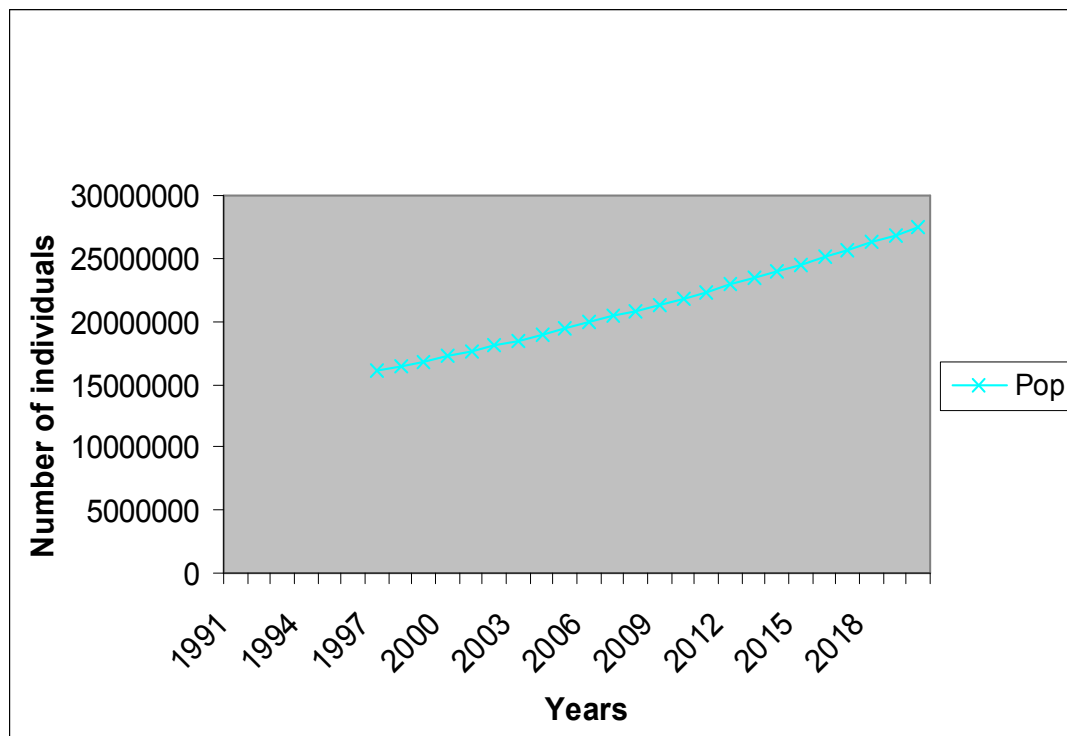
4.6 Mozambique

Mozambique, a former Portuguese colony, became independent in 1975. The area is 799,390 km² and the current population is estimated at just over 20 million. It is estimated that the population will increase to 25 000 by 2020 (see Figure 1). Mozambique had one of the fastest growing economies in Africa during the last 13 years. The growth rates of Mozambican GDP and per capita GDP are shown in Figure 2 and 3. Figure 2 shows that the Mozambican economy has been growing above five per cent over that period, except in year 2000. The reason for the slow down in 2000 is related to floods that destroyed the country's production. However, the growth in real per capita GDP has been consistently below the growth rate of real GDP, implying that part of the growth in real GDP has not been translated entirely into improvement in the living standards of the Mozambican population, although significant improvements have been made.

Immediately after its independency, Mozambique declared land as state owned (law no. 6/79 of the 03 of July), with no sale (market) value. As a consequence, since then only titles have been issued for the use of land but not land ownership. Because land has no market value and is not part of individual assets it cannot be used as security against any bank or similar credit and also no revenue based on its value can be raised. This has been the major challenge that private sector through its representative CTA has launched to the

government. Therefore, this sector believes that the fact that land cannot itself be used as a security for credit constrains investment in land. The private sector also believes that land in Mozambique has market value, since in practice it is sold. In fact, there is information about sales of land in Mozambique, particularly in urban and sub-urban areas, at prices that can be considered very high for the Mozambican situation. For example, US\$20,000 in Matola, 25,000MT (US\$960³) in Boane, US\$60,000 in areas like Costa do Sol and Sommerchild II (both areas with sea view) in Maputo city.

Figure 9: Projections of the Mozambican population up to year 2020



³ At average exchange rate of 26Mtn/US\$ in May 2007

Figure 10: Real gross domestic product growth rates in per cent

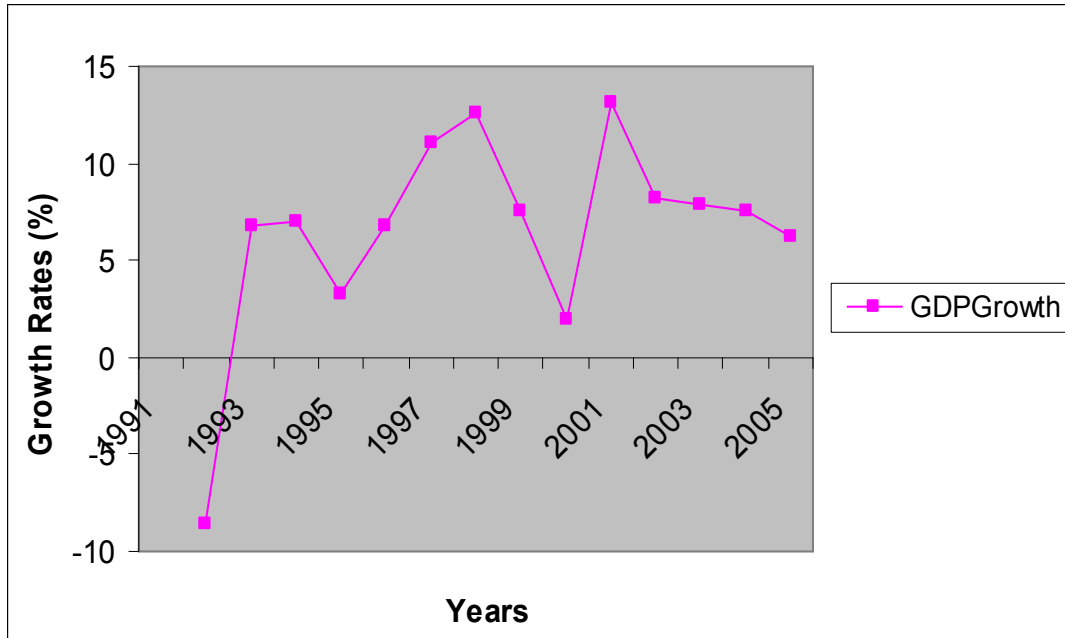
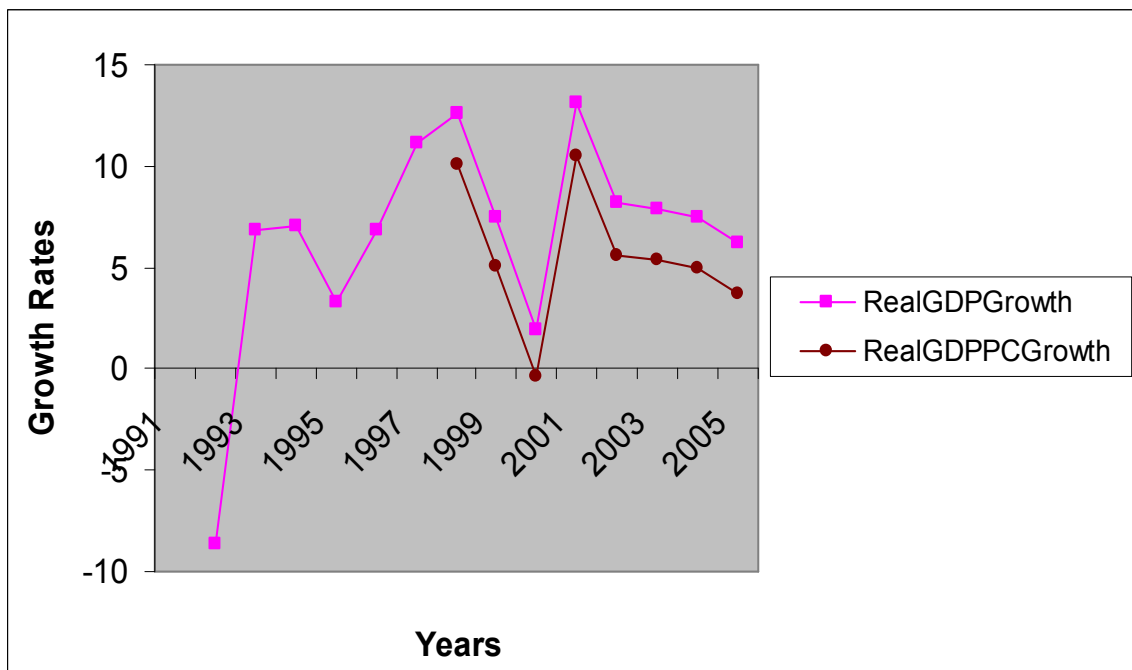


Figure 11: Real GDP per capita growth rates versus real GDP growth rates in Mozambican



If this information is correct, the government obviously loses out on an important source of revenue, either by means of annual tax payments or tax on the transfer of property.

On the 24th of July 1976, and as a consequence of the abandonment of properties (business and residential properties) by the former Portuguese owners, the country nationalized all existing properties. Therefore, up to the early 1990's, when the reforms initiated in 1987 (Economic Rehabilitation Program (PRE)) allowed for the re-privatising⁴ these properties, the majority of residential and business properties were state owned. There are many problems with such re-privatisation, mainly those related to valuation of such properties, particularly residential properties. However, since the analysis of such problems is beyond the scope of this study they are not discussed here.

Some officials claim that the valuation for the privatisation of residential properties did not follow the necessary (optimal) standards and as a result many (if not all) residential properties have been sold at extremely undervalued prices. For example, a house with two bedrooms, one lounge, a kitchen, a bathroom and two balconies in Zone B was valued at 25,000MT (US\$960⁵), while the same type of house in Zone A was valued at 35,000MT (US\$1,346). This example, if correct, shows that re-privatised residential houses were sold at undervalued prices. In some cases, houses with similar characteristics in the same zone were valued differently. The reason for this is not clear and may have been politically motivated or simply because of technical difficulties. Under this scenario, using residential property tax rates proposed in Law no. 11/97 of the 31 of May as a source of revenue may not be worthwhile, because the compliance and managing costs may be well beyond the revenue collected from such properties. However, there is information about sales of houses of the same type by something in between US\$50,000 and US\$ 100,000 or more in the informal house market (sometimes the same house sold in the re-privatisation process, implying that people value residential properties at higher prices than those prices set by the government in the re-privatisation process).

⁴ Re-privatisation because these properties were primarily private, nationalised and then privatised again, does not matter whether it was sold to the original owner or to any other owner.

⁵ At the current exchange rate of 26MT/US\$

Data collected on property tax revenue countrywide under the above law are given in Table 6 (column 2). Before, 2003 property tax revenue was collected by the central government and redistributed according to a fixed formula, which took into account the size of the population, the percentage of revenue from the considered area, among other things. As from 2004, municipalities deemed to have administrative capacity were given the opportunity to collect revenue from property taxes.. The result of this step is not yet known, but it is believed that this action will improve the finances of many municipalities or local governments.

Table 6: Property tax revenue

Year	Ptaxes	SISA
2001	7,787,919.13	47,654,289.73
2002	10,011,498.52	45,540,383.90
2003	10,301,708.39	64,687,385.38
2004	808,652.28	50,775,126.25
2005	310,341.52	24,099,538.92
2006	174,409.88	38,197,672.10

Source: Ministry of finance

The problem with this data is that one cannot use it for simulations or policy analysis due to consistency problems. Attempts were made to clarify the possible reasons for such inconsistencies but no justifiable reason was given. However, it is suspected that the sharp decline in property tax revenue at national level could have resulted from the decentralisation of collections of this type of revenue and, therefore, such data could only be found at local level. Property tax revenue countrywide (Table 1) is generally lower than tax revenue from the sale of properties and transferred or donated, unveiling the problem of undervaluation of properties, primarily residential, in Mozambique.

Given the tax rate on properties sold and transferred or donated of two per cent (based on Decree no. 46/2004 of the 24 of October), the market value of properties that changed hands over the period considered (Table 1) is as follows:

Table 7: Properties valued according to property values retrieved from SISA payments :

	Ptaxes	SISA	Pvalue	Ptxvalue
2001	7,787,919.13	47,654,289.73	2,382,714,487	14,296,287
2002	10,011,498.52	45,540,383.90	2,277,019,195	13,662,115
2003	10,301,708.39	64,687,385.38	3,234,369,269	19,406,216
2004	808,652.28	50,775,126.25	2,538,756,313	15,232,538
2005	310,341.52	24,099,538.92	1,204,976,946	7,229,862
2006	174,409.88	38,197,672.10	1,909,883,605	11,459,302

Source: Ministry of finance.

Pvalue is the property value calculated from SISA and **Ptxvalue** is the expected tax revenue if properties were valued according to property value retrieved from SISA payment.

Table 7 shows that properties sold and/or transferred during this period are highly valued, with some of these properties former state owned and sold at very low prices. By means of very simple calculations one can show that even considering the value of properties sold, transferred and/or donated the average revenue collected was low and that it could easily be increased substantially. The secret is based on how properties are valued - if correctly valued much more can be collected and consequently service delivery will also be improved.

4.6.1 Local government in Mozambique

Immediately after its independence, Mozambique re-organized its administrative structures and municipalities were part of that process. The majority of municipalities were institutionalised by Law no. 7/78 of 22 of April, then called Executive Councils which replaced Municipal Chambers. The Executive Councils were responsible to Central government. These Executive Councils did not have autonomy to collect taxes on properties, since all properties were state owned, and therefore, all sources of revenue were centrally controlled, and the majority of municipal services (sanitation, public health, cleaning of the streets, etc) were free. This administration of municipalities, cities and villages depleted the sources of their revenue because the majority of revenue collected was not going back to where they were collected from violating the principles of a high

quality revenue system, namely, stability, certainty and efficiency. The consequence of this style of management could be observed in the weakening of municipal service delivery, including roads, sanitation, public health, education, etc.

