CHAPTER ONE

PERSPECTIVES ON FINANCING URBAN DEVELOPMENT IN NIGERIA

1.1 INTRODUCTION

Development is about improving the well-being of people. Raising living standards and improving education, health, and equality of opportunity are all essential components of economic development.

Urban development contributes to national economic growth through investments in real estate, and infrastructure assets which are concentrated in cities. Urban works are more productive in large cities because there are more opportunities to match skills to jobs and to use additional capital inputs. Moreover, goods and services are generally produced more efficiency in densely populated areas that provide access to a pool of labour with appropriate skills, supporting services, transport and communication links, and a critical mass of customers.

A city or megacity cannot be economically, socially and environmentally sustainable without governance arrangement, encompassing the direct and indirect roles of formal institutions of local governments and community-based organizations that can help to realize its economic potential, achieve social justice and welfare and reduce the environmentally damaging effects of urban growth. Local governments are referred to as specific institutions or entities created by national constitutions, state or provincial legislations, to deliver a range of specified services to a relatively small geographically delineated area. In Nigeria, the governance of urban areas has continued to remain a daunting challenge for several reasons such as: absence of a clear definition and rank sizing of local governments, application of the same administrative structure for all local governments regardless of their sizes and function.

The living and working conditions within most cities and metropolitan areas in Nigeria are deteriorating over the last decades. This is manifested in the growing numbers of urban residents living in substandard housing within informal settlements with no basic services. Within most cities and towns, manifestations of this deterioration include excessively post-holed roads, poor storm drainage. Mounting garbage heaps, and unreliable electricity and water supplies.

A wide range of factors accounts for this state of affairs:

i) The revenue bases of most urban local authorities in the states are inadequate to cater for their rapidly expanding population;
ii) Existing revenue collection mechanisms are generally ineffective and the little amount collected tends, in some cases, to be mismanaged;
iii) Because the municipalities are generally financially weak, they have to rely on federation account and grants from federal and state governments, which often undermines their independent decision-making and operational autonomy; and
iv) Physical maintenance of the limited urban infrastructure that is available has been seriously neglected, further exacerbating the problem of access.

The challenge facing governments and urban local authorities today is the reorientation of policies, strategies and instrument of municipal management in order to improve efficiency and social equity in the delivery of services.

There is currently overlapping functions among the three levels of government without institutional coordination. This has resulted in a fragmented management system with each government agency responsible for multiple services within its own jurisdiction in the state capitals and many other large cities, and in most cases with its own set of regulatory laws and frameworks. This has far reaching and adverse consequences on **city growth and development.** This resulting poor governance and regulation in cities affects not only the quality of city planning, infrastructure development and public services, but also impacts adversely on the country's economic growth and development prospects.

1.2 TAX AND REVENUE POWERS OF LOCAL GOVERNMENTS

Local government finance generally, includes almost all conceivable areas such as revenue, expenditure, budgeting and financial control. Not only are the financial needs of local governments increasing, but the degree of financial autonomy in raising and managing these revenues also has to increase (Paugam, 1999). In order to raise sufficient revenue to provide infrastructure and services, municipalities have recourse to local and external sources of revenue (Roy W. Bahl and Johannes F. Linn, 1998). These are:

(i) **Licenses, Fees, Penalties etc.**

(ii) **User charges, Rents, Town Planning levies, Ground-rents**: **-** These are primarily aimed at making those who use services pay for them.

(iii) **Local Rates, Poll Taxes, Betterment Levies and Valorization Tax**: Are normally the ones typically under the control of municipalities. Valorization tax is a form of special assessment to recover infrastructure costs in Latin America countries.

(iv) **Block Transfer from National Government**: They are typically a large and important source of revenue for municipal governments in developing countries.

Local governments are also generally assigned expenditure responsibilities for a wide range of services which include roads and transport, water and sewerage service, solid waste collection and disposal, recreation and culture, land use planning, social services, public health and social housing.

