



Implementing A Local Property Tax Where There Is No Real Estate Market

The Case of Commonly Owned Land in Rural South Africa



M I C H A E L E . B E L L A N D J O H N H . B O W M A N





CONTENTS

Introduction	1
Background and Context	3
Local Governments in the Study Area	5
The Roles of Chiefs and Traditional Authorities	6
Property Taxation: Views and Approaches	8
Community Workshop on Valuing Land in Tribal Areas	10
Conclusion	14
Appendix	17
References and Related Works	19
About the Authors	20

Implementing a Local Property Tax Where There Is No Real Estate Market: The Case of Commonly Owned Land in Rural South Africa

Michael E. Bell and John H. Bowman

Copyright 2006 by the Lincoln Institute of Land Policy
All rights reserved.

ISBN 1-55844-169-7

L LINCOLN INSTITUTE
OF LAND POLICY

113 Brattle Street
Cambridge, MA 02138-3400 USA

INTRODUCTION

Property taxation has a long history in South Africa, yet there are areas of the country where the tax is only now being introduced. During the apartheid era there was no private property, and hence no property tax, in the black local authority areas (BLAs). Agricultural property in rural areas also was not subject to property taxation even in the post-apartheid era, as farmers paid a combination of payroll and turnover taxes in lieu of the property tax.

Under the constitution of 1996, real property taxation is the only significant tax available to local governments in South Africa. Moreover, the final realignment of local government boundaries, effective in December 2000, defined municipalities to include all land in the country; thus all land, whether urban, rural, or township, is now potentially subject to property taxation. National property tax legislation, adopted in 2004, allows local governments to impose differential taxes ("rates") and/or exemptions on different classes of real property, and requires that each municipality spell out its decisions and guidelines on such matters in a rates policy.

Private property has been established in the urbanized parts of BLAs, which generally were brought onto the property tax rolls in the late 1990s. The rural tribal or traditional authority areas continue to have communal land tenure, where rights to occupy specific plots of land are granted by the tribal chiefs. A 2004 statute allows rural voters to choose whether to continue communal ownership or move to private property. A choice for private ownership would be expected to lead eventually to market values that could be used in assessing properties for tax purposes, as in the urban BLAs.



Township housing.

Real estate markets can develop slowly if residents are not accustomed to thinking of their homes as an asset that they own, that has a market value, that can be sold, and whose sale is to be recorded with government offices. Moreover, it is quite unlikely that all tribal areas will opt for private property; where they do not, no market prices will emerge. While the property rates statute allows these areas to be exempt from taxation, the areas involved are so extensive that this may not be sustainable as a long-term policy. If all residents of the tribal areas were equally poor, the amount of tax revenue foregone would be small. However, some residents seem clearly able to pay property taxes, and the proportion in this category is likely to increase over time.

These circumstances suggest that it is important to consider ways to value areas not previously subject to property taxation. Ultimately, all areas should be taxed on the basis of market value, with all parts of each municipality brought under a common property tax structure. It may be necessary, however, to adopt a modified, area-based property tax in some newly taxable areas as an interim measure.

This report documents one possible approach to begin developing such an interim system with the participation of area residents. It presents the historical context of the problem, describes the current situation, discusses the development of a modified, area-based transitional tax, and offers conclusions based on a community workshop conducted in a tribal area in 2004.

Although the focus here is on South Africa, the approach and lessons learned have broader applications in other developing and transitional countries where a modern, mature property tax based on market values is not feasible. Property taxation in such countries entails what Malme and Youngman (2001) describe as “a choice among formulary values, price approximations, and non-value means of allocating the tax burden.” History reveals that such approaches clearly represent an early stage in the development of property taxation (Lynn 1969). Attempting to put such a system in place as the first – and very reasonable – step in the process of moving to a tax based on market values may be more fruitful than attempting to install a value-based system at the outset.

BACKGROUND AND CONTEXT

Although taxation of real property has a long history in South Africa, it typically applied to property in white urban areas based on market value. For many decades, local governments could choose whether to tax only land (site rating), both land and improvements at a single rate (flat rating), or land and improvements with differential rates on the two components (composite rating – often known as a two-tier, split-rate, or graded property tax in other settings).

At the end of apartheid, in the mid-1990s, local governments were nearly equally divided among these three forms of property taxation. Among the country's large cities, Cape Town employed flat rating while Johannesburg taxed only land value. Pretoria employed site rating for the most part, but a few years ago a composite tax was levied for a short time. These are first-world cities with a large variety of building types, sizes, and ages. Smaller, former white local authority areas generally have fewer office buildings, but they all have experience in valuing properties for tax purposes.

The newly taxable, mostly rural areas present several challenges. First, many properties must be added to the tax rolls and property records must be created for them in the municipal property offices. Properties in tribal areas and other informal settlements – places where many residences or other structures have been erected on what, officially, is one parcel of land



TOP: **Cape Town – Victoria and Alfred Waterfront and Table Mountain.**

MIDDLE: **Downtown Cape Town – St. George's Mall.**

BOTTOM: **Old and new structures coexist in Port Elizabeth's Donkin Preserve.**



– must be surveyed and added to the national deeds registry and tax maps.