Municipal Councils were introduced by Law no. 3/94 of 13 September which replaced Law no. 7/78. Law no. 2/97 of 18 February allowed for the institution of 33 municipalities. As a result of these developments the first democratic municipal elections in Mozambique were held in 1998.

During the two periods prior to 1997, the administration of municipalities were heavily depending on central government finances. Executive and Municipal Councils acted as if they were agents of central government, with almost all of their expenditures financed by central government budget. However, with the establishment of municipalities and the defining of their legal financial and assets status in 1997, municipalities were allowed to design their own financial policies and search for adequate revenue sources of revenue such as property taxes.

With central government pulling out from service delivery that are within the boundaries of municipalities, it also indicated plans to return a significant number of revenue items with a local impact to the municipalities. For example, government announced that it planned to return the remaining 25 per cent of vehicles stamp revenue to the Maputo Municipality in 2008.

Property taxes are now on the hands of those municipalities with the administrative capacity to collect, manage and take legal actions with those property owners who do not comply with the municipal requirements (laws and resolutions). However, this is an on going process with only the Maputo Municipality and a few other municipalities, like Matola, Beira and Nampula, with the necessary administrative capacity.

The majority of municipalities are therefore still the responsibility of central government, which makes conflict resolution more difficult and costly. Many Laws and Resolutions are still being enacted to regulate the life of municipal citizens and services offered to them. It

also shows that in Mozambique local government structures existed only as central government departments with no clear responsibilities in terms of local service delivery. It was only in 1998 with the first local democratic elections that the important role of local government for service delivery was perceived, manifested by on going changes, for example, the return of property taxes to municipalities.

4.6.2 The case of Maputo Municipality

Maputo is the capital of Mozambique, it received this designation in 1976 (Decree no. 10/76 of the 13 of March) which allowed for the name change from Lourenco Marques (name used during the Portuguese domination).

Maputo is divided into seven districts, basically residential, commercial and areas of tourism, covering an area of 300 km² with its population on 966,837 - or 3222.8 persons/km² with five districts, excluding Catembe and Inhaca. Elections are held every five years.

4.6.2.1 Finances of the Municipality of Maputo

Finances of municipalities in Mozambique are regulated by-Law no. 11/97 of the 31 of May and by the local government tax code (Decree 52/00 of the 21 of December). In exercising the rights allowed by these laws, the Municipality of Maputo collected on average 78.31 per cent of its planned revenue, which financed 98.6 per cent of its executed budget during the period 2004 to 2006. However, revenue collected only finances 71.36 per cent of the budget. During the same period government transfers represented 50.64 per cent of local revenue.

In practice during the three years of available data it seems as if the Municipality of Maputo have underutilised the resources available to it. For example, in 2004, own revenue plus government transfers added up to 239,267,417.5 MT of which 33 per cent was not used. In 2005, 31 per cent of total finances (290,578,637.5 MT) available to the Municipality was not spent. In 2006, the situation was similar with 39 per cent of total

finances (316,934,979.8 MT) received by the municipality not used. Reasons for such underutilisation of resources are not clear. Whether, the revenue collected by the municipality and the government transfers are sufficient or service (quality roads, education and health, sanitation, parking, well established markets, cleaning of streets, etc) delivery demanded by municipal residents is questionable. Available data⁶ indicate that the Municipality of Maputo is underutilising the resources available to it.

The Municipality of Maputo revenue represented 0.28, 0.32 and 0.32 per cent of Mozambican real GDP between 2004 and 2006. Although, the weight of this municipality in the country's GDP is slightly increasing there is still a significant potential to be exploited. For example, if properties are re-valued and a continuous process of incorporating more properties into the tax system, the municipality could produce more revenue than the recorded numbers.

4.6.2.2 What property taxes could mean for the Municipality of Maputo

The municipality covers a significant area with diverse economic activities and includes some of the most expensive residential and commercial areas of the country. It also has one of the most developed built areas that could facilitate the mapping and identification of property tax filers. Unfortunately, properties in this municipality are not well mapped and therefore not identified for property tax purposes. A recent study conducted in view of MMDP project with the support of the World Bank found that only 14,700 properties are mapped out of 225,000 surveyed. Although there is such mapping there still persist problems of identification because the majority of properties are not duly registered. The study concluded that this problem is not only on property taxes but also on other type of taxes that required a clear identification of taxpayers, for example, private parking in municipal spaces.

In addition to the identification problem, the majority of properties in the Municipality of Maputo are not valued at their market prices as discussed in section 4.1.1. The above cited

⁶ Sourced from Maputo Municipal Report 2006 and from Maputo Municipal revenue collection department

study also indicated that low property values may constrain the municipality from raising sufficient revenue to finance the necessary service delivery. Residents demand better schools for their children, water, sanitation, drainage, clean and well maintained roads, etc. therefore, paying taxes could not constitute a major problem if such services are available to them. However, this should be accompanied by strong enforcement measures to reduce the number of *free-rider* citizens.

Free-rider citizens are those individuals who want to enjoy the municipal services for free without paying taxes (tax evasion). In order to make such measures work, it is necessary that ownership be well specified. The cited study recommended a massive census of the Municipality of Maputo area in order to map, code and identify which property belongs to who, which property should receive exemption from paying taxes, etc. The census could also be accompanied by a campaign to inform people of the importance of paying taxes. However, people should see what they are paying for.

Property taxes (improvements on land) in the Municipality of Maputo on average represented 10 per cent of total revenue during the period considered (2004 to 2006), a percentage that is not far from the average of developing countries, and South Africa in particular, in 1990's. If charges on land tenure are added to tax revenue on improvements this average increases to 36 per cent of its total revenue during the same period. Property taxes on improvements on land only represent on average 0.030 per cent of Mozambican real GDP, but if added charges on land tenure this figure increase to 0.11 per cent of real GDP. These figures still seem to be low compared to international standards in developing countries in particular, although, such figures may not reflect the potential of property tax revenue (even considering site improvements only).

Some simulations have been performed to demonstrate the revenue potential of the City of Maputo and, therefore, the potential level of service delivery. The file with property tax revenue supplied by the department of revenue of the Maputo Municipal area was used to calculate the potential revenue.

4.6.2.3 Potential revenue from property taxes

This section shows that using the available legal instruments the Municipality of Maputo can significantly improve its property tax revenue simply by correctly mapping and identifying all properties that are eligible to property tax payment. A conversation with an official at the department of revenue at the Maputo Municipality revealed that the number of properties mapped were actually 18,000 in 2006, representing an increase of 22,45 per cent compared to the result found by the MMDP project study.

In calculations that follows, annual growth rates calculated from data available in the file are assumed and potential revenue is simulated assuming, other things fixed, that the Municipality will continue mapping, identifying and collecting property tax revenue at the same actual growth rate. This assumption is strong but realistic because it is based on what is currently available (human and financial resources). However, any change from this procedure, for example a massive mapping and identification (as proposed by the cited study) could easily be accommodated in the constructed simulations (Table 3). For example, it was found that if the Municipality could increase the number of properties subject to property tax to 225,683, the expected revenue from this number of properties would increase to 372,602,935.2 MT (US\$14,330,882 at the exchange rate of 26 MT).

Of the expected revenue from property taxes in 2014 for the Municipality of Maputo, 27 per cent will come from other properties (commercial, business, etc. properties) and 73 per cent from residential properties (Figure 4). The fact that the collection of property tax revenue from land represents almost zero per cent of the total potential revenue confirms the assumption that land still mainly belongs to the state and does not have a market value. Potential revenue from properties has been calculated assuming that the mapping and identification process will follow a monotonic (or static) process as follows:

Table 8: Potential revenue from properties (2007-2014), in MZM

Year	Based on residential properties	Based on other	Based on plot	Total potential revenue
2007	10,051,148.8	20,784,752.92	45,496.2	30,881,398.0
2008	15,499,476.5	25,693,119.08	56,588.9	41,249,184.5
2009	24,235,029.8	31,937,963.06	72,843.5	56,245,836.3
2010	38,389,372.5	39,794,710.77	96,235.1	78,280,318.3
2011	61,584,289.2	49,779,139.91	127,895.4	111,491,324.6
2012	99,996,511.7	62,555,138.07	174,356.0	162,726,005.8
2013	164,172,135.4	78,958,696.85	243,835.4	243,374,667.6
2014	272,201,029.9	100,058,336	343,569.3	372,602,935.2

The composition of potential residential property tax revenue by District Municipal (DM) shows that the Municipality of Maputo will collect 42 per cent of such tax revenue from DM-3 in 2007, followed by DM-1 and DM-4 with 35 and 17 per cent, respectively (Figure 5).

In the composition of potential revenue from other property taxes DM-1 contributes 72 per cent, followed by DM-2 with 21 per cent. This structure can be justifiable from the fact that these two districts have the majority of most expensive commercial and business properties, from which the Municipality of Maputo have the map and identification numbers.

Figure 12: Distribution of total potential revenue by type of property tax in the Municipality of Maputo

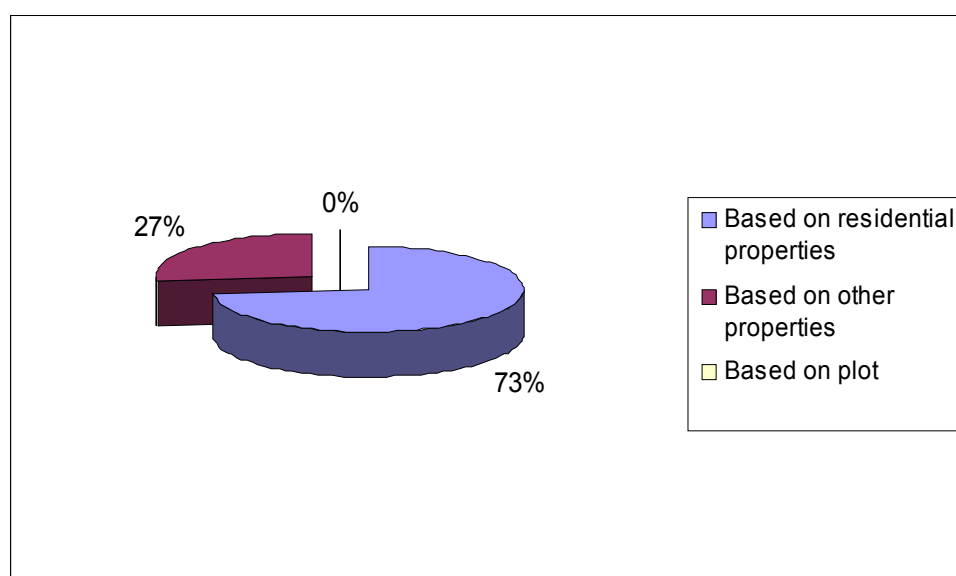
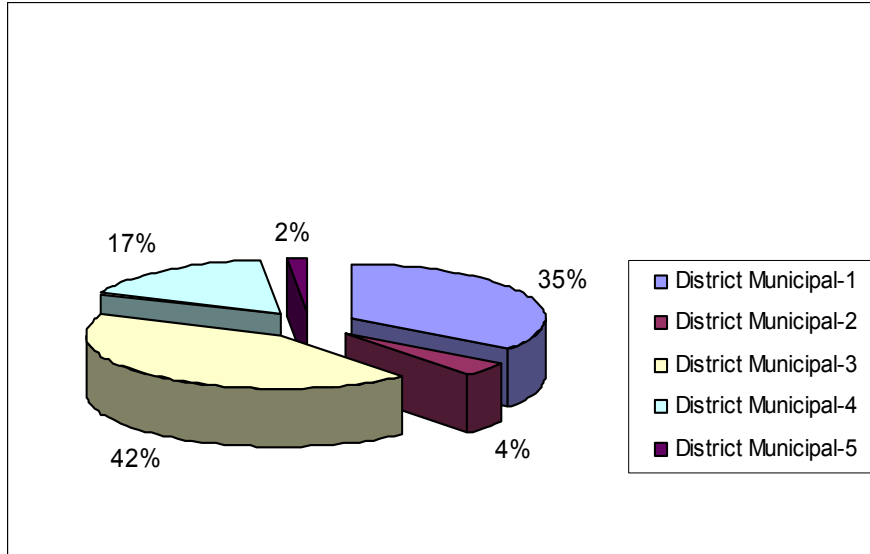


Figure 13: Distribution of potential revenue from residential properties by district Municipality of Maputo



The mapping and identification of properties that will produce the potential property tax revenue structure shown in Table 3 will evolve as follows:

Table 9: Progress with the mapping and identification of Maputo

Municipality(2007-20014)

Year	Residential properties	Other properties	Registered plots	Total Properties
2007	21,961	1,725	104	23,790
2008	30,248	2,123	133	32,504
2009	41,738	2,622	174	44,534
2010	57,721	3,247	229	61,197
2011	80,029	4,033	305	84,367
2012	111,300	5,028	412	116,740
2013	155,354	6,292	566	162,212
2014	217,781	7,902	785	226,468

The numbers projected here are all based on the file on property tax revenue supplied by the Department of Revenue of the Maputo Municipal area. The calculation of potential property tax revenue for the Municipality of Maputo is based on average revenue per

property paid in 2005 at each District Municipal as indicated in the file. Given the existing conditions (legislation and resources); it is assumed that changes in the property value based on the Municipal formula of property valuation will not be significant to affect the overall estimations.

These simulations show that the Municipality of Maputo can significantly improve the revenue position from property taxes if it continues mapping and identifying the properties subject to property taxes, even under current undervalued properties. However, if properties subject to such taxes were valued according to their market values, for example the market values of 7,800 to 15,600 MT⁷ per square meter in stead of 4,000 MT, the potential revenue for Maputo Municipality could be 2 to 4 times or even more the actually collected numbers.

Therefore, it is advised that in the process of incorporating more properties in the tax system, the Municipality of Maputo should also initiate a process of valuing properties according to their market value. Whether, the valuation should be done by the Maputo Municipal Commission or be the responsibility assigned to a private entity is a matter of indifference. It should also be noted that Law no. 01/CM/05 of 4 January, which stipulates that the assessed value of residential properties taxes in zones A, B and C should be 100, 40 and 20 per cent of their respective values, have not been applied.