At the generic level not all local governments are equal. There are large and small municipalities, heavily urbanized and rural municipalities, rich and poor areas

(Bird, 1990). These inequalities in relation to access to local public resources can be significant. Striking differences between big cities and rural local governments may be found in most states in Nigeria, reflecting both the fact that big cities have higher per capital tax base and that they tend to carry out a wider range of functions than the rural or less urbanized local governments.

However, the degree to which a city's government is also able to meet its rapidly rising expenditure requirements depends only in part on its revenue capacity as determined mainly by the economic base of the city and by the restraints imposed by higher-level governments. It also depends on the revenue effort, that is, the extent to which the local government is using its revenue capacity.

1.2.1 Concept of Rent is Different from Taxation and Rating Principles

It is unconventional to lump rents, ground rents with Land Use Charge or any form of Real Property-based Taxes.

The definition of Land Use Charge as **"all property and land-based rates and charges payable in Lagos and Oyo State"** is an aberration as far as principles and practice of property taxation is concerned around the world.

"Land-based rates referred to are ground rents, survey fees, development charges and others payable on land allocated by federal, State and Local Governments, including their Agencies like Property Development Corporation, Nigerian Railway Corporation other public Development Agencies and Private Developers and Individuals.

Rate is defined as a tax for local purpose imposed by authorities the basis of which is the annual or capital value of land and building (or improvement on land) at the current market rates.

Whereas, tax generally is a compulsory levy imposed by the government on its citizens to meet the expenditures of the government in the provision of amenities and general needs of its citizens

(a) **RENT** is defined as a stipulated sum of money paid by a tenant annually, quarterly, monthly, weekly or daily for the temporary use and possession of lands, moors, houses, rooms, etc.

Or

RENT may also be technically defined as the income which accrues from the ownership of land, or an interest in land or of other free gifts of nature.

(b) Value of Land

The Value of Land is determined by the **rent** which it yields, it therefore follows that the greater the rent, the greater is the value both to the owner of the property and to the general public. **Value of Land** is the capitalized value of its rental. Since the value of land depends essentially upon its rental and any future change will have a corresponding reflection in the value of land.

(c) Property Values

Tax assessors determine **property values** in a variety of ways, but are generally required to base such determination on **fair market value.** Common estimation techniques include: **Comparable sales, depreciated cost,** and **an income approach.**

(d) Ground Rent

Ground rent is the rent paid for the use of the bare land usually with a view to enable construction of building or structure by the lessee as an avenue of investment. When ground rents are realized by granting of lease of vacant land, they are normally a relatively small proportion of the full rental value thereof. The person owning the leasehold (i.e. lessor) is entitled to the reversion of the property if the ground rent is not paid.

If the rent that is received by the lessee for land and buildings is the **full annual value** of the property, it is the **RACK RENT**. It is very obvious that **secured ground rents** are one of the most attractive forms of investments.

TAX is a compulsory payment imposed by the government on its citizens to meet the expenditures of the government in the provision of amenities and general needs of its citizens. When citizens pay tax, they expect some benefits in return. Citizens therefore have a legitimate ground to demand for accountability in the utilization of money collected from them in the form of tax by the government.

(e) **Property Tax or Tenement Rate** means a tax for local purpose imposed by the local authorities the basis of which is either the annual or capital value of lands and building or land alone and could be building alone. The amount of tax is determined annually based on market value or annual value of each property on a particular date. The amount of tax per annum is computed as **determined market value** times **an assessment ratio** times **tax rates**. **Amount of tax = Market Value** x **Assessment Ratio** x **Tax rate**

Unlike tax, ground rent payment has its own terms and conditions enshrined in the registered lease document. Lease is governed by various laws of the granting authorities and is quite different from nominal ground rent payable under the Statutory Right of Occupancy governed by the Land Use Act of 1978. **A State Governor is not the owner of all lands in the state but is holding the lands in thrust for the people of the state.**

(f) User Charges For Urban Services

There can be little doubt about the usefulness and desirability of developing broadly based charging systems for urban public services. As experience has shown, service charges or cost recovery can generate substantial amounts of revenue for urban local governments. Because service charges are likely linked to the provision and extension of much-needed services, they are an important element in urban investment policy.