Second, the types of structures on tribal lands are often quite different from those in the former white urban centers. Housing within a township or a traditional authority area is more heterogeneous, and thus does not lend itself to flat per-parcel valuation. This challenge is most evident in areas where both land and improvements are taxed, and this flat valuation approach will be required universally within the next few years under the terms of the 2004 national legislation.

Third, the level of services in the former black townships, informal settlements, and tribal areas is generally lower than in the former white urban areas, further limiting the comparability of homes in areas with a long history of taxation and those newly subject to the property tax. For example, without direct water connections, many residents have to carry containers to their homes from distant standpipes. Rural areas located within a municipality may receive minimal services, such as road blading (grading of dirt roads) and water supply from the municipality. Although some homes have metered water piped into them, most do not, and the residents must rely on the standpipes. This lower level of services would seem to justify lower taxes – although not complete tax exemption – for all properties in the tribal areas. This rationale, however, would lead to higher taxes as services improve.

The generally poor level and quality of services available in traditional tribal areas makes it

TOP: **Informal housing.**

MIDDLE: **Mixed types and qualities of housing in a tribal area.**

BOTTOM: **Traditional rondavells near a simple ranch house in a tribal area.**

difficult to justify the property tax as payment for benefits received. However, because there are some very substantial houses being built in these traditional areas, excluding all properties from taxation would not be consistent with the ability-to-pay principle.

The increased number of improved houses in the tribal area visited for this study suggests not only inequality of ability to pay taxes, but probably rising ability. The new water project being built in the case study area is likely to contribute to this trend. Land reform may also improve the lot of more South Africans. These changes suggest the desirability of making the property tax as broad-based and inclusive as possible.

LOCAL GOVERNMENTS IN THE STUDY AREA

To explore how traditional tribal lands might be brought onto the property tax rolls in municipalities that include large tracts of land held in common, we selected a rural area in Limpopo Province, located in the former Venda Bantustan (homeland). The people in the region come primarily from the Tsonga and Shangaan tribes.

The municipality chosen for the study is Vhembe, in the northern part of the northernmost province in South Africa. It borders Botswana, Zimbabwe, and Mozambique (although Kruger National Park lies between Vhembe and Mozambique).

TOP: **Water standpipe in a tribal area.**

MIDDLE: **Residents often haul water long distances from the standpipes.**

BOTTOM: **New houses in tribal areas are larger and otherwise more substantial than nearby older, more traditional homes (note private water tower).**





Vhembe is a Class C district municipality as defined by the Municipal Structures Act of December 2000, because it has one or more constituent municipalities within its borders. The population is approximately 1.2 million, although it is difficult to obtain an accurate census in the rural areas. There are 51 district councilors; 43 are elected by proportional representation and eight represent the 40 tribal chiefs in the area, although not all 40 chiefs cooperate with the municipal government and its officials. Three years after the new system of municipal government was put into place, however, there still were no formal service agreements between Vhembe and its local municipalities.

Four local Class B municipalities (Thulamela, Makhado, Musina, and Mutale) cover the entire territory of Vhembe, and each includes numerous villages. This study focused on the municipality of Thulamela, where Chief Maganyi, head of the Mavemba tribal authority, has responsibility for 10 villages, including Makumeke, the site of the workshop described below.

THE ROLES OF CHIEFS AND TRADITIONAL AUTHORITIES

The traditional tribal authorities do very little in the way of providing municipal services. The primary responsibility of the chief is the allocation of residential housing sites and the management of common pasturelands; through the

TOP: **New dam/water project in rural Limpopo Province.**

MIDDLE: **Land Affairs office in Polokwane, Limpopo Province.**

BOTTOM: **Project meeting in Vhembe municipal office.**

traditional authority the chief also enforces cultural traditions using a tribal court system that hears civil cases. Introduction of a property tax based on market value threatens drastic and wholesale change in these tenure arrangements and could challenge the authority of traditional leaders.

Funding for the traditional authorities comes primarily from the provincial government. In addition the traditional authorities collect money from fines in civil cases; payments for authority to have small businesses, such as a fruit stand; payments for some development activities (e.g., irrigation projects); and fees for permission to occupy residential sites.



Chief Manganyi, head of the Mavemba Tribal Authority.



Municipalities of Limpopo Province.

When a person approaches the chief for permission to occupy a specific residential site, the chief determines if the person is part of his tribe and has a right to occupy the land. In exchange the person makes a one-time payment to the traditional authority. The amount could be as high as 1,000 rands (about US\$160 in fall 2005), but it is usually negotiated to reflect the relative desirability of the site.