4.6.2.4 The case of re-privatised state residential properties

In Mozambique legislation exempts property taxes from all state residential properties which are rented through monthly instalments. Therefore, residents occupying such residences are also not paying taxes since the property is regarded as state-owned.

The argument against this procedure could be that should the state sell such property the actual buyer or user would be subjected to property taxes. An example suppose the state could have sold these properties through bank loans. In this case the houses would become

⁷ These values vary across municipalities countrywide.

a legal asset that provides for a title deed which could be mortgaged for obtaining a loan from a bank. However, the state did not follow this procedure and instead acted as bank or creditor. In this case, the title the state holds serves a security for mortgage, which is passed onto the owner once he/she has fulfilled the obligation he/she has with the creditor and, therefore, the sale process does not exempt the owner (buyer) of the property from a tax obligation. This means that the sale process would be separated from the fiscal obligation of an individual who have acquired the right of consuming the services provided by the property he/she is buying.

Moreover, information were obtained stating that that people acquiring such rights do not regularly pay the required instalments, delaying the process of legally being the owner of the property and thus the period after which the individual is expected to start paying taxes on the property. This requires strong government enforcement that compels individuals to pay the necessary instalments within the agreed period of time. Some individuals argue that compliance costs may be one of the problems related to delays in such payments, since most of the properties sold by government were undervalued and payable over long periods (20 to 25 years), and consequently with the value of an instalment being very low, individuals have no incentive to pay. Another situation is related to those residents who opted not to buy the houses where they are staying in. These residents should also be subjected to property taxes, since they also enjoy the same municipal services enjoyed by those who are paying taxes. The two types of individuals are *free-riders* in the consumption of municipal services and, therefore, putting a heavy burden on those who are fulfilling their fiscal obligations. Another constraint is related to the timing of the issuing of titles of property, which for too long resulted in a revenue loss during the waiting period.

One recommendation regarding such residential properties is that they should be mapped and identified (which in most of the cases is available from files constructed during the sales process) for property tax purpose, even at their low property value.

4.6.3 Land in Mozambique

In the beginning of section 4.1 reference was made with regard to the state of ownership of land in Mozambique immediately after independence (land Law no.6/79 of the 3 of July and later revoked by Law no. 19/97 of 1 October). The law establishes that land has no sale (or market) value or rental and it is state property. There are two important legal instruments regulating the use of land in Mozambique, one regulation is more general and applicable countrywide (Decree no. 66/98 of 8 of December) and the subsidiary regulation (Decree no. 60/06 of 26 of December) applicable to municipalities, villages and cities only. These two legal instruments determine how different individuals can have access to land as defined in the land law.

The access to land for economic activity is granted for 50 years through a title of property for land use and is renewable for another 50 years. According to the land law the right of land use (granted by the title) is transferable and, therefore, used as security for credit access. But land used for building own residential property has no time limit. The problem is that this law is not clear with regard to land used for building residential properties for rental, since this could fall into the category of economic activity. Will the property owners of these lands have to seek a renewal of the title of use after 50 years? The law is also not clear about how to deal with such matters.

However, Law no. 19/97 introduced an important innovation related to the right of land based on a traditional (custom) system. Land is a base of subsistence for the majority of Mozambican families living in rural areas and probably the largest asset people in the rural areas have. This piece of legislation based on customary law introduced dynamics in the rights of the communities with regard to their participation in the process of land allocation for investment or other projects to individuals from other regions, which was once a source of conflict between the two parts. In the case of urban areas land can be auctioned if the objective of the area subject to auction is to promote buildings for residential, commercial and services use.

Although land belongs to the state with no market and rental value, Law no. 19/97 and both regulations (Decrees no. 66/98 and 60/06) stipulate the payment of annual taxes on titles

for land use and charges for land acquisition. Annual taxes are payable in two instalments, the first is payable up to March and the second up to June of each year. The problem with these annual taxes is the fact that they are administratively fixed and based on principles other than economic principles for a quality revenue system. As a result these taxes are low and in most of the cases, below the costs of their administration. For example, in Maputo province (with the highest adjustment index) the annual tax rate per hectare is US\$2.31. Therefore, if a person is entitled to 1000 ha the revenue collected is US\$2,310 per year.

The administrative costs of tax management in both urban and other areas is a serious problem mainly due to lack of monitoring, which results in unduly use of land. The law provides for penalisations for those who try to evade the payment of taxes on land titles to ensure that they use the land for the purpose it was requested for. But in most of the time such penalisations are not enforced. In addition and perhaps a more serious problem is the lack of mapping and identification of properties subject to annual land taxes. The majority of land properties are mapped and identified but still a lot of work to be done with regard to monitoring and enforcement, which has now been started by the National Directorate of Land. As a consequence of this process, Mozambique has taken a significant and positive step regarding the system of land management. At provincial level it introduced an electronic atlas that implements the Land Information Management System (LIMS), which allows for the exact identification of the land location, the owner and its use. This exercise will help the authorities to enforce the land law and other laws related to it.

The fact that land is not sellable and taxes are administratively fixed, distorts the true value of land in the market and therefore, land tax revenue collected is still low compared to what could be collected. An example given above on the value of land in the informal market in some areas of Maputo can be used to show that land could generate revenue that is well beyond the actual figures if tax revenue was based on market value of land. In addition to low tax rates, many properties are exempted because either they are state owned or owned by associations of public utility recognised by the Council of Ministers and other national cooperatives and associations of small scale, as set by Law no. 19/97 of the 13 of

September. These exemptions exclude a significant part of land from being taxed and also serve as an incentive to individuals to register their businesses as associations or cooperatives to gain the advantages of land tax relief. These exemptions should be reduced to a minimum, that is, strictly to state owned land while other associations and cooperatives could benefit from a certain deduction only with very little exceptions for tax exemption to these categories.

Furthermore, the redistributive formula⁸ of revenue collected jeopardizes those areas that are more efficient in tax collection. Moreover, the Treasury keeps the largest part of the revenue, instead of returning it to the districts and provincial governments where it was collected from and where a need exists for increased levels of expenditure. Table 10, shows the performance in terms of revenue collected by province in Mozambique. The performance is calculated as a percentage of planned revenue.

Table 10: Actual revenue as a percentage of planned revenue from property taxes by Province

	Maputo	Gaza	Inhamb	Sofala	Manica	Tete	Zamb	Nampula	CDelgado	Niassa	Total
2000	9.96	44.69	12.18	64.30	170.05	29.64	31.80	21.45	18.33	41.30	37.47
2001	29.07	97.91	65.57	78.05	103.56	18.60	24.96	31.82	17.18	29.03	50.98
2002	30.55	50.12	72.23	79.32	73.31	10.03	49.74	39.59	36.05	81.15	48.60
2003	81.75	92.60	42.45	70.34	81.65	52.13	87.42	121.16	154.10	69.69	83.77
2004	115.22	73.10	28.96	61.33	91.03	36.04	45.64	59.84	65.42	89.80	66.87
2005	38.34	6.67	40.98	66.06	79.13	23.31	64.51	43.09	135.46	278.57	54.65
2006	58.63	54.29	68.01	54.25	114.76	44.99	81.71	58.11	67.68	310.60	70.18
Average	51.93	59.91	47.20	67.67	101.93	30.68	55.11	53.58	70.60	128.59	58.93

Table 10 shows that on average Niassa and Manica are provinces with better performance in terms of tax collected in Mozambique, while averages in all other provinces are about 50 per cent, except Tete and Inhambane having lower than 50 per cent of their planned land title tax revenue. To better illustrate this scenario, Figure 13 and 14 show the distribution of the land title tax revenue collected for 2000 and 2006, respectively.

⁸ The formula is set as follows: 40 per cent to national treasury, 12 per cent to the districts, 24 per cent to mapping services and 24 per cent to the National Directorate of Land

The distribution of tax revenue on land titles in the two figures shows that provinces have evolved differently in their contribution to the country tax revenue. For example, Sofala that was contributing with the highest share, 46 per cent, in the revenue collection during the year 2000, its share has decrease to 11 per cent during the year 2006. Defaulting may be behind this decline and deepened because of weak monitoring and enforcement, or it can originate from abandon of land previously subject to tax.

Figure 13:

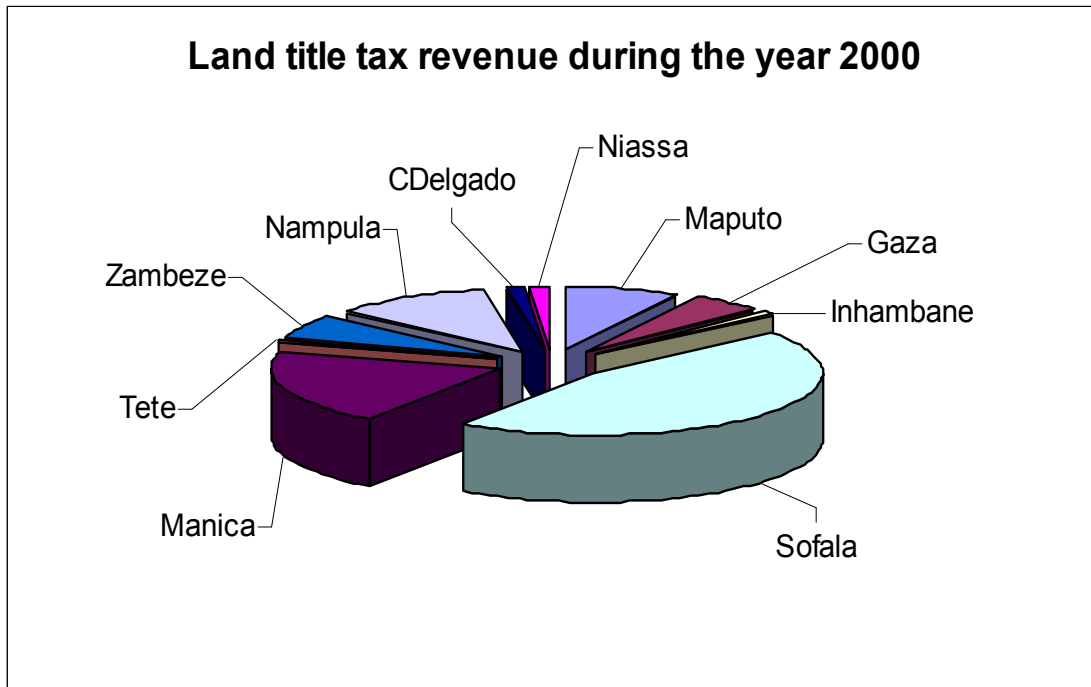
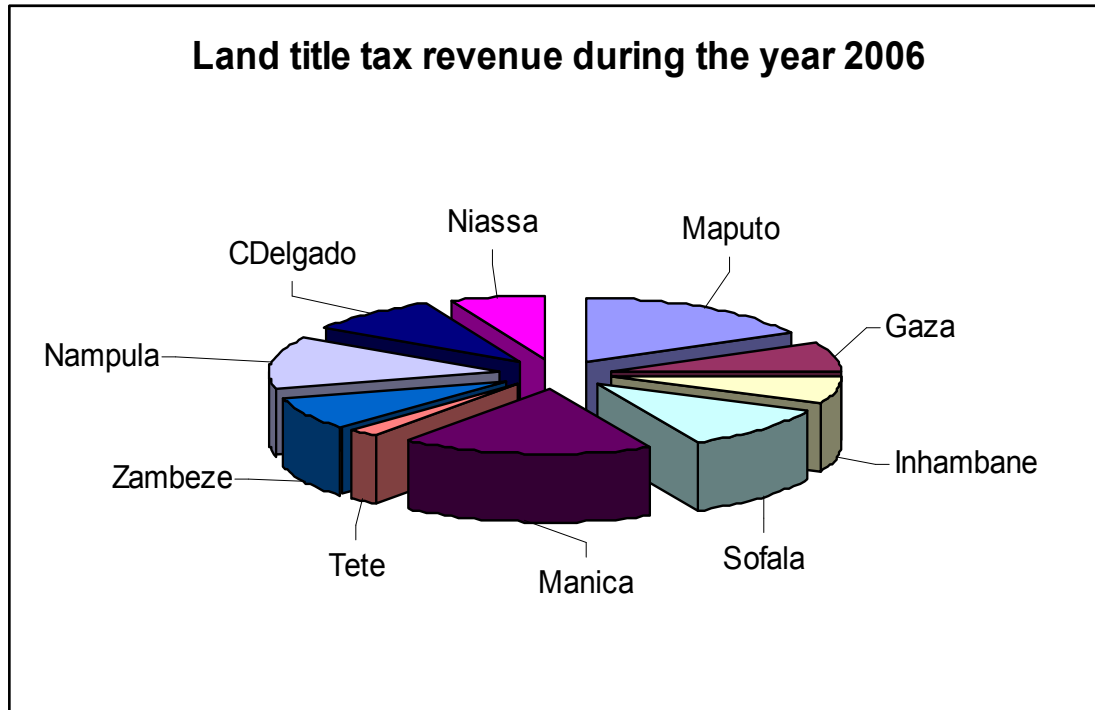


Figure 14:



However, in general, all provinces, except Sofala, have improved their levels of tax revenue collection on land titles. This improvement can also be attributed to the implementation of new system of land management, which helps in identification of the subjects of land tax. It is believed that when the new system of land management will be full operational and the number of exemptions is reduced, tax revenue on land titles will be significantly much higher compared to the actual situation. Another important aspect to note is that Mozambique need to consider the market value of land when calculating tax revenue on land titles. This consideration will improve level of revenue of this country and especially, at district and provincial levels.

4.6.4 A small model for land revenue forecasting for Mozambique

This section uses data available on collected provincial land revenue to build a panel data model that can be used to forecast revenue at provincial level. The model built here shows

that it can be a powerful instrument in forecasting land revenue by province. This means that the National Directorate of Land may use this model for land revenue forecasting and advise the provinces more accurately on expected land revenue each year. Such a possibility is also crucial for the central government with regard to the potential, *a priori*, of revenue from land each year. This way of planning is important for the success of the financial decentralisation process on course in the country where land revenue can play an important role and also affecting the level of government transfers to provinces.