The services provided by local governments subject to user fees include:

a) Charges for the use of public toilets, street light and parks and gardens;
b) Charges for the collection and disposal of solid waste in the market s and communities;
c) Revenue from Mass Transit;
d) Hiring of heavy equipment
e) Water supply through borehole and water rates paid to a public corporation

Service charges can also contribute to equitable urban growth. Recouping the costs of public services from beneficiaries is a fair way to finance a service, and windfall gains may be minimized. Under general revenue financing, these windfall gains are often appropriated by high-income groups in the form if increased property values or increased yields from investments that benefit these groups most directly. Therefore, user-charges also serve to increase the vertical equity of the urban fiscal system.

User charges are not only a tool for ensuring efficient use and equitable financing of public services; they also serve as an investment guide, because consumers' willingness to pay for services in many instances is the only way in which the benefits of a service can be ascertained and compared with the cost of providing the service.

This will force decision makers to consider beforehand the ability and willingness of beneficiaries to pay and to design standards of service accordingly. Extensive subsidization of services in the past has often contributed to the expectation of unrealistically high standards of urban services.

Fiscal decentralization requires that sub-national governments be given responsibility for determining the level and quality of services to be provided and for raising a substantial portion of the funds to finance these services (Bell and Adams 1999; Oates 1972). Local governments in Nigeria have not yet achieved control over expenditures or revenues, and assignment of land and property tax revenues to them is a significant step in this direction.

By comparison of all sources of local revenues the property tax offers special advantages as an independent local revenue source. Many local government services funded by the property tax confer benefits on real property and increase its value, a particularly important consideration where infrastructure needs are pressing.

1.3 SHARED TAXES AND REVENUES IN NIGERIA

Nigeria is a federation with power and responsibilities shared between the Federal Government and thirty (36) constituent State Government. Local Governments are constitutionally recognized but are subject to the creation, control and regulation of the State Governments. As in similar federal structures, the power and ability of state governments to manage their public expenditure depend largely on the fiscal federalism arrangements in place.

Revenue sharing is an arrangement in which the revenue from a given tax base accrues to both the central and sub-national governments. It ensures sub-national governments have access to a specified source of revenues to carry out their functions while attempting to provide greater harmony in levying taxes. In other words, revenue sharing is an attempt to enhance net welfare gains by ensuring greater fiscal autonomy on the one hand and by minimizing the welfare loss from tax disharmony on the other.

Table 1.1: Revenue Assignments For Federal, State and Local Governments in Nigeria