Once approval is obtained from the chief, the person takes the completed Permission to Occupy form (form GK-56) to the municipal authority, which registers the site in the person's name, basically ratifying the decisions of the chief. Permission to Occupy cannot be taken away as long as the holder abides by the conditions of the agreement. Typical conditions are to occupy the land and begin building a structure within six months. Violation of these terms can result in the land being reallocated, which does not happen very often. Chief Manganyi stated that about 2,000 people were waiting to obtain Permissions to Occupy in his community at the time of this study.

In the case of agricultural land, the chief may make the initial allocation of land suitable for commercial activities, but the occupant can then petition to obtain title deed to the land. This transaction removes the land from communal tenure, and should result in its being placed on the tax roll. Again, a payment may be made to the chief for his approval. Chief Manganyi maintains control over some marginal pasturelands that are used to graze the community's cattle and goats, but most agricultural land is now private. The Limpopo banana plantation is an example of this type of commercial agriculture.

PROPERTY TAXATION: VIEWS AND APPROACHES

Property taxation can be an appropriate and important source of revenue for local governments. However, it can be politically contentious if citizens are unfamiliar with property taxation or if the tax burden is not distributed equitably. A market-value-based property tax system can be more equitable than non-value-based systems because it better reflects the benefits of location, quality, or use of property. However, such a system requires a well-developed property market and a substantial amount of information in order to estimate market values for properties that do not sell. The administrative costs for a local government to set up an ad valorem property tax system can be substantial.

An area-based property tax is commonly used to assess property in the absence of a well-developed real estate market, although other methods of assessment are possible, such as formulas that account for location and the type of building materials. Area-based formulas use the area of land and/or buildings as the taxable base. The area of the property is then multiplied by a tax rate, which is a fee per unit of measurement, to determine the amount owed by the owner or user of the property.

The principal advantages of an area-based property tax system are its comparatively lower administrative costs and its stability, because the tax base does not fluctuate with the market. Under a market-based system, the property valuation process can be costly and may require resources and expertise unavailable in rural parts of developing countries. Moreover, area-based measurements are more understandable than value-based measurements, and need

updating less often than market values. The low cost and simplicity of area-based assessments may be an important advantage for fiscally strained localities, and their predictability may make them more acceptable politically.

There are also important disadvantages of area-based, or other non-value-based, assessment methods, however. As mentioned above, market prices better reflect the benefits of location, quality, or use of property, which area alone does not. For example, all other things being equal, properties located near transit systems, parks, or other public amenities are more desirable. The inability of the area-based systems to reflect these differences in property values may result in an inequitable distribution of the tax burden, with a larger share falling on low-income taxpayers. Area-based systems do not reflect ability to pay, which may compromise public acceptance. Moreover, while the amount of property taxes owed may be less volatile, because the area of property does not fluctuate with the market, property tax revenues are less buoyant under an area-based system.

Using standard criteria to evaluate a revenue system, an area-based local property tax scores relatively well on revenue stability, predictability, neutrality, and administrative simplicity, while an ad valorem property tax scores better on revenue productivity and equity based on an ability-to-pay principle of taxation. Some of the equity issues associated with an area-based system, however, can be mitigated by the use of coefficients applied to the area measurements in an effort to approximate market forces.



TOP: **Limpopo banana plantation.**

MIDDLE: **A shopping area in the municipality of Thulamela.**

BOTTOM: **New housing in a traditional tribal area.**

An area-based tax, while not scoring high on equity grounds, could be considered as a first step in bringing tribal areas with no real estate market into the tax base.

There is a life cycle to the implementation of a property tax. As an economy develops, the property tax moves from being a specific tax to an ad valorem tax, and from being a tax on land to a tax on all or most types of property. Eventually, the ad valorem tax is reduced to a tax on realty only. John Wallis (2001) has argued that this life-cycle pattern has been followed, to some extent, in the U.S. For example, in the early nineteenth century, new states – including Kentucky, Illinois, Indiana, and Ohio – relied primarily on a land tax assessed at a flat rate per acre, although with some variation for the fertility of the land. These area-based taxes were replaced with ad valorem taxes after 1825, in an effort to capture the benefits of canals being financed by public funds.

Rural areas of South Africa with extensive traditional tribal lands, such as in the Vhembe municipality, face a challenge in drawing up a property rates policy, as required by new national property tax legislation. For example, officials in Thulamela municipality estimated that about 90 percent of the land area is traditional land held in common for the tribe, and is not yet included on the property tax rolls. There is limited private ownership and no well-developed real estate market outside a few, small urbanized areas. As mentioned earlier, one option is to simply privatize the land, let private markets develop, and use the values that emerge in determining taxable values. This approach is unacceptable to traditional authorities and their supporters because it would undermine their power and legitimacy. Some tribal areas are likely to choose to retain communal land ownership.

A second possibility is to exempt such land from property taxation. However, this could be a source of inequity because there are some rather substantial housing units located in rural areas, which should pay property taxes when structures become part of the tax base under the new national legislation. Moreover, blanket exemption would impede extension of municipal services to such areas.