The model is a one-way error component model and specified according to the theoretical model in section 3 but as a panel model it allows for provincial heterogeneity:

$$PT_{it} = \gamma + \beta_{1it} Y_{pc} + \beta_{2it} Pop + u_{it}$$

Where: $u_{it} = \mu_i + \varepsilon_{it}$ is the error term component; with vectors of country specific effects (μ_i) and ε_{it} is the usual white noise error.

PT is land tax revenue;

Y_{pc} is per capita GDP of province i and

Pop is the population of province i.

Per capita GDP of province i was calculated based on the weight of the population in the total population of the country.

The results of the estimated model are presented in Table 11.

The results in Table 11 indicate that the growth in per capita GDP reduces the land revenue but the coefficient is not statistically significant. This result may suggest that the demand for land in Mozambique is not related to growth in per capita GDP. In fact, land taken into account in this simulation is basically used for agriculture and not subject to pressures of income growth as it happens in urban and sub-urban areas. This suggests that the growth in income per capita has been the main reason for land demand. The other result in the Table shows that the growth in the population increases the revenue collected.

Table 11: Dependent Variable – *PT*

Variables (regressors)	Coefficients	test-statistic
Y_{pc}	-0.015	-0.0144
Pop	13.60	1.6889
Constant	-180.85	-1.8230
Fixed Effects		
Niassa	5.59	
Cabo Delgado	-0.63	
Nampula	-9.98	
Zambeze	-10.92	
Tete	-0.22	
Manica	3.88	
Sofala	1.70	
Inhambane	1.27	
Gaza	2.62	
Maputo	6.69	
<hr/>		
<i>R</i> ² = 0.8204		
<i>R</i> ² -Adj. = 0.7792		
<i>F</i> -Stat = 19.93		
<i>Prob</i> (<i>F</i> -Stat) = 0.0000		
<hr/>		

Thus, the size of the population and the growth rate thereof play an important role in land demand in Mozambique. The coefficient of the population is positive and statistically significant. Furthermore, there are province specific effects determining the demand for land, and therefore, land revenue. These factors include land fertility, population density, location to markets, etc.

The results found in this model are then used to forecast land revenue for each province during the next five years from 2006. The results of such simulations are given in Table 12.

Table 12: Land Revenue Forecasting for 10 Provinces in Mozambique

	Niassa	CaboDelgado	Nampula	Zambeze	Tete	Manica	Safala	Inhambane	Gaza	Maputo
2000	49673.16	42851.67	369926.64	213092.15	19816.67	651563.41	1546910.08	30239.97	169534.21	269474.76
2001	28879.87	41731.85	386814.30	214387.41	37480.27	361497.35	1841093.05	122509.03	293132.50	479414.09
2002	103686.79	89573.07	946617.14	541419.68	42586.82	550757.56	2064461.55	220839.17	619303.04	1221805.21
2003	77505.18	441145.49	2097360.07	954459.03	204374.63	822784.83	2116956.50	394293.17	904258.00	1291145.03
2004	134223.29	494632.33	1761982.23	588863.68	230116.27	1123276.03	1944936.72	251316.91	785008.64	1934733.21
2005	557596.02	1092489.94	1295555.35	678866.65	200947.71	1416373.09	1492196.87	374231.55	89872.74	1124770.98
2006	924945.41	1574612.86	1996447.68	1033632.65	330175.63	2515821.63	2273065.68	565168.95	129490.14	1918952.46
2007	1534323.31	2269499.77	3076521.09	1573778.54	542509.02	4468663.82	3462529.68	853516.37	186573.40	3273924.58
2008	2545149.63	3271044.79	4740911.62	2396212.68	891392.39	7937429.18	5274476.55	1288977.72	268820.73	5585586.51
2009	4221917.64	4714578.15	7305733.44	3648402.65	1464639.95	14098655.55	8034537.54	1946629.55	387325.23	9529568.53
2010	7003355.86	6795152.17	11258117.70	5555005.66	2406562.65	25042626.73	12239022.86	2939793.80	558064.60	16258233.25

The results show that the estimated model can be used for revenue forecasting for the ten provinces in Mozambique. The model's ability in forecasting land revenue can be shown in the following graphical examples:

Figure 15:

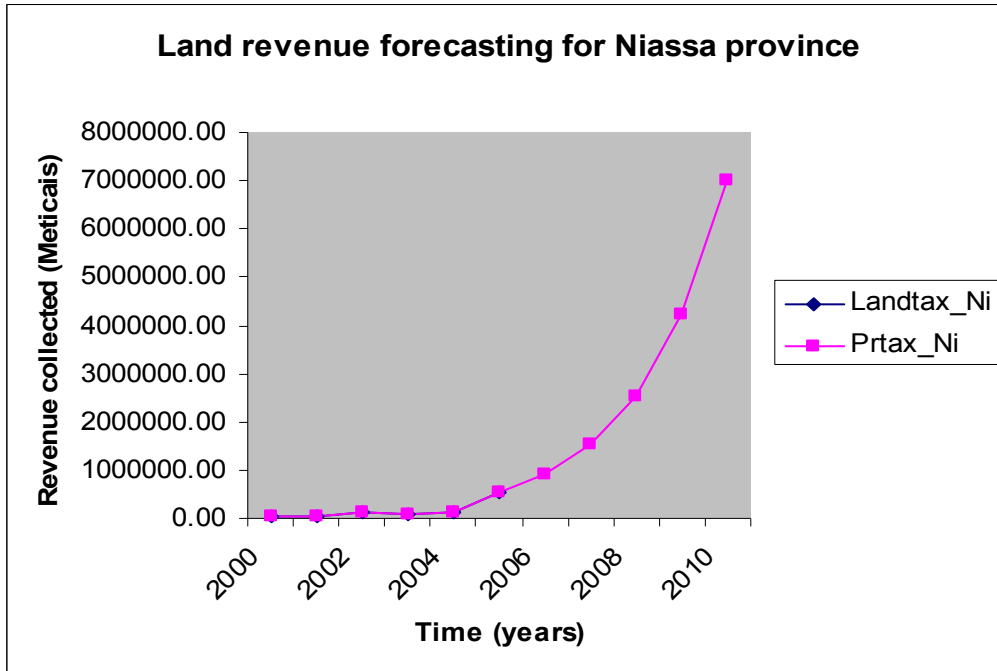


Figure 16:

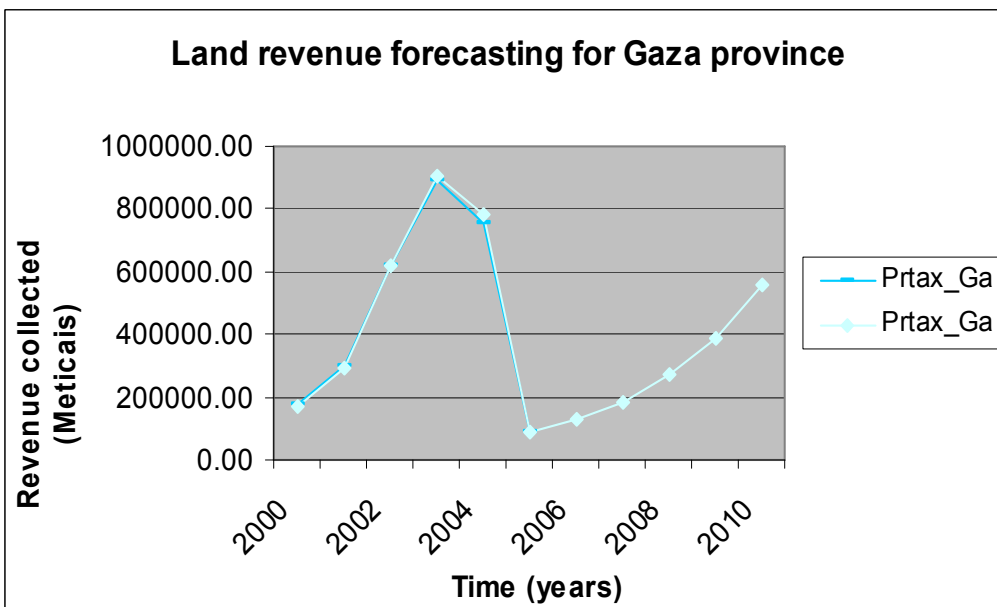


Figure 17:

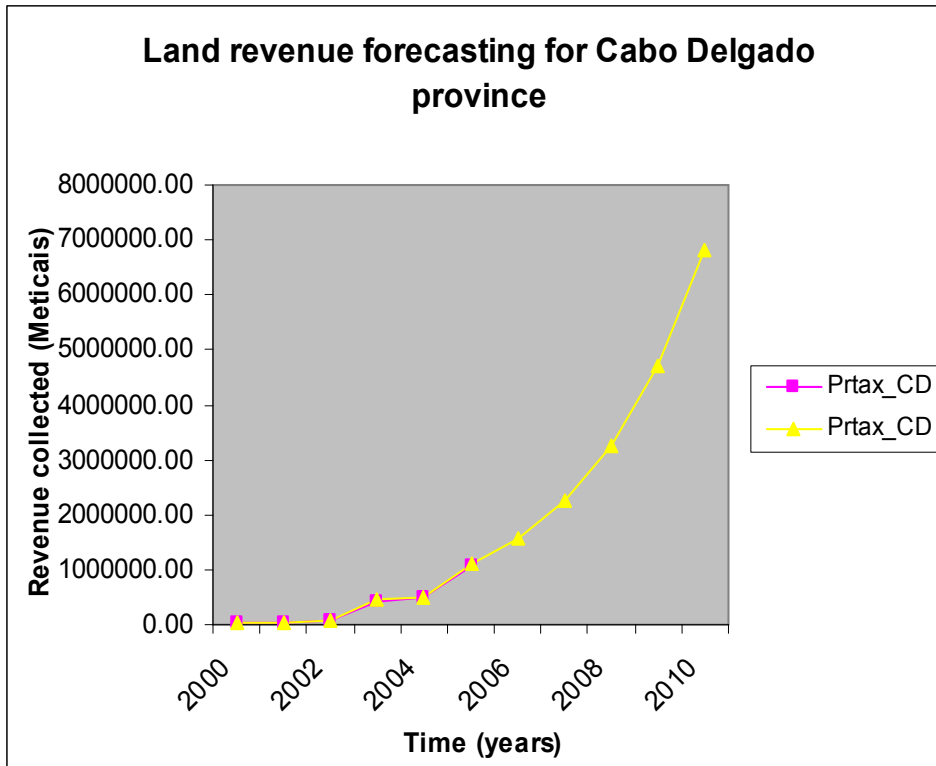
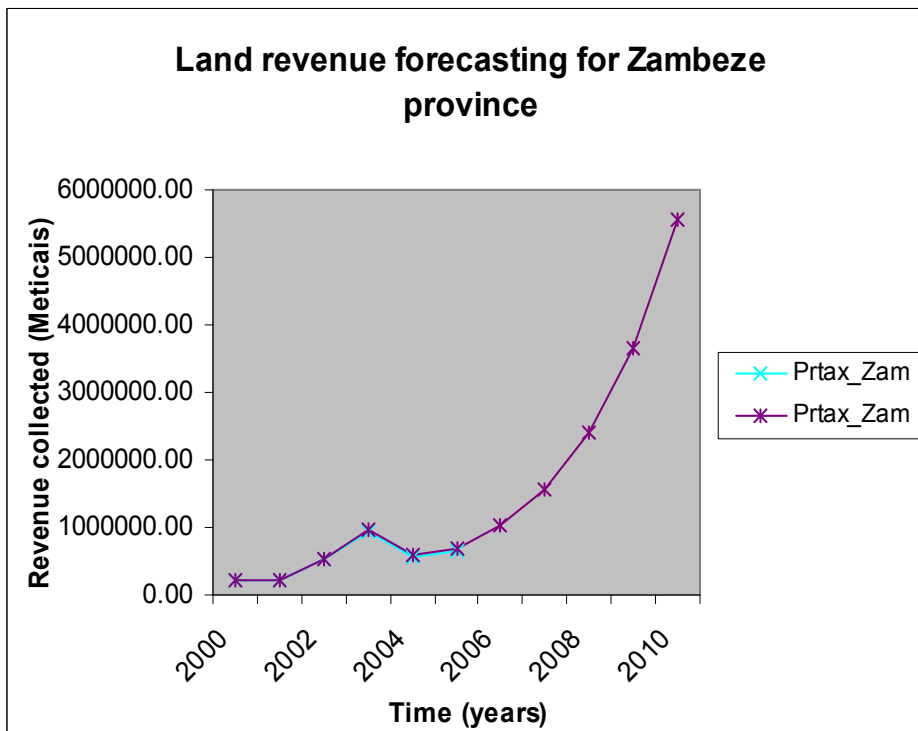


Figure 18:



4.7 General comments

The discussion hereto revealed that during the colonisation period differences in the legislation on property taxes were minimal, since there was one ministry in Portugal co-ordinating policies in these provinces. Property tax laws were published collectively for all Provinces with little differences in content that would provide for differences such as the level of development, the capacity of a province to generate own revenue, etc.

Therefore, substantial changes could be expected after the independence of these countries. However, the adoption of policies more oriented towards centrally planned economies with more emphasis on collective actions (like agricultural enterprises publicly owned) prevented the use of the private sector as an engine of the economy and as a consequence taxes as source of revenue did not receive the necessary attention. Property taxes lost the weight it used to have because of the ownership problem. However, some countries like Cabo Verde (in 1980 and 1985) soon understood that property taxes were important probably because Cabo Verde is a country with very limited resources compared to Mozambique and Angola. In those years Cabo Verde changed the legislation on property taxes, while Mozambique and Angola were busy with civil wars, with the objective of correcting some imbalances in the technical and legal aspects of the tax regime. The ultimate objective of the amendments was to improve revenue collection, but the lack of data prevented a proper analysis of evolution of revenue in this country.