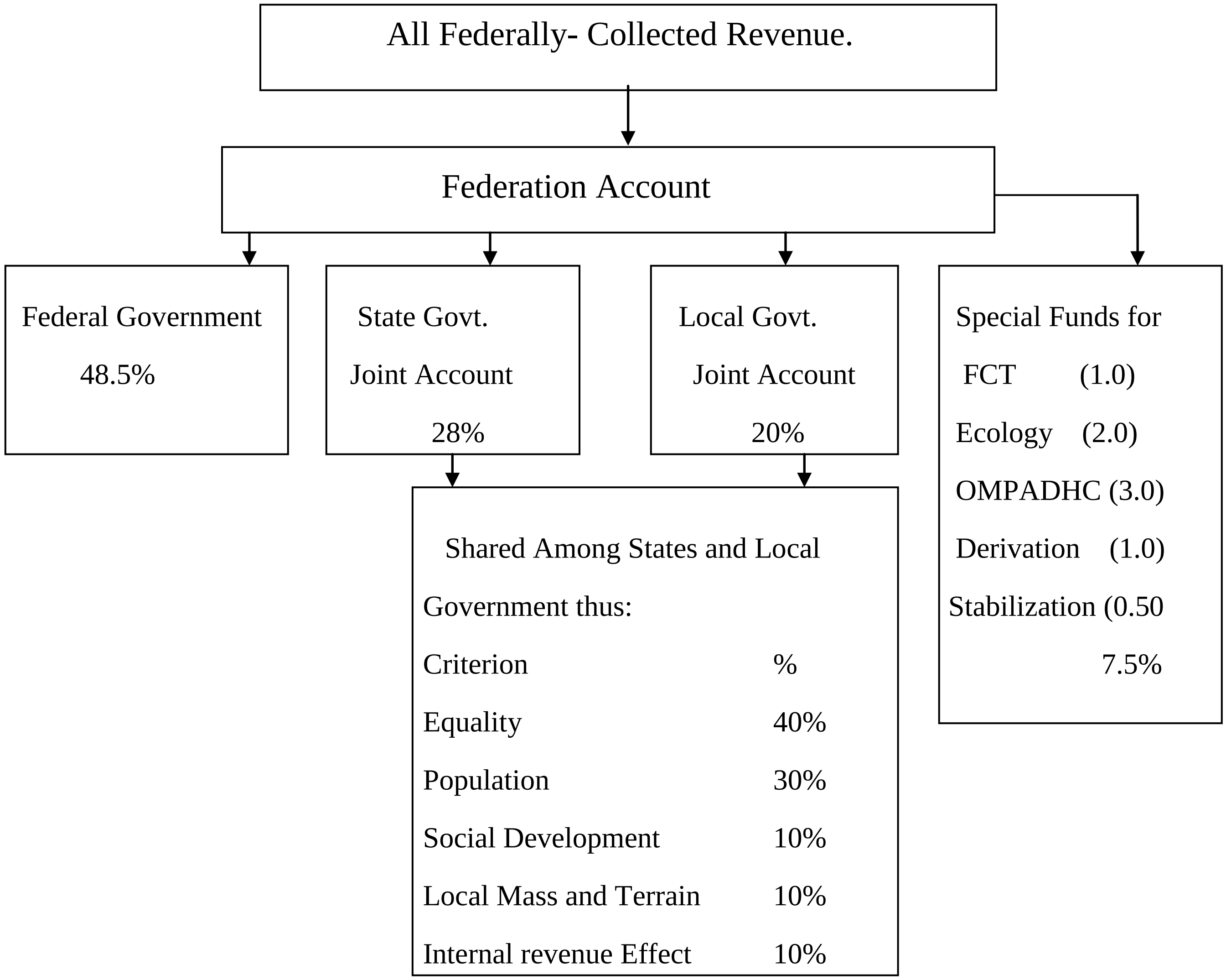
S/No.	Federal Taxes	State Taxes	Local Taxes
1.	Company Income Tax (CIT)	Personal Income Tax	Poll Tax
2.	Petroleum Profit Tax	Pay As You Earn	Tenement Rate
3.	Value Added Tax	Withholding Tax (Individuals)	Licenses, Fines And Fees
4.	Education Tax	Capital Game Tax (Individual)	Name of Street Fees
5.	Personal Income tax in respect of: • The Armed Forces • FCT residents Abuja • External Affairs Personnel • Non-Residential	• Markets where State Finances are Involved • Stamp Duties • Pools Betting and Lotteries • Road Taxes • Business Premises Registration	• Market Fees • Motor Park Fees • Signboard and Advert permit Fees
6.	• Import Duties • Exercise Duties • Other Oil Revenue • Crude Oil Revenue • Crude oil State • Mining Parts & Royalties • Upstream Gas Sales • NLNG Gas Sales • Domestic Crude Sales	• Development Levy • Rent on Govt. Ppt. • Naming Streets at State Capitals • Fees on C of O • Other Revenue e.g. License, Fines & Fees • Reimbursement	• Radio License • Rent on Govt. property • Earning on LG. Property • Interest and Dividends on Investment • Miscellaneous

Sources: *The Joint Tax Board.*

Revenues and tax powers from the table are still highly centralized with the Federal Government shepherding the most important and buoyant taxes and other revenue sources, albeit in trust for the component governments of the Federation. These revenues are aggregated in the Federation and other accounts and shared periodically among the constituent governments.