A third alternative is an area-based property tax. This also could create some inequities, because properties currently on the tax roll are assessed on market value, and an area-based tax does not distribute the tax burden with horizontal or vertical equity. Such inequities would be less objectionable if area-based taxes in the newly taxable areas were a temporary stage in the transition to value-based taxation. As part of this transition, adjustments to area-based measures could be made through use of coefficients designed to reflect market pressures.

COMMUNITY WORKSHOP ON VALUING LAND IN TRIBAL AREAS

This project sought to identify factors that influence the value of land in traditional tribal areas so they could be used to adjust an area-based tax to more closely approximate market values, or could be an input into the valuation process. Using some form of self-assessment to collect data on land area, building area, and even building material would be relatively inexpensive, and some of this information should already exist in tribal records. The study also explored how alternative approaches could determine the value of lands held in common for tax purposes, without undermining the traditional land tenure system.

This approach is based on a bottom-up strategy that engages community residents in identifying attributes of land that affect its desirability. Once those attributes are identified, they can be ranked and used to evaluate the relative attractiveness of various parcels. A final step would apply those attributes to other parcels in the community that are valued on the basis of market information, and from this determine the relative contributions of such attributes to market value. The first step in this process was to organize a community workshop to identify and rank the attributes of land that contribute to its attractiveness, or value.

In preparation for the workshop to be held on Friday, March 12, 2004, an advance team visited Thulamela, the traditional authority, and four of its ten villages (Mavemba, Makumeke, Gandlanani, and Jerome) in late February. Team member Tinyiko Chauke comes from the village of Makumeke and recently graduated from the University of the Witwatersrand in Johannesburg. Benny Makena, a former councilor in post-apartheid Pretoria, is a consultant to local governments. They met with the key stakeholders in each village, including the headman of Makumeke, to talk about the project and prepare the local community for the workshop.

An important aspect of their message was that the workshop would be part of a research effort, not a government program, and would not involve implementing a property tax in the tribal areas or assisting residents in their dealings with the government. The stakeholders were told that a new national law envisions extending the property tax into all parts of South



TOP: **This church in Makumeke was the site of the workshop.**

MIDDLE & BOTTOM: **Workshop participants.**

Africa, including tribal authority areas, but that the study sought ways to bring such areas into the tax base with minimal disruption to traditional land tenure systems.

Twenty-five key stakeholders from the four villages were invited to attend the March 12 workshop. Actual attendance reached 37 adults and 2 children. A very hard rain the night before made the dirt roads into the villages very muddy, and barely passable in places. A taxi (van) engaged to bring people to the workshop site in Makumeke became stuck in the mud and arrived more than an hour past the scheduled time for starting the workshop. The dozen or more participants who had arrived early waited patiently for the others.

Determining the Criteria of Goodness (Value)

Professor David Solomon of the University of the Witwatersrand conducted the workshop using a modified Delphi procedure to develop a list of criteria that make land desirable and to rank those criteria (see Appendix). Tinyiko Chauke, Benny Makena, and some residents fluent in both English and the local language served as interpreters for those who did not know English.

The first part of the workshop identified the attributes of land that the stakeholders believed made it desirable. The intent was to establish a list of criteria to be used in valuing land, but because of the lack of a real estate market in the area the focus was on desirability – what makes land “good” – rather than on value. Each participant was given three pieces of paper (roughly 5x7 inches, with self-adhesive backs) and was asked to write on each piece of paper some attribute that the person felt made land desirable, or good. Most village residents have to carry their water from some distance, and

water for the fields or garden plots is generally hard to obtain, so it was expected that water would be a primary concern, and it was given as an example.

The marked pieces of paper were collected, placed on the wall at the front of the room, and then grouped into categories. David Solomon and Tinyiko Chauke read each paper as it was posted and sought clarification from the contributor if there was any ambiguity. This clarification sometimes was needed to determine whether the idea was already represented or was a new idea. Approximately 90 pieces of paper were collected and posted under eight general headings or criteria.

To no one's surprise, access to water was the item mentioned most often. Other headings that included at least 20 pieces of paper were soil quality or fertility, and location beyond the reach of flooding with good drainage following a rainstorm. Numerous participants also mentioned transport or location near roads. Other criteria were the presence of grass; the presence of trees; ease in plowing the soil; and access to services (school, clinic, and clean water). A clear ranking emerged from this process, and it seemed to be accepted by all the participants.

Having established the criteria, the next step was to rank them in a separate voting process. Each participant was given eight self-stick dots, one for each criterion. They were asked to vote for the criteria they thought were most important. They could divide the dots in any way they wished among the eight criteria, and were told that they should use more dots for those criteria that they considered more important.