By the end of the Cold War and civil war in Mozambique in 1992 and the introduction of the program of economic rehabilitation in 1987, a new era dawned featured by re-privatisation, including the reselling of property. The adjustment to municipal structures required sufficient funding and in addition to grants new sources of revenue had to be identified. Therefore, in 1994 Mozambique initiated deep rooted reforms including property taxes, while Cabo Verde reformed its property tax system in 1998 through the introduction of a Unique Tax on Property (IUP), with the objective of

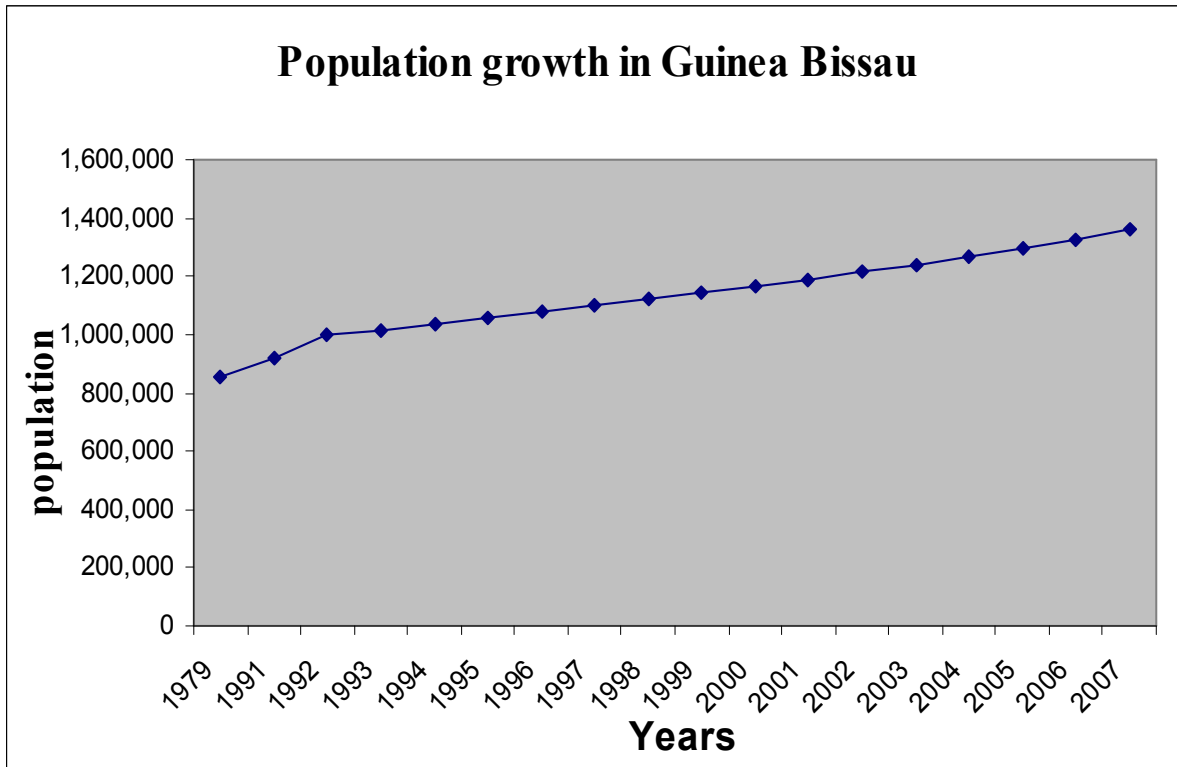
simplifying the property tax system and to expand the revenue base. This system is currently underway in Cabo Verde in all main islands while in Mozambique reform in property taxes has been introduced through the law of local finances, requiring each municipality to undertake a study to determine the level of revenue and conditions under which property taxes could provide municipalities with additional revenue to be able to finance expenditure projects. Mozambique and Cabo Verde seem to be ahead of Angola which is still in the process of adjusting but if the content of the proposals in Decree-Law no 2/07 of 3 January are to be taken as a barometer of progress, local government finances still have many difficulties to overcome.

On average these countries still have a long way to go especially with regard to specialised valuation teams, tax administration and most importantly the accountability on collected revenue. This will be accomplished if the elected role politicians in the case of Mozambique and Cabo Verde or nominated ones in the case of Angola perform their duties in terms of the delivery of goods and services as promised in the electoral manifesto, since the delivery of goods and services may serve as a means of valuing local and/or municipal managers.

4.8 Guinea Bissau

Guinea Bissau became unilaterally independent in 1973 but officially it became independent in 1974 (de jure independence). It is one of the five Portuguese colonies in Africa and its geographical size is 36,125 square meters. Guinea Bissau has gone through a terrible war in 1998 which has almost destroyed the capital city. This war depleted the country, which survive from a small volume of exportable goods and import almost all manufactured goods. The total population in Guinea Bissau is about 1,357,680. The growth in the population in Guinea Bissau between 1991 and 2007 is shown in Figure 1.

Figure 19:



Source: National Bureau of Statistics

4.8.1 Property Taxes in Guinea Bissau

The first legal reference of property taxes in Guinea-Bissau was in 1946 through the Legislative Diploma no 1376 of 16 December. This legislative Diploma was amended several times but it was only in 1984 through Decree no 5/84 of 03 March and after independence in 1974, that the Legislative Diploma was completely reformed in order to modernize the system of property registration on a roll and the valuation and liquidation of the respective property taxes regulated.

The reform defined taxes on urban buildings as a direct tax on urban building incomes in the territory of Guinea-Bissau state. Decree no 5/84 determines that all buildings should be registered in a valuation roll and organized as described in article 11. All individuals

receiving income from rent are subject to property taxes in Guinea-Bissau. Those individuals are the one's in whose names the property is registered on the valuation roll or any other person responding in the name of the property. In the case of shared property or in the case of different rights or ownership each of the individuals involved will pay property taxes on that part of income he/she is responsible for.

The Decree enumerate a number of exemptions, most of them are the usual aspects of property taxes exemptions: buildings that are considered national memorials, buildings allocated to religious activities, cemeteries and all buildings on it, building allocated to schools, hospitals or emergency posts, if they are not producing rent. These buildings, though exempted from property taxes, should be registered on the valuation roll. Exempted from property taxes are all state buildings, political party buildings, public institute buildings, collective person of public utility are exempt of property taxes on buildings that are allocated to their services. Property used by cultural associations, recreation and sports clubs is also excluded from rent if not used for commercial purposes. However, all such property should be registered on the valuation roll.

Also exempted from property taxes are all properties with income equal or less than 120,000 PG (Guinean Pesos, the currency used before the introduction of franc CFA after Guinea-Bissau was accepted in the UAMOA region). It was possible to revise this limit, by the Ministry of Finance, if the economic variables of the property market had changed. It was also exempted from property taxes if the buildings were the dwellings of owners not benefiting from the previous exemptions.

All exemptions specified by Article 9 in Decree 5/84 have to be requested by the owners of buildings within 90 days from the date of occupation or obtaining of a permit. In the case of property sales (paragraph 1 Article 9) during the exemption period, the individual who acquires the building as a dwelling has the right to be exempted according to Article 8 or paragraph 1 a) in Article 9. Exemptions specified in contracts between the government of Guinea-Bissau and any other entity will honoured only during the contract period.

In 1988, the government of Guinea-Bissau approved Decree 43/88 of 15 of November containing amendments on Decree 5/84 on building property taxes. The objective of these amendments was to introduce mechanisms that allow registering on the building valuation roll, as well as simplifying formalities related to renting contracts. The amendment had an additional objective of promoting construction of buildings for residence through the introduction of new brackets on urban building property tax rates that are better adapted to the reality of the country, introduce equity and fiscal justice.

Decree 43/88 specifies all exemptions on urban building property taxes as outlined in Decree 5/84. However, the urban property tax legislation approved by Article 1 of Decree 5/84 was revoked.

Article 9, paragraph 1- a) of Decree 5/84 was changed from five years to ten years of exemption of a building used as the owner's dwelling. In this article and in paragraph b) exemption applies for ten years in the case of property used for residential purposes with a value of between 240,000 PG and 600,000 PG per year. This limit is annually set by a joint meeting of Ministers of Finance and social infra-structure.

The contracts for renting urban buildings used for commerce and industry above 30,000 PG have to be subject to a public deed. None of renting contracts should proceed to any tribunal or any public institution without having proved that the contract has been stamped by the finance department of the area where the building is registered. No process that has as object urban building should proceed in any public department without proving that it has been registered in the valuation roll.

Lack of prove of registration or ownership on the valuation roll will be penalised with a fine at 20 per cent of the taxable income of the building up to sixth month after the period of tax payment has been expired. From the seventh month up to the date in which the fraud is detected 30 per cent of the taxable income should be paid as a fine. The fine should be paid within 30 days from the date of notification.

In 1993, the government of Guinea-Bissau introduced another amendment through Decree 34/93 of 10 August. This amendment was the result of long years of learning and the objective was to adjust the existing mechanisms to improve efficiency.

Article 16 was amended to include new criteria of valuation of taxable income to be registered in the roll of valuation. Paragraph b) was adjusted to state that if the building is not rented but used its value will be determined by taking into account the location of the building, its characteristics and 2/3 of the rent of similar buildings in the area. The amendment on article 28 specifies that property taxes on property values below 15,000,000 PG will be terminated during March of each year. If the contribution is above this amount the corresponding property tax will be paid in two equal instalments, with the first payment in March and the second in July.

Amendments on article 40 relate to fines. The first paragraph establishes that if a taxpayer declares taxable income that is below the income he/she, effectively receive the person will be fined an amount equal to double the difference of the tax that was really supposed to be paid and the amount effectively paid, with a minimum of 500,000 PG.

Amendments of Article 47 include those specifying that the town council of Bissau and the state committee of the region have to submit financial statements for the period up to the 25th of each month with an indication of construction permits authorised as well as modifications and enlargements during the previous month. This list should contain detailed information including the address of the building and the identification and address of the responsible person(s).

Article 48 – A, complements Article 48 of Decree 43/88 of 15 November. It states that none of the suppliers of water, electricity and telecommunication should make connections to any building without prove of exemption or that the required permits have been obtained.

All these amendments in the property taxes legislation have the objective to turn it more operational and that it could result in increased effectiveness. However, discussions with officials revealed a number of shortcomings in the current procedures. Only a small amount property tax is actually collected.

4.8.1.1 The valuation and administration of property taxes

As mentioned previously, valuation is an important step in the determination of the level of revenue collected from properties. The knowledge of how many properties exist in the specific municipality, which properties are exempt from property tax, who is the tax payer, which tax base (rent value or value of the property) to use in the taxable income, among other things determine the level of revenue to be collected as well as the enforcement.

Guinea-Bissau being one of the former Portuguese colonies, followed a similar pattern after independence regarding own legislation also regarding taxes. In 1984 (Decree 5/84 of 03 of March) the country decided to reform completely the legislation that was being used since 1946. With regard to property valuation, this reforms involved (Article 11 paragraph 1, that all urban buildings be registered on a valuation roll that was suppose to constitute the archive of buildings for fiscal purpose in the country. The valuation roll had to contain a code with a serial number divided in two digits identifying the region where the building is located, within the region two digits identifying the sector and another two digits identifying within the sector the building. The forms duly completed have to be archived in the finance departments of the fiscal areas where the building is located. The secretary of the finance department should certify annually, in January, the number of forms of the valuation roll of each sector, and put in archive all certification together with forms of valuation roll. The tax payers should request from the department of finance of the fiscal area where the building is located an exemplary of the form of the valuation roll of each building for which they are the owners.

The valuation roll will be assigned to a commission for valuation with the following composition: one member nominated by the ministry of finance (president of the

commission), one other member nominated by the ministry of public work, construction and urbanization and the last member of the commission is nominated by the president of state committee of the region where the building is located. None of these members should intervene in the valuation of their own buildings or of respective direct family or next of skin. Is the competence of this commission the determination of the taxable income of buildings according to dispositions of this code and following the instructions from the Ministry of Finance.

Owners of new buildings, those modified or extended should present to the departments of finance of the fiscal areas within which property resides within 30 days from the date the work has been concluded a declaration model-1 (in triplicate). The procedure is specified by Decree 5/84 of 03 March. The secretary of the department of finances will send the original of the declaration to the commission of valuation for the valuation of the building and the extension of the valuation roll. The president of the commission will call for a meeting to proceed with valuation within 30 days. The original declaration should be re-submitted to the secretary of finance within the following 15 days

The relevant legislation specifies that the members of the commission of valuation be selected from civil servants with adequate background within the department already indicated. Tax is determined as follows:

- (i) if the building is rented, the taxable income will be equivalent to the amount of rent received by the owner deducted from maintenance and administration expenses to be fixed by the commission with the limit of 25 per cent;
- (ii) If the building is not rented the taxable income will be the value of the utility derived from its use or an equivalent to the rent that could be obtained, under market conditions, if the building was to be rented;
- (iii) If the building is partially rented, the commission will have the criteria of valuation used in the two previous methods;

- (iv) During the valuation process the commission should consider the derived income or the utility obtained from all parts included in the building, gardens or other attached spaces.

The owners of properties are being contacted by the Department of Finances through a notification sent to him/her informing about the determined taxable income. The owner has the right of requesting a second valuation within 15 days from the date of notification. For this re-valuation a commission of valuation will be formed and its decision should not be contested.

Article 18 of Decree 5/84 of 03 March states that all components of urban buildings included in the valuation roll should be updated annually during the month of January for all possible alterations of the previous year. For effectiveness of this process of updating, all holders of incomes from rented urban buildings should communicate to the Department of Finance in 15 days on all alterations made in the rents, as well as, on new signed contracts or cessation of contracts. If a building is empty, the first 60 days will not be imputed any property tax. If after this period it stills empty, the Department of Finances will impute a taxable income equal to the last annual agreed rent.

With regard to liquidation, property taxes in Guinea-Bissau are paid to the Department of Finance within the area where the property generating income is located. The Department of Finance calculates during the month of February of every year the tax revenue relative to income of the previous year as stated in the valuation roll and duly updated. If during the liquidation process there is an identified error (de facto or de jure) the Department of Finance will proceed with its correction through an additional liquidation or invalidation that will have to be communicated to the taxpayer.