Nigeria's current revenue-sharing formula is summarized in diagram 1. The vertical formula gives Federal Government **48.5%,** States **24%,** Local Governments **20%** and Special Funds **7.5%.** The horizontally formula is shared as follows: Equity **40%** Population **30%**; Social Development Factor **10%**, Land Mass and Terrain **10%** and Internally Generated Revenue **10%**. Only federally-collected revenues are subjected to this revenue-sharing arrangement. The states and Local Government keep whatever internal revenues they are able to raise themselves, but share from federally-collected revenues. The reason for this is that virtually all the major taxes are federal taxes, and the revenues there from Vat distribution is Federal Government 15%, State Governments 50% and Local Government Areas, 35% annually constitute about 90 percent of the total revenues of all the three tiers of government in Nigeria.

Diagram 1.2: Current Revenue Sharing Formula in Nigeria



Source: *Revenue Mobilization Allocation and Fiscal Commission (RMAFC)*

Revenue sharing in Nigeria is **formula-based** and also explicitly favour smaller and rural local governments by including an "**equal share**" component of allocations from federation account. The 1999 constitution allows Federal Government to make grants to state to supplement its revenue. It stipulates that the term and conditions under which this is to be done are to be determined by the National Assembly.

Since state governments have residual tax powers, it is understandable why the tax powers of local governments depend largely on the discretion of the respective state government. However, current fiscal arrangements are also (at least) partly responsible for weak tax administration capacities prevalent among sub-national governments.

One principal of federation and decentralization is the freedom it affords sub-nationals to set their own agenda and priorities for development and to make their choices within the broad, minimum regulatory framework of the federation. The varying emphasis and approaches of sub-national governments to development creates healthy competition and rivalry among them, which the entire country benefits from. Central control of state taxes therefore stifles initiate and dampens healthily rivalry to attract and mop up development funds. Therefore, this centralized approach of revenues and tax powers has the further tendency to slow down development through misallocation fiscal of resources

1.4 THE EXPENDITURE RESPONSIBILITIES OF FEDERATING UNITS

Investments by local governments in social and physical infrastructure have, however belatedly, come to be recognized as critical. The maintenance of public capital assets in urban areas is now largely the responsibility of local authorities. This is because, central government budgets have often been strained in recent years, which have made it politically more attractive to devolve responsibility for public finance to lower level of governments.

There are wide variations in the distribution of expenditures by service categories. This is to be expected because of the wide variations in urban government responsibilities, the relative severity of existing backlogs in public services, and differing policy objectives

The exact role of local government in Nigeria, according to the World Bank report on Nigeria Status Finance Study, (2002) is not yet defined. No precise authority to make laws or raise revenue is conferred on local governments under the Nigeria Constitution which include: sewage and refuse disposal; maintenance of public conveniences; construction and maintenance of roads and streets; street lighting, drains and public highways, parks, gardens etc. and such other public facilities as may be prescribed from time to time by the State House of Assembly. They are also charged with the responsibility to maintain cemeteries, burial grounds and home for the destitute or infirm.

Table 1.3: Allocation of Responsibilities by Government Level in Nigeria

Exclusively Fed. Government	Concurrent Federal and State	Concurrent State and Local Govt.	Local Government.
• Defence • External Affairs • Law and Order • Post and Commns. • Inter State Transportation • Aviation, Sea and Rail Transport • Currency • Oil and Gas	• Tertiary Ed. • Justice • Electric Power • Banking and Finance • Agricultural and Industry	• Secondary Ed. • Health-Care delivery • Water Supply • State Roads • Fire service • Land Use • Health Care • Primary Education	• Markets • Cemeteries • Waste & Sewage Disposal • Local Streets Construction and Maintenance • Motor-Parks and Open Space • Establishment of Destitute Home/Infirm • Slaughter Houses • Public Conveniences

Sources: *Nigeria Status Finance Study Report, June 2002 by the World Bank AFTP3.*

Although a 1998 law sets out taxing powers for local governments, state governments have sufficient powers under the constitution to override any local law. An important spending assignment to local governments is the funding of primary school education including the payment of primary school teachers. The heavy burden ted the Federal Government to deduct payment of primary school teacher salaries at source leaving many urban Local Government with nothing to meet other expenditure, giving rise to the phenomenon known as "**zero–allocation**".