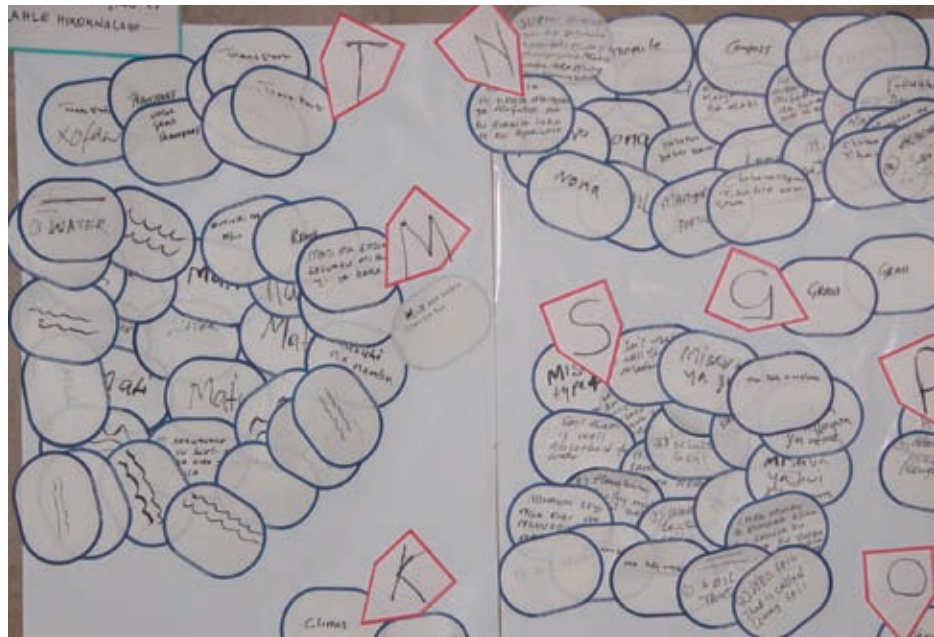
The rankings that emerged from this voting process differed from those indicated in the first stage, which only counted the number of

times each criterion was mentioned. This result underscored the importance of considering the relative importance of each criterion once the list has been established. Access to water remained the number one criterion, with 91 out of 242 votes. Soil fertility or quality remained strong as well, coming in second with 61 votes; however, well-drained soil not prone to flooding, which in the first stage was mentioned about as often as soil quality, fell to sixth place (14 votes).

Conversely, services – mentioned by only three people in the first stage – rose to third place in the voting, with 36 votes. Initially less attention was given to the contributions of government service in making land desirable, but after location near schools, clinics, and clean (drinking) water were put on the list, many participants decided these were important location attributes. The fourth and fifth most important criteria were transport and soil quality for plowing, with each receiving 20 votes. The other two criteria listed – presence of grass or trees – received no votes in this round. Thus, the top three criteria that emerged were access to water, soil quality, and services.

Rating Specific Plots Using the Criteria

After gaining agreement as to the three most important criteria in determining the desirability of plots of land, these criteria were used to evaluate several specific plots in the villages. Five volunteers briefly described their own plots of land, and the other workshop participants were



TOP: **The initial grouping of criteria that influence the desirability of land.**

MIDDLE: **Participants prepare to list criteria that influence the desirability of land.**

BOTTOM: **Professor Solomon points out the criteria used to rank five plots.**

asked by David Solomon and Tinyiko Chauke if they were familiar with the plots. There seemed to be general familiarity, which satisfied the condition of using the ranking procedure in a knowledgeable group. Three of the plots were agricultural in character, and two were residential; it is important to note that residential plots are also used routinely for gardens, and some are rather substantial areas.

The letters O, Z, and T were used to identify the agricultural plots, and J and C were the residential plots. Because water was the number one criterion for determining land desirability, participants were given eight dots to be allocated among the five plots; more dots would indicate that the plots were better in terms of water access. Each participant received only four votes for the other two criteria, but this time the votes could be divided between two criteria, as well as among the five plots.

These votes were taken by a show of hands, due to shortness of time and lack of enough paper dots, which may have compromised the accuracy of the counts. The results, shown in Table 1, were displayed and explained to the workshop participants. There seemed to be general acceptance of their validity. Table 2 displays the characteristics of the five plots in terms of the eight criteria. This information was further analyzed after the workshop and was shared with officials from the Council of Valuers as the basis for further efforts to develop values for properties with varying characteristics.

CONCLUSION

As developing and transition countries move toward fiscal decentralization, the role of the local property tax becomes a critical source of revenues controlled by the local government. In countries where there is neither a history of private property nor a well-developed real estate market, the development of a credible property tax should be viewed as an evolutionary process. The ultimate objective may be to move toward an ad valorem property tax, but the first steps must be appropriate to the current legal, economic, and administrative context.

The approach used in this project has important implications for South Africa as municipalities there wrestle with bringing land held in common onto the municipal property tax rolls. In many cases, the first step might involve establishing an area-based tax using data reported by the taxpayer, with adjustments to reflect differences in land use types and locations. This approach could be relatively simple to administer, but it would still establish the process of providing tax information to the government. More information could be collected at later stages as the system evolves toward an ad valorem tax.