No liquidation will be effective if the amount to be liquidated is equal or smaller than 100PG. This limitation is, probably related to administrative costs, which may be higher than the tax revenue resulting from this process. If liquidation is made after the deadline

legally established, with motives imputable to the taxpayer, he/she will have to pay an additional compensatory interest, due to arrears, in an amount of interest rate of the Public Debt of the Guinean government.

According to Article 27 of this Law the tax rate on buildings in urban areas is fixed to 30 per cent of taxable income and 10 per cent on onerous building transmission and succession. The urban building contribution will be collected by the tax authority during the month of March. For the purpose of tax payment the tax authority will send, through the postal office, a notice to the taxpayer informing him/her about the property tax value due. This information should also be sent through other adequate media sources. This way the administration of property taxes become more transparent. The question is though whether the legislation on property taxes is applied as designed or whether other exogenous factors also play a role such as the monitoring and enforcement of the Law. Outstanding issues include the interpretation of the legislation by the tax authorities, for example, urban buildings built for own use do not pay property tax. An attempt was made to clarify this ambiguity, but no acceptable explanation was found. However, the legislation is clear on how to calculate taxable income for buildings used by the owners.

All taxpayers of urban building property tax may complain against or dispute the determined value of property taxes. The deadline for complaining or refuting is taken from the date of notification for paying the tax or from the first day of the tax collection by the tax authority. Complains and appeals will have the necessary effects as foreseen in the tax code and the decisions of the commission of valuation are not subjected to another appeal, except when the appeal is based on the abuse of power.

On the other hand, taxpayers who undervalue property will be fined an amount equal to that part of tax not paid, with a minimum of 1,000 PG. Also, non-performance regarding the documents as required in Articles 2 and 18 of Decree 5/84 of the 03 March will be fined an amount varying from 500 PG to 5,000 PG.

The task of property tax monitoring in Guinea-Bissau, as in other countries, has been assigned to all state entities and authorities, in particular, all Departments of the Ministry of Finance and Economy. Notaries have to inform the Department of Finance of the area about building projects as well as rental contracts concluded.

In 1988, Decree no 43/88 of 15 November revoked Decree no 5/84 of 03 March, but no substantial changes were made. In 1993, through Decree no 34/93 on the 10th of August, the government of Guinea-Bissau decided to adjust the relevant legislation in order to increase revenue from property taxes. This Decree establishes that the Municipal Chambers will have to send to the Department of Finances up to 25th of each month a list containing the number of licences issued during the previous month for building, re-building, extension or modifications of urban buildings. They also have to portray the state of the building, including identification and address of the building administrators (whether owner or not). The Decree also adjusted fines established according to Article 48 of Decree 43/88 of 15 November, from 100,000 PG to 1,000,000 PG.

In general, Decree 5/84 of 3 March and the following reforms and amendments all contained elements of property tax legislation necessary to align property taxes in Guinea-Bissau to that in other countries. The question is whether the government has the necessary expertise to control for possible miss-application of this legislation. The experience in other developing countries shows that government loses a significant portion of revenue from properties due to lack of a proper understanding of the redistributive importance of property taxes. Generally, wealthy individuals tend to demand more for better services and goods than the poor. Therefore, property taxes should be reconsidered by these governments and more effort should go into valuation and administration in order to redistribute wealth in the community. Guinea-Bissau being one of the poorest countries of the region of western Africa, should embark on reforms that allow property taxes to play their rightful role compared to other taxes.

4.8.1.2 Revenue from property taxes and Sisa in Guinea-Bissau

According to the Revenue Authority of Guinea-Bissau, data on revenue collected from property taxes in Guinea-Bissau became unavailable as from 1998 when the war started. It destroyed all the archives and statistics. Currently they have embarked on a process according to which the archives are reconstructed with data that are actually collected. The country runs a substantial budget deficit and has to show substantial economic improvement compared to other countries in the region due to their hopes of regional integration. However, currently very limited data is available both at local or national levels, which poses difficulties in evaluating the role that property tax could play as a source of revenue.

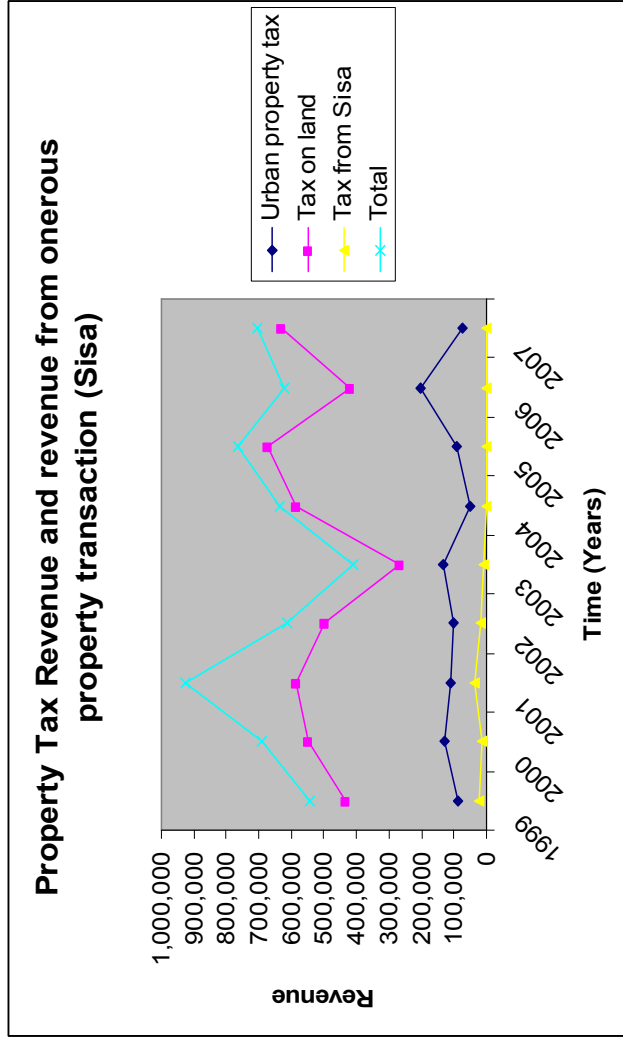
The only possible statistical information we could obtain but which have not been very suitable for this evaluation is shown in Table 13. However, the information might not be reliable.

Table 13: Property tax revenue and revenue on onerous property transactions (Sisa)

Property tax type	1999	2000	2001	2002	2003	2004	2005	2006	2007
Urban property tax	87,071	130,828	110,279	101,528	131,501	50,058	94,381	204,254	74,358
Tax on rustic building	433,302	549,262	584,702	495,642	269,535	586,746	672,194	419,245	631,193
Tax from Sisa	21,162	12,178	34,957	17,473	9,023	1,165	121	812	1,073
Total	541,535	692,268	927,937	614,644	410,059	637,969	766,697	624,311	706,623

Source: General Directory of Contribution and Taxes of Guinea Bissau

Figure 20:



Source: General Directory of Contribution and Taxes of Guinea Bissau

From the data shown in Table 13 and illustrated in Figure 20, we can see that the main source of property taxes in Guinea Bissau is the tax on rustic building (tax on land producing exportable goods), while other property taxes are not showing their importance as it is in other countries. Taxing more land producing exportable goods constrain the export of these goods and as the export of such goods become less important due to international competition, Guinea Bissau needs to restructure property tax system to take into account such changes and reduce the burden on those producers. In fact, these producers act as if they are subsidising the urban provision of services and, therefore, the urban residents behave as *free-riding* individuals. This is another example showing that property taxes should be designed in a way that provides goods and services for those individuals who pay for them. Since urban areas are generally demanding more on goods and services provision, the burden of such provision should be put on individuals consuming those goods and services and it can be done through on property taxes, especially building properties.

4.8.1.3 Property taxes forecasting for Guinea-Bissau

Due to lack of data, property tax revenue could not be forecasted.

4.8.1.4 Land in Guinea-Bissau

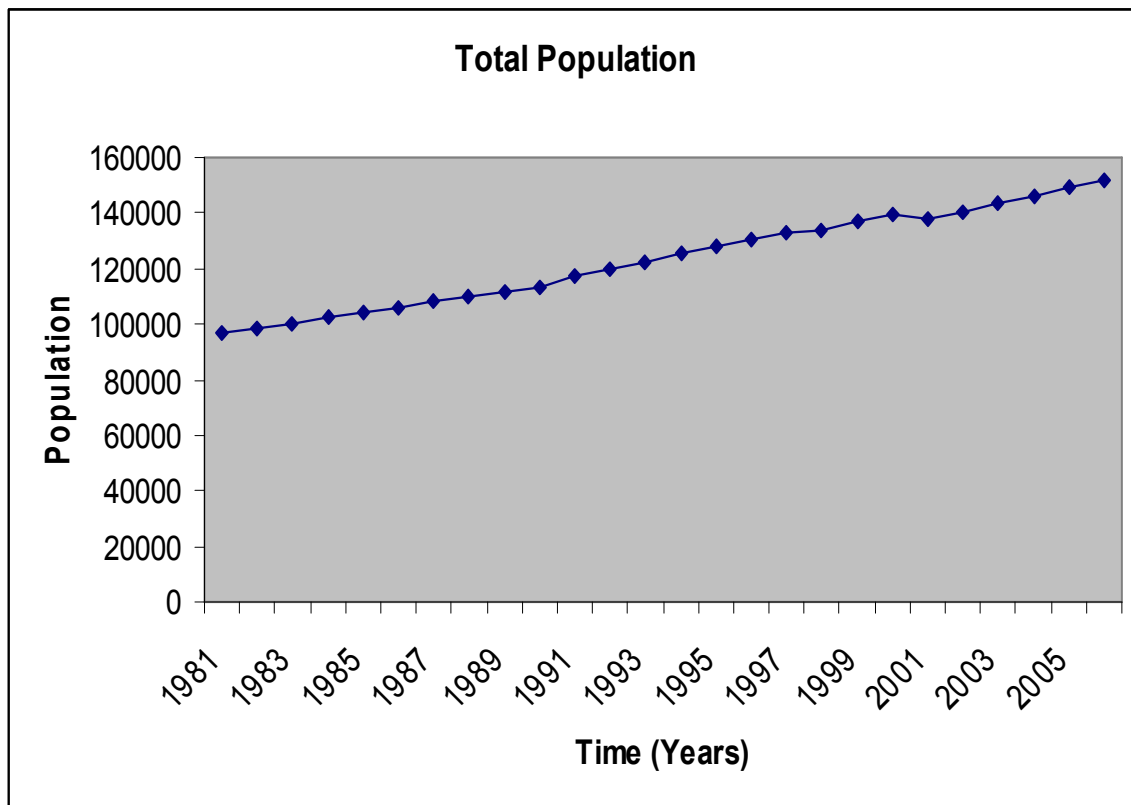
As mentioned earlier, no specific Property Tax Laws could be obtained but the general impression is that it is not important since most property belongs to the state.

4.9 São Tomé and Príncipe

São Tomé and Príncipe, perhaps the smallest of the African Lusophone countries, with a geographical size of 1,001 km², became independent in 1975, the same period other African Portuguese colonies became independent. The capital city of the country is São

Tomé and it comprises of seven different states (six in São Tomé and one in Príncipe). A Multi-party system form the ruling government. The population of São Tomé and Príncipe amounted to 151,912 by 2006 (INE, 2006). The growth of the population in São Tomé and Príncipe is illustrated in Figure 21. The nominal GDP of the country is US\$146 millions with per capita GDP of US\$960.3 in 2006.

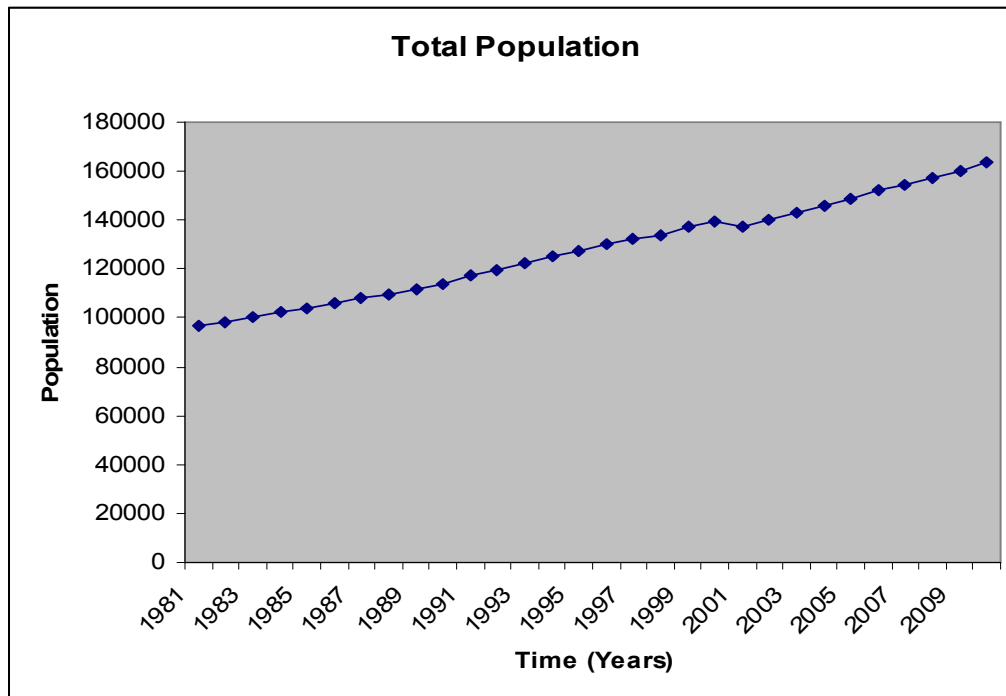
Figure 21: Total population of São Tomé and Príncipe



Source of the data: Bureau of Statistics of Sao Tome and Principe

If we use the average rate of population growth we can extrapolate the population as follows:

Figure 22: Estimated population growth of São Tomé and Príncipe



Source of the data: Bureau of Statistics of São Tomé and Príncipe

4.9.1 Property Taxes in São Tomé and Príncipe

Property taxes were early recognised as an important source of revenue by the authorities. But property taxes became much more important since the first formal analysis done by a number of authors since 1969. Of this group of authors a special tribute has to go to Oates (1969). An old example of such recognition in the Portuguese colonies is the tax charged on grass houses. Documents consulted are not clear on when, exactly, property taxes were introduced in the São Tomé and Príncipe Island during the period of colonisation. However, there are data indicating that property tax had been known in São Tomé and Príncipe by 1942 and the analysis here shows that this country had the highest share of property tax contribution to total direct revenue among the former Portuguese colonies.