The workshop approach proved useful in identifying desirable features of land and ranking the relative attractiveness of alternative plots of land. The community group assembled for this study, despite some illiteracy and a relative lack of sophistication, generated a credible set of criteria for determining value, ranked the criteria, and applied them consistently to a sample of properties. In fact, some valuers in South Africa indicated that this approach could prove more accurate than the current method of applying a single value per hectare across a wide area of land in rural areas.

TABLE 1

Ranking of the Five Plots on the Basis of Three Top Criteria

Plot	Criteria			Total
	M (mati; water)	N (nona; soil)	K (services)	
O	16	9	0	25
Z	146	35	0	181
T	24	29	0	53
J	59	12	10	81
C	31	12	0	43
Total	276	97	10	383

TABLE 2

Characteristics of the Five Plots on the Basis of Eight Criteria

Criteria	Plot O	Plot Z	Plot T	Plot J	Plot C
Water	Far away	Next to river	Next to river	Good	Poor
Soil fertility	Poor	Good	Good	Fair	Poor
Type of soil	Rocky	Loam	Loam	Loam	Clay
Plowing	Difficult	Easy	Easy	Difficult	Hard
Services	None	None	None	Fair	None
Transport	Fair	Good access	Poor	Good	Fair
Trees	Bushes	Fruit trees	None	None	None
Equipment	None	Pumping	None	None	None
Score	25	181	53	81	43
Map reference	Makumeke Map 23B	Makumeke Map 23B	Makumeke Map 23B	Jerome Map 24D	Makumeke 23D
Uses	Agriculture Mielies*	Agriculture (fruit trees, veg- etables) Mielies	Agriculture (vegetables) Mielies	Housing Mielies	Housing Mielies

*Mielies, a staple food crop in rural South Africa, is similar to corn.



Since workshop participants were able to make their comments and rankings without influence by local leaders or opinion makers, the outcome reflected a range of inputs rather than the judgment of a single person or select committee. The workshop generated a clear consensus and a set of criteria to evaluate the relative desirability of land, but it did not establish a measure of the property tax base. However, these criteria could be the basis for a collaborative process by which the traditional authorities would identify individual plots and help to adjust the criteria for each plot. This would also strengthen cooperation between the municipal government and the tribal leaders.

The bottom-up approach used in this project is important as a means of developing credibility and legitimacy for the property tax in areas not previously subject to the tax. Community involvement is especially critical in developing the adjustment factors that affect market value. Finally, this approach may help engage the traditional authorities in the initial assessment of individual plots, thus allowing them to see the property tax process as an extension of their leadership, rather than a threat to it.

TOP & MIDDLE: **Workshop leaders and local officials discuss the results at a subsequent Council of Valuers session.**

BOTTOM: **A local resident prepared a traditional African meal in her outdoor kitchen following the workshop.**

APPENDIX

Overview of the Delphi Prioritization Procedure

This prioritization process allows stakeholders and subject matter experts to produce a list of project rankings. In the context of this project in South Africa, the outcome was a ranked set of land parcels. The process can be completed in a few short meetings by a panel of experts.

Pick a facilitation leader. Select a person who can facilitate the session, is an expert in research data collection, and is not a stakeholder. An outsider is often the common choice. David Solomon, an experienced researcher with specific training in this methodology, took this role.

Select a panel of experts. The panelists should have an intimate knowledge of the projects, or be familiar with experiential criteria that would allow them to prioritize the projects effectively. In this study, the local residents, having had years or even generations of experience living in the area, are the experts. Thirty-seven local residents attended the workshop in Makumeke.

Identify a strawman criteria list from the panel. In a brainstorming session, build a list of criteria that all think are appropriate. Input from non-panelists is welcome. At this point in the process, there are no “correct” criteria, nor is the frequency with which any criterion is mentioned construed as indicative of a rating. The workshop in Makumeke identified eight criteria.

Rank the criteria. The panel ranks each criterion as 1 (very important), 2 (somewhat important), or 3 (not important). Each panelist ranks the list, individually and anonymously, if the environment is charged politically or emotionally. Using the BizComm™ technique, we planned to rank the criteria by “voting.” Each resident was given eight colored dot stickers, one for each criterion on the list. They were asked to distribute these eight dots among the listed criteria according to their own perceptions of the importance of each criterion. The dots were then summed to provide a rating.

Calculate the mean and deviation. For each item in the list, find the mean value and remove all items with a mean greater than or equal to 2.0. Place the criteria in rank order and show the (anonymous) results to the panel. Discuss reasons for items with high standard deviations. The panel may reinsert removed items into the list after discussion. In the Makumeke workshop, this step was simplified to the selection of the top three criteria based on the votes cast.

Rerank the criteria. Repeat the ranking process among the panelists until the results stabilize. The ranking results do not require unanimity, but the outcome should reflect a consensus. Two passes are often enough, but four are frequently performed for maximum benefit. In one variation, broader input is allowed after the second ranking in hopes that more information from outsiders will introduce new ideas or new criteria, or improve the list. In the Makumeke workshop time prevented this iteration of the ranking process. The top three criteria were clearly identified.