In 1954 a regulation on urban building construction was published through Legislative Diploma no 450 of the 8th of September. This Legislative Diploma regulated property

taxes in São Tomé and Príncipe up to 1996, when a new Decree-Law no 40/96 of the 29 of October was introduced which specified the regulatory environment for property taxes. Article no 1 of the regulation of Decree-Law no 40/96 of 29 October considers all buildings in urban areas which qualify for exemption. These include all buildings belonging to the State, local administration and public institutes. All buildings such as hospitals, fraternities, asylums, mercies, services of public assistances and Charities duly authorized and supervised by the state with only exception for those buildings given to third parties for rent. All houses that serve as places for hosting the poor and infants without protection, buildings declared as public utilities, those used for prayer, buildings belonging to voluntary fireman but only that part occupied exclusively by their installations. All grass houses and other poor buildings of patrimonial value less than Dbs 5,000,000.00 (five million Dobras⁹) and building such as official schools, sport stadiums and respective buildings. Embassies and Consulars for which the State of São Tomé and Príncipe have reciprocal accords of treatments, as well as, buildings belonging to international organizations are also exempted from urban property taxes. Buildings used for secondary teaching are also exempted for a period of ten years if expenditure on the building is more than Dbs 300,000,000.00 (three hundred million Dobras) for towns and villages.

According to that regulation, the exemptions should be requested through a request to the Director of Taxes who will send the permanent commission of valuation to inspect the building to see whether it satisfies the necessary condition for exemption. All buildings are required to be registered on the valuation roll of the area where the building is located (see the article 4 of the regulation). Article 5 of the regulation specifies that exemption is considered in the month following the completion of the building and it will be effective only after the request has been accepted through a certificate issued by the local administrative board or in the absence of this board, by the administrator of the respective county. The certificate should specify the following: (i) the starting date of the building and of its completion; (ii) the date of the first use of the building before the completion, for whatever use. If the building was not used before its completion, this information has to be indicated in the certificate above mentioned; otherwise the exemption would not be

⁹ Dobras is the currency of São Tomé and Príncipe

conceded. Article 6 states that in the absence of a request for exemption as indicated in the article 5 of the regulation, the owner or the legal representative of the building will forfeit the exemption for the period that goes from the completion of the building and the presentation of the request, including the penalties related to non registration in the valuation roll as indicated by law and regulation. If the request is totally or partially rejected, it should be communicated to the taxpayer who would use its right for re-build the case in terms and deadlines established in the Code of Tax Process.

The major alteration of the Legislative Diploma no 450 of the 08 of September of 1954 was on the tax rate applied to taxable income. The tax rate rose from 10 per cent to 0.1 per cent on the patrimonial value registered in the valuation roll. Another important alteration was on the additional value charged by the Municipality of the area where the building is located. As it can be seen properties in São Tomé and Príncipe before independence were taxed twice and divided in two parts: one national and another local. The only legislation, Decree-Law no 40/96 of the 29 of October, introduced after the independence eliminated such kind of double taxation and only stamp duty was charged over the urban building contribution tax rate according to legislation in place.

All buildings in urban areas should be registered in a valuation roll and in this case, former valuation rolls were used but only after due inspection by the permanent commission of valuation to ascertain on the characteristics of the building subject to urban building contribution. Taxable income to be registered is that resulting from valuations using the established rules from the Code of Valuations.

Unlike other African former Portuguese colonies, São Tomé and Príncipe did little on property tax legislation. A careful examination, as referred before, of the regulation for Decree-Law no 40/96 of the 29 of October is just a transcription of the regulation published in 1954 (before the independence) as Legislative Diploma no 450 of the 8 of September with exception of a few changes here and there. This lack of significant alteration of property tax legislation in this country has significant implication in terms of state finances. Countries like São Tomé and Príncipe, with no significant natural resources and other kind

of sources for government revenue need to consider such sources of revenue fundamental. Another fundamental aspect with this regard may be related to lack of expertises and the political economy (centrally planned) that followed the independence, ma have affected the willingness of using property taxes as sources of revenue. Furthermore, the fact that taxes levied during the colonisation in the majority of African countries, after their independence these taxes were seen as another kind of colonisation and, therefore, many taxes including property taxes were not considered as important source of revenue, especially at local government level.

The structure of government, although small in this case, may complicate the task of valuation and administration of property tax. All these ideologies and practises affected the performance of property taxes in most African countries and São Tomé and Príncipe in particular. One important aspect that may undermine the development of a proper legislation and its application on property taxes in this country is the instability of the Government, especially after the discovery of petroleum next to Nigerian border. For example, only in 2008 São Tomé and Príncipe had three different Governments, which imply that no consistent and continuous program that helps the development of Government finances in this Country can be developed in a systematic way.

Furthermore, the structures of country administration were not clear after the independence, though São Tomé and Príncipe is a small country, and as a result it was only in 1992 that the government introduced a framework of local government through the Law no 10/92 of the 09 of September. This law is clear as in other countries about the philosophy of functioning of local government but, as mentioned in the previous paragraph, the instability of government since then has prevented a proper implementation of the Law. However, the basic legal instrument for introduction of local government structures is already set and the Law regulating local finances is established by Law no 16/92 of the 31 of December and it is based on paragraph 1 of the article 88 of the Law no 10/92 of the 09 of September. The law on local finances establishes the patrimonial and financial autonomy of the local government.

Decree-Law no 42/93 of the 18 of May introduced amendments on articles 7, paragraphs 1

and 2; articles 8, 9 and 10 of the Regulation on taxes on Donation and Succession dating since 1800. Paragraph 1 was altered to consider the amount of free transmission of properties (mobile or immobile) for descendants, ascendants, husband or wife or brothers if inherited should be equal or less than Dbs 30,000.00 (thirty thousand Dobras) and all transmission to the State and other entities of Charity and beneficiary when duly recognised. Article 8 on tax rate on all onerous transmissions, the amendment fixed 10 per cent as the tax rate to be paid. The paragraph 2 of the article fixed 5 per cent of tax rate for contracts of exchanges of properties, being that each participant of the exchange of immobile properties pays a half of the amount. The article 9 fixes the taxes on succession and donation:

Transmission in favour of	Up to Dbs 150,000.00	Above Dbs 150,000.00
Ascendants, descendants and married:	7 per cent	20 per cent
Brothers:	10 per cent	25 per cent
Others:	20 per cent	30 per cent

For application of these tax rates the value will always be divided into two parts accordingly. The degree of parental relations is regulated by articles 2132 and following of the Civil Code and accompanied by the Law no 2/77 of the 28 of December and all referred from the date of the transmission as indicated by the civil law. The article 10 establishes that no additional taxes or charges on the tax rates fixed by article 8 and 9 should be applied, including duty stamps. The tax rates will be on values written in the valuation rolls of buildings at the time of transmission and multiplied by 10 by the date of liquidation of the tax, deducted the value of maintenance or modifications after transmission.

Paragraph 5 of article 21 of the regulation was altered to contain the following text: are exempted valuations only if the interests of the treasury are not hurt but only for rustic building with areas less than 1.5 hectare and minimum value of Dbs 50.00 per square meters. The elements of determination of the area are supplied by the Chief of the treasury

of the area.

4.9.2 On valuation and administration of property taxes

The valuation of property for tax purpose has been extremely difficult due to difficulties related to what to tax: land only, land and improvement and if so which tax to use flat rate or differenced taxes to each of the subjects of the tax or just improvement. This is a old problem that continues to be a corner stone for implementation of property taxes in many countries. For example, it has been said that taxing improvements on land prevent investments on it. Therefore, the task of property valuation has to be facilitated by the legislation by defining properly the object of the tax, including all exemptions if any. Clear definition of the object of property tax helps the authorities to administer the tax. The valuation of properties and administration of the tax on properties is, therefore, a most difficult but prestigious task of the property tax collector.

The valuation of property tax in São Tomé and Príncipe is done by commission of valuation called: Permanent commission of valuation. It is composed by three members of whom one is nominated by the Chief of Treasury and Account, another by the municipality or administrator of the county where the property is located and the third one who act as a secretary will be nominated by the Secretary of the Treasury. The first two members should be selected among the engineers, architect, engineer assistant, technical staff for engineering, public work leaders, among others. The residency of the commission will go to the member nominated by the Chief of Treasury and Account but if there is an engineer or architect this position should be assigned to one of them. Nominations for the commission are annually done in December for valuation of the following year and this commission is supervised by the Secretary of Treasury.

The commission should describe the building to be valued indicating there location including Road, Avenue, number and the names and addresses of the owner or the beneficiary. In this description the name of the building (if any), the number of registration and of archive in the valuation roll should be indicated, as well as, the article supporting it

in the legislation on property valuation. They should also indicate gross income for each division of the building, the percentage for maintenance expenses and taxable income (partial or total). If any comment is made, this should be accompanied with the respective legislative support.

Each building will be described in a proper valuation form (model no 5 available at Treasury) which will have indicated the date of valuation and signed by the commission. The valuation form should indicate all modifications, as well as, the reasons for such modifications. The commission should also indicate the legislation supporting them. Valuation done on request of taxpayers the duplicate of the form with the result of the valuation done should be attached to the file of the respective building. In this case, the taxpayer will indicate his/her own valuer to substitute the nomination from municipal or county who must present him/her self within ten days to the Director of taxes from the date the request was submitted otherwise such nomination will not be considered.

All valuation will have to be done within the period established by the director of taxes, but this period can be extended for a maximum of another equal period only if there is a justifiable reason for such extension. All requests from taxpayers should contain all information describing exactly the building, all confrontations, the number of the file, the name and address of his/her valuer and taxable income. In the determination, description, classification and valuation of buildings, the commission must take into account rules in the Code of Valuations. All members of the commission must identify themselves through a document properly written by the Director of Taxes.

The tax rate to be applied is 0.1 per cent of the patrimonial value resulted and registered in the valuation roll. This implies that property taxes in São Tomé and Príncipe are based on the value of the building rather than on rental value as it is in many other countries.

After all valuations have been done, the commission of valuation should fill and present the valuation form (model 5) and notified the result of this valuation to the taxpayers. If the taxpayer is not happy should request a new (second) valuation within twenty days, arguing

why he/she is requesting for new valuation. In this case, the tax payer should also indicate the name and address of his/her valuer and paying attention to what is written in the article 36 of the present regulation. The right of second valuation also helps the Director of taxes. The second valuation will follow all formalities of the first valuation and will be done by new valuers: one nominated by the Director of Taxes, the second nominated by the taxpayer requesting the valuation and the third nominated by the Chamber of the District. If the valuer of the taxpayer does not appear to the Director of Taxes being notified will be nominated another in his/her place by the Chief of the Department of Liquidation and Supervision.

If the taxpayer still not satisfied may request the intervention of the National Court of Tax but only if there was a mistakes in the following formalities or offense to the Law. However, the National Court of Tax will not change the results of valuation but force the repetition of the valuation only, in the case that the request was successful, being then necessary to constitute a commission composed by diversified entities for another valuation. From this re-valuation no resort is permissible, that is this is the last resort that a taxpayer can have with regard to tax to be paid on his/her property.

The taxable income, after being fixed in the valuation roll, can only be altered: if the registration is nullified or other motive duly confirmed by the inspection of the Permanent Commission of valuation. It also can be altered if the request of the taxpayer results in different values of valuation. Direct inspection ordered by the Director of Taxes and contributions by 31st of March each year to Chiefs of Department of Liquidation and Supervision may also result in changes on the value registered in the valuation roll.

The urban building contribution, as called in these Portuguese colonies, is paid to the Fiscal Administration Services of the area where the building is located and paid in the name on which it is registered in the valuation roll. The valuation roll is closed by 30th of September each year by the Chief of the Fiscal Administration Service where the building is located, indicating the exact number of articles contained the number of pages written and the total amount of taxable income. All exempted buildings will not have taxable income in there

registration roll and, therefore, no reference should be made at the time of closing the book. If there is rent in the exempted building, such rent should be indicated in a column of observation. After closing it has to be re-open with total, in own column, of taxable income registered in the valuation roll.

Furthermore, to verify the true value and income of urban buildings, the Director of Taxes will search to obtain all possible and necessary information. Therefore, he will have to resort to all declaration of the taxpayers as established in article 19; declaration from taxpayer on the sellable value of the building if were to used as mortgage of a loan in a bank, financial societies, institutions where the State have intervention, as well as the valuations made by the Permanent Commission of Valuation on them. The conservatoires of building registration that are freely supplied by the respective conservative. To maps that are sent by the conservatives up the 10th of each month relative to the previous month, resort also to the registration of mortgages, maps identifying the amount of loans where it is identified the building or buildings used as mortgage, as well as many other sources of required information to ascertain about the value or values of building or buildings.

The urban building contribution is considered of the year in which it is required for payment, though the element used as base for calculation are from the previous year and if the amount resulted from such calculation is equal or above Dbs 100,000.00 will be divide into equal two parts. The first parts is to be paid in January and the second in July. All payment out of the deadline will include interest only during the following sixty days and the same will happen in the case of non payment of the second instalment. If the payment is made through any court will be due the interest only on the value charged by the court decision. For the period going from the date of court decision and the payment to the treasury no interest should be charged being that the treasury employee mentions this fact. If the property belongs to various individuals, the payment of the urban building contribution will be made through the request of division into individual parts.