Identify project constraints and preferences. Projects are often constrained by total corporate budget or mandatory requirements such as regulatory impositions. These “hard constraints” are used to set boundaries on the project ranking. More flexible, “soft constraints” are introduced as preferences. Typically hard constraints apply to all projects; preferences usually apply to only some projects. Each panelist is given a supply of preference points that equal about 70 percent of the total number of projects; for example, panelists receive 21 preference points if 30 projects have been defined. This step was omitted from the Makumeke workshop because the relative ranking of land values does not need to be constrained in the same way as a budget.

Rank projects by constraint and preference. In a conventional Delphi process, individual panelists indicate their project preferences by spreading a given number of points among the projects. Some projects may get many points and others may get none, but the total points may not exceed the predefined maximum. In the Makumeke workshop, five parcels of land were identified by volunteers. Each parcel was then “assessed” by applying each criterion to each of the five parcels. Participants were given voting dots and asked to distribute them across the parcels, according to how well the parcels met the criterion under consideration. A larger number of dots were handed out for the most important criterion as determined previously.

Analyze the results and feedback to panel. Find the median ranking for each project and distribute the projects into quartiles of 25, 50, and 75 percentiles (50 percentile being the median). Produce a table of ranked projects with preference points and show it to the panel. Projects between the 25th and 75th quartile may be considered to have consensus (depending on the degree of agreement desired); projects in the outer quartiles should be discussed. Once the reason for the large difference in ranking is announced, repeat the ranking process. In the Makumeke workshop, this process was considerably simplified to counting the dots and adding them up for each parcel.

Rerank the projects until the ranking stabilizes. After discussing why some people (minority opinion) ranked their projects as they did, repeat the rankings. Eventually the results will stabilize; projects will come to a consensus, or some will remain in the outlier range. Not everyone may be persuaded to rank the same way, but discussion is unnecessary when the opinions stay fixed. Present the ranking table to the decision makers, with the various preferences noted as options, for their final decision. This iteration was not possible given the time constraints of the Makumeke workshop.

REFERENCES

- Bell, Michael E., and John H. Bowman with Lindsay C. Clark. 2005. Valuing land for tax purposes in traditional tribal areas of South Africa where there is no land market. Lincoln Institute Working Paper. Cambridge, MA: Lincoln Institute of Land Policy. <http://www.lincolninst.edu/pubs/pub-detail.asp?id=1033>
- Lynn, Arthur D., Jr. 1969. Property tax development: Selected historical perspectives. In Richard W. Lindholm, ed., *Property taxation USA*. Madison: University of Wisconsin Press.
- Malme, Jane, and Joan Youngman, eds. 2001. *The development of property taxation in economies in transition: Case studies from Central and Eastern Europe*. Washington, DC: World Bank.
- Solomon, David, with Ndumiso Gola, Mbulelo Ngxesha, and Wycliffe Ndlela. 2002. Tribal land and the property tax. In Michael E. Bell and John H. Bowman, eds., *Property taxes in South Africa: Challenges in the post-apartheid era*. Cambridge, MA: Lincoln Institute of Land Policy.
- Wallis, John Joseph. 2001. A history of the property tax in America. In Wallace E. Oates, ed., *Property taxation and local government finance*. Cambridge, MA: Lincoln Institute of Land Policy.

RELATED WORKS BY THE AUTHORS

Book

Bell, Michael E., and John H. Bowman, eds. 2002. *Property taxes in South Africa: Challenges in the post-apartheid era*. Cambridge, MA: Lincoln Institute of Land Policy.

Articles

Bell, Michael E., and John H. Bowman. 2002. Property taxation challenges in post-apartheid South Africa. *Land Lines* 14 (July): 8–11.

———. 1999–2000. Reinventing local government in South Africa: The implications of metropolitan structures. *The Regionalist* 3 (Winter): 63–72.

———. 1997. Local property taxation in South Africa: Current performance and challenges for the post-apartheid era. *Public Budgeting and Finance* 17 (Winter): 71–87.

Conference Proceedings

Bell, Michael E., and John H. Bowman. 2003. Extending the property tax into previously untaxed areas in South Africa. *Proceedings of the Ninety-fifth Annual Conference on Taxation*. Washington, DC: National Tax Association: 370–376.

———. 1997. Implementing a local property tax in South Africa. *Proceedings of the Eighty-ninth Annual Conference on Taxation*. Washington, DC: National Tax Association: 410–416.

Selected Research Reports

Bell, Michael E., ed. 1995. *Administering the local property tax: Concepts, practices, and policy issues*. Baltimore, MD: Institute for Policy Studies, Johns Hopkins University (November). [Prepared in conjunction with a project in South Africa sponsored by a grant from the U.S. Information Agency.]

Bell, Michael E., and John H. Bowman. 2002. *Widening the net: Extending the property tax into previously untaxed areas in South Africa*. Report to the Lincoln Institute of Land Policy (November).