The regulation of Decree-Law no 40/96 of the 29 of October proposed that the first valuation rolls of the urban building should take into consideration all registration done in

accordance to the Legislative Diploma no 450 of the 08 of September of 1954 after having solved all problems related to description and identification of buildings by the Permanent Commission of valuation. The taxable income will be that resulting from rules established by the Code of Valuation. Any alteration to the valuation rolls done after the closing date will be considered in following year. For alteration of or registration in the valuation roll, owners of buildings and users or legal representatives are obliged to present (or sent someone in their representation) declarations by filling the model no 2 to the Fiscal Administration Services of the fiscal area where the building is located during the months January and February of each year relative to the previous year. However, if the taxpayer invokes justified motives the Fiscal Administration Services can receive his/her declaration before the referred period and precede the immediate registration in the valuation roll.

The application forms for such declarations are acquired in these services and are exempted from duty stamp at the time of filing. All declaration are filed in duplicate duly filled in visible letter and accompanied with the building scheme and deed when possible. One of the duplicate will, after checking, be dated and signed by the employee of the treasury at the time of receiving and returned to the taxpayer together with all other documents and the original will remain in the treasury. The signature of the employee will be stamped with oil or white stamp as its authentication. From the date of publication of the regulation on Decree-Law no 40/96 of 29 of October, all modification on the building and constructions are required to present a building declaration as stated in article 19 of the same regulation. While in onerous transmissions the buyer will have to present a declaration at the time of paying the due tax. All owners of buildings with no registration in the valuation roll are required by law to register the building or buildings immediately and supplying with all necessary declarations. Requirements in article 19, 20 and 21 of the regulation are extensive to all administrative institutions and religious missions with regard to buildings they have as well as for buildings belonging to the State of São Tomé and Príncipe.

The Director of Taxes will send for publication in public places information on urban

building contribution during the month of December each year. He will also use other convenient form of marketing, inviting the owners or users of buildings to present during the following months January and February the necessary declarations. The Director of Public Work and Presidents of counties will have to send up to 30th of January of each year a list of all licenses supplied in the previous year for building or re-building of urban building in their area of jurisdiction. The Director of Taxes will have to organise up to 31st of each year a proposal as in model no 1 the inspection of all improved buildings, built, omitted from valuation roll or those subject to urban building contribution if exemption has expired and of all building suspected because of the value registered in the valuation roll. The proposal will have to indicate the date in which the building or rebuilding has been finished with the objective to liquidate the contribution as established in article 17. When finalised, the proposal will be sent to the Heads of Departments of Liquidation and Supervision who will organise the necessary valuations and send back the information to the Director of Taxes who will invite the commission of valuation to assign the work to be done until 15th of July.

The members of the commission of valuation as well as those nominated as substitute of some members of the commission of valuation are entitled of subsidies paid by the National Treasury of São Tomé and Príncipe. The amount of subsidy will be annually fixed by the Government under the proposal of the Direction of Taxes. The secretary of commissions of valuations will also be paid an amount not less than the travel expenses of his category. Taxpayers are free of charges if the inspections are ordered by the Direction Taxes, but if valuations requested by the taxpayers result in an income above 15 per cent to the amount contested or indicated by him/her in the request, the taxpayer will have to pay 3 per cent on the new taxable income as form of returning the expenses on the requested valuation and it have to be paid together with the first payment of the urban building contribution (property tax).

After all direct inspections and after the deadline for claiming or resorts the results will be registered in the individual registration form as required by form model no 8 and considered in the valuation roll as stated in article 46 and its paragraph, including the

registration of taxable income, buildings rebuilt or with part added will be registered in new valuation rolls by nullifying the previous registration rolls, as well as their taxable income. After summing the taxable income, the Director of Taxes will close the valuation rolls as required in article 14, and in triplicate he will give the certificate of registration as in form model no 9. One of these triplicates will be sent to archive in the Direction of taxes and, the other two sent to National Institute of Statistics and the Department of Liquidation and Supervision. This process has to be finalised by 15th of October of each year.

Before calculating the amount of tax revenue to be collected in form model no 8, the Director of Taxes will fill a column of taxable income in a form model no 10, all together and verify whether these amounts add up to those in the valuation rolls. If not the same employee has to rectify the mistakes until the values of taxable calculated are correct as registered in the valuation rolls. It is also necessary to register whether the taxpayer is entitled of one or various instalments of tax payment.

The Director of Taxes will publish announcements of openness of the treasury for urban building contribution payment in January, as well as the penalties subjected to those who do not pay within the fixed period. The announcement will also invite the taxpayers to verify and examine during the following sixty days, from the date of the openness of the treasury, the valuation rolls, as well as, all the elements that served as the base of for calculation for the tax due. The taxpayer has the right to contest within the same period if he/she finds irregularities on the amount to be paid or elements of the base of calculation.

If the owners or users of building do not declare on rebuilt buildings, new buildings, improved or omitted, as stated by article 19 and 21 within the established period on them will be applied a fine varying from the amount of the tax and the triple of the tax due. The corresponding fine will be of as many years as the tax due but not more than five years and calculated by the Permanent Commission of Valuation in the base of information available on similar buildings to the one the Commission is considering. Whether the building is entitled for exemption or not does matter for fine application which is independent from urban building contribution.

It will be considered violation of public servant discipline or ethic in place in São Tomé and Príncipe if the civil servant do not fulfil his/her obligations as stated by the regulation on Decree-Law no 40/96 of 09 of September and also by lack of supplying with the necessary information the Director of Taxes for investigating taxable income or value of buildings. The process on which the employee will have to respond has to be initiated by the Director of Taxes and direct Chief to whom the employee responds. The Director of Taxes who do not initiate in time the proposal referred to in article 28 of the regulation or do not send to the Chiefs of Department of Liquidations and Supervision in the deadline established in the article 50, the announcements for tax payment will lose his/her salaries in favour to the state by the period the goes until this information is sent. Any member of Permanent Commission of Valuation accused, with proof, of partial or less honest will be loose their positions without receiving the subsidies due and yet being obliged to repay all subsidies received, independent of criminal responsibility that government may demand from him/her. No court or public department may authorise the withdrawal of values coming from sells of urban buildings, without proving that property tax has been paid in the last three years or shown a proof that it is not due (the case of exemptions). Finally, no collective claim is allowed in the case of urban building contribution.

A special feature in the regulation of property taxes in São Tomé and Príncipe comes from the penalties side, where explicitly public servants, including those in the management position, may be charged if is proved their involvement in wrong doing, especially dishonesty or actions that are against the regulation on matters on which are they acting.

4.9.2.1 Revenue from building contribution (property taxes) and Sisa in São Tomé and Príncipe

The case of São Tomé and Príncipe is similar to that of other African countries in general. Data is generally a problem and, therefore, it has been difficult to build models that could help these countries in forecasting, more accurately, revenue. The knowledge of government finances is fundamental for policy design and, therefore, the development of

strategies that help in poverty alleviation and policies that may help in conducting countries to meet the millennium goals. This suggests that fiscal policy plays an important role nowadays in the development of poor countries. This is a kind of New-Keynesian policy, where governments are important elements for country development requires knowledge of the health of the state finances which allow the design of more efficient policies for development.

Data on property taxes in São Tomé and Príncipe are only available from 2001. This is a too short period to build models (most of them based on asymptotic properties) that may help in tax revenue forecasting. However, data available from the Direction of Taxes in São Tomé and Príncipe is available in Table 14.

Table: 14: Urban building contribution and taxes on onerous transmissions

Ano	Urban Building Contribution	on Onerous Transmissions
2001	77,280.70	350,581.50
2002	178,415.60	212,107.80
2003	233,651.20	477,060.10
2004	279,940.70	1458,765.60
2005	677,161.60	1,469,027.00
2006	717,472.70	1,122,503.60
2007	818,423.90	3,837,216.40

Source: National Directorate of Taxes in São Tomé and Príncipe

The Table shows that taxes on onerous transmission of property are far higher than tax on urban building contribution. This is a sign of bad valuation since in São Tomé and Príncipe urban building contribution is based on sellable value of properties. If this is the case, as it was the case of Mozambique, taxes on onerous transmission would not, whatsoever, be much more than property tax from building contribution. This is a sign of the fact that market value much more such buildings than the Permanent Commission of Valuation value the same buildings. The fact that the Permanent Commission of Valuation assigned lower values for buildings than the market may be because of a lack in expertise for building valuation or a deliberate action of valuing building at a lower rate to favour certain groups of people. Therefore, and as in the case of Mozambique we would recommend revaluing all buildings in São Tomé and Príncipe in order to correct the imbalances that

result from incorrect valuation from the past. The sudden jump in the tax on onerous transmissions of properties may be due to the significant demand for properties in very expensive areas, especially with new developments at the coast of São Tomé, including the building of a new Casino and the new developments surrounding it.

If we had a breakdown of information such as in the case of Mozambique it would have been possible to estimate the value of property sold in São Tomé and Príncipe during the period under evaluation.

4.9.2.2 Land in São Tomé and Príncipe

Efforts to obtain the land laws for São Tomé and Príncipe during a visit was unfortunately fruitless. However, what became known was the fact that property in São Tomé and Príncipe, as is the case in many other Lusophone countries after independence, mainly belongs to the state.

Appendix II: Country Profile

Angola:

Geographical size: 1,246,700 square meter

Capital City: Luanda

Number of Municipalities or Counties: 161

Government System: Democratic Multi-party

Independence: 1975

Population: 12,127,071 (July 2006 Estimate)

Urbanization:

Per Capita GDP: \$1,880.1 (year 2005)

GDP (Nominal): \$22.8 billion (year 2005)

Cape Verde:

Geographical size: 4,033 square meter

Capital City: Praia

Number of Municipalities or Counties: 17 administrative districts

Government System: Democratic System

Independence: 1975

Population: 507,000 (year 2005)

Urbanization:

Per Capita GDP: \$2,091 (year 2004)

GDP (Nominal):

Guinea Bissau:

Geographical size: 36,125 square meter

Capital City: Bissau

Number of Municipalities or Counties: Autonomous sector of Bissau and eight regions

Government System: Multi-party Republic

Independence: 1974 (de jure) but it proclaimed unilateral independence in 1973

Population: 1,590,000 (year 2005)

Urbanization:

Per Capita GDP: \$735 (year 2005)

GDP (Nominal): \$300 millions (2005)

Mozambique:

Geographical size: 799,380 square meter

Capital City: Maputo

Number of Municipalities or Counties: 33 Municipalities (including Maputo city)

Government System: Democratic Multi-party

Independence: 1975

Population: 19.4 millions (year 2005)

Urbanization:

Per Capita GDP: \$250 (year 2004)

GDP (Nominal): \$5.5 billion (2005)

São Tomé and Príncipe:

Geographical size: 1,001 square meter

Capital City: São Tomé

Number of Municipalities or Counties: Seven counties (Six on São Tomé and one on Príncipe)

Government System: Democratic Multi-party

Independence: 1975

Population: 151,912 (year 2006)

Urbanization:

Per Capita GDP¹⁰: \$960 (year 2006)

GDP (Nominal)¹¹: \$146 million (2006)

Note: The data on country profiles were taken from IMF country report (various issues)

¹⁰ Calculation based on official exchange rate of Dbs/USD 9902.3, published by the Bureau of Statistics of São Tomé and Príncipe and data on GDP from the same source.

¹¹ Idem.

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Legislative Diploma no 4044 of 13 of September of 1970

Decree no 24229 of 09 of August of 1969

Decree n 43894 of 06 of September of 1961

Legislative Diploma no 3082 of 12 of November of 1960

Legislative Diploma no 1:687 of 06 July of 1957

Legislative Diploma no 2:428 of 17 of December of 1952

Legislative Diploma no 2:325 of 13 of June of 1951

Legislative Diploma no 2:149 of 04 of May of 1949

Decree no 37:215 of 16 of December of 1948

Legislative Diploma no 810 of 05 of September of 1942

Legislative Diploma no 230 of 18 of May of 1931

Decree no 15467 of 30 of March of 1928

Decree no 222 of 13 of September of 1918

Law no 3:365 of 15 of September of 1917

Letter of 01 of July of 1917, published in the supplement no 25 of the Official Bulletin of the Republic)

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Decree no 375 of 17 of April of 1913

Decree of 02 of November of 1912

Decree no 252 of 19 of October of 1912

Provincial Decree no 671-A of 23 of May of 1907

Decree of 22 of June of 1898

Decree of 23 of December of 1892

Law-Letter of 18 of March of 1879

Decree of 20 of April of 1869

For Angola

Decree-Law no 2/07 of 03 of January

Decree no 120/03 of 14 of November

Decree-Law o 17/99 of 29 of October

Decree no 17/98of 29 of July

Law no 6/96 of 19 of April

Executive Decree no 61/95 of 14 of November

Law no 15/92 of 03 of July

For Cabo Verde

Decree-Law no 2/07 of 19 of July

Law no 79/VI/05 of 02 of September

Decree-Law no 22/00 of 22 of May

Decree-Law no 18/99 of 26 of April

Law no 79/V/98 of 07 of December

Decree-Law no 136/85 of 06 of December

Decree-Law no 55/80 of 26 of July

Decree-Law no 56/80 of 26 of July

For Mozambique

Decree no 60/06 of 26 of December

Law no 01/CM/05 of 04 of January

Decree no 46/04 of 24 of October

Decree no 52/00 of 21 of December

Decree no 66/98 of 08 of December

Law no 19/97 of 01 of October

Law no 19/97 of 13 of September

Law no 6/97 of 03 of July

Law no 11/97 of 31 of May

Law no 10/97 of 31 of May

Law no 2/97 of 18 of February

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Law no 6/79 of 03 of July

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Decree no 10/76 of 13 of March

For Guinea Bissau

Decree no 43/88 of 15 of November

Decree no 3/84 of 03 of March

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Law no 6/97 of 02 of December of 1997

For São Tomé and Príncipe

Law no 10/92 of 09 of September

Law no 16/92 of 31 of December

Law no 10/05 of 15 of November

Decree-Law no 40 of 29 of October

Legislative Diploma no 450 of the 08 of December of 1954

Decree-Law no 42/93