———. 1998. *A framework for strengthening local property tax administration in South Africa: Final report*. Prepared under contract to the South African Department of Constitutional Development (November).

———. 1997. *Property rates in South Africa: A preliminary assessment of current practices*. Baltimore, MD: Institute for Policy Studies, Johns Hopkins University (June). [Compilation of papers prepared under a grant from the U.S. Information Agency.]

Kelly, Roy, Michael E. Bell, John H. Bowman, and Richard Ward. 2001. *International lessons on property taxation: Implications for structuring property taxes in South Africa*. Cambridge, MA: Harvard University Kennedy School of Government.

ABOUT THE AUTHORS

Michael E. Bell is president of MEB Associates, Inc. and executive director of the Coalition for Effective Local Democracy, both based in Maryland. He is also a research professor at the George Washington University Institute for Public Policy. E-mail: mebassociates@starband.net

John H. Bowman is professor emeritus in the Department of Economics at Virginia Commonwealth University in Richmond and a consultant on government finance. E-mail: jhbowman1@verizon.net

ACKNOWLEDGMENTS

This project employed a bottom-up approach to explore a strategy for including traditional tribal lands under common ownership on the municipal property tax roll without undermining the traditional land tenure system. The success of such an approach depends directly on the input received from the community. We were very fortunate to have the participation of nearly three dozen citizens from four villages – Mavemba, Makumeke, Gandlanani, and Jerome. Their willingness to participate actively in such a process is the reason the project was successful.

We thank all officials from the Thulamela municipality who made this workshop possible. We also thank Chief Manganyi, head of the Mavemba tribal authority, for his assistance. The chief has responsibility for 10 villages, including Makumeke, the site of the workshop conducted as part of this project. We are especially indebted to Tinyiko Chauke and Benny Makena for laying the foundation for the workshop and for their invaluable assistance in conducting the workshop. Finally, we thank Professor David Solomon of the University of the Witwatersrand for his indispensable role in organizing and conducting the workshop.

ABOUT THE LINCOLN INSTITUTE

The Lincoln Institute of Land Policy is a nonprofit and tax-exempt educational institution founded in 1974 to improve the quality of public debate and decisions in the areas of land policy and land-related taxation. The Institute's goals are to integrate theory and practice to better shape land policy and to provide a nonpartisan forum for discussion of the multi-disciplinary forces that influence public policy. Inspired by the work of Henry George as expressed in the book *Progress and Poverty* (1879), the Lincoln Institute introduces his thinking and ideas into the contemporary land and tax policy debate to advance a more equitable and productive society.

The work of the Institute is organized in three departments: Valuation and Taxation, Planning and Development, and International Studies. We seek to inform decision making through education, research, dissemination of publications and other resources, and demonstration projects in the United States and internationally. Our programs bring together scholars, practitioners, public officials, policy advisers, and involved citizens in a collegial learning community. The Institute does not take a particular point of view, but rather serves as a catalyst to facilitate analysis and discussion of land use and taxation issues – to make a difference today and to help policy makers plan for tomorrow.

Ordering Information

To order single or multiple copies of this report, please visit the Lincoln Institute Web site at www.lincolninst.edu/pubs/index.asp, and search by author or title. To request more information on the list price, discount prices for bookstores and multiple-copy orders, and shipping and handling costs, send e-mail to help@lincolninst.edu.

Production Credits

Editor & Project Manager: Ann LeRoy

Design & Production: David Gerratt/NonprofitDesign.com

Printing: Recycled Paper Printing, Boston

Photo Credits

Michael E. Bell: page 5 (middle), page 6 (bottom), page 7 (top), page 9 (middle, bottom), page 11 (all), page 13 (all), page 16 (bottom).

John H. Bowman: inside front cover (left), page 1, page 3 (all), page 4 (all), page 5 (top, bottom), page 6 (top, middle), page 9 (top), page 16 (top, middle).



113 Brattle Street
Cambridge, MA 02138-3400 USA

Phone: 617-661-3016 x127 or 800-LAND-USE (800-526-3873)

Fax: 617-661-7235 or 800-LAND-944 (800-526-3944)

E-mail: help@lincolninst.edu

Web: www.lincolninst.edu



Implementing A Local Property Tax Where There Is No Real Estate Market

The Case of Commonly Owned Land in Rural South Africa

Since 1995 authors Bell and Bowman have worked on a series of property taxation projects in South Africa, funded in part by the Lincoln Institute of Land Policy. South Africa envisions extending value-based property taxation, long established in white urban areas, into rural areas and former black local authority areas. Special problems arise in rural tribal areas, where continued traditional communal land ownership means property markets will not develop to provide values.

This report summarizes what was learned from a workshop held in a tribal area of Limpopo Province that sought to assist local residents in identifying land attributes that affect the relative desirability of different plots, and to apply those criteria to selected plots as a step toward developing taxable values that are reasonable proxies for market value.

M I C H A E L E . B E L L A N D J O H N H . B O W M A N