The practice of deducting the salaries primary school teacher at source was giving constitutional backing in the 1999 constitution via section 6 which provided that:

"Each State shall maintain a special account to be called "**State Joint Local Government Account"** into which shall be paid all allocations to the local government councils of the state from the Federation Account and from the Government of the State"

The primary school teacher's salary is the first charge on the account payable through the State Universal Basic Education Board.

1.4.1 Factors Responsible for Capital Expenditure Growth

Whether local governments under-produce or over produce, it is clear that they face financing problems. The more normative definition of the problem is the existence of a **fiscal gap**, that is, a gap between perceived service needs and financial resources. It is important to distinguish this from the budget deficit and understand how each is pressured by urbanization.

A useful starting point may be to cost the problems in terms of a set of identities defining the expenditure requirement and revenue constraints of urban authorities. However, **"budget deficit"** reflects the actual shortfall in recurrent revenues from estimated amount.

There is empirical evidence that local government expenditures in developing countries are driven by increases in the demands for public sources. Nigeria situation is not an exception; the following factors are responsible for budget growth of local governments:

(i) Growth in Expenditure needs as a result of growth in population and urbanization.

(ii) Demand for improved public services as a result of growth in the economy and improved living standard of the people

(iii) High cost of providing quality of public service and infrastructure due to inflation and increasing wages

(iv) Extra-budgeting expenditure on projects in posed by Federal and State governments and Local Government Councils

(v) Presidential system of government at the local government level which has increased the cost of local governance. Each Council now has Executive Chairman, Vice Chairman, Supervisory Councilors, Special Assistants and legislative arm with 8-14 Councilors.

(vi) Funding of primary Education and payment of school teachers

(vii) Five (5%) of the Statutory Allocation accruable to Local Government Council is used for the maintenance of Local Government Traditional Council

(viii) In summary, there is inadequate balance between current revenue and expenditure assignment as a result of mismatch between revenue authority and expenditure assignments. This is indeed a challenge to future fiscal arrangement in Nigeria among the constituent states.

The primary explanation for non-commensurate increase in revenues of local authorities with increase in public demand for services is that urban governments are often restricted in their revenue-raising authority to income-inelastic sources such as property taxes, specific fines and fees and transfers from higher-level governments (Bahl and Linn, 1998). This **"fiscal gap"** can be addressed, in principle, in four ways:

(i) a reduction in responsibilities that require local government expenditure;

(ii) an increase in the local authority to raise revenue;

(iii) an increase in the amount of revenues transferred from higher-level governments, and/or

(iv) an increase in the local effort to raise revenue in the face of unchanged revenue raising authority.

The first option, a reduction of local expenditure responsibility is frequently chosen for reason of political conveniences. Such policies are subjected to fiscal constraints imposed by the central government. Moreover, when the central or state government assumes responsibility for providing urban services, it has only limited accountability to the actual or potential beneficiaries of services and there is less likelihood that the costs of the services will be covered through user charges.

The next table shows the Local Government Fiscal performance between 2006 and 2010 as recorded by CBN.

Table 1.4: Local Governments Finance in Nigeria (Naira Billion)

Items	2006	2007	2008	2009	2010
Gross Revenue	674.3	832.3	1,379.0	1,069.4	1,359.2
Recurrent Expenditure	398.2	683.6	819.4	704.6	823.7
Capital Expenditure	267.7	143.8	562.6	363.0	533.0
Current Balance	276.1	148.7	559.6	364.8	535.5
Over all Balance	8.4	4.9	(3.0)	1.8	2.5
Loan Financing	(8.4)	(4.9)	3.0	(1.8)	(2.5)
External Loans	___	0.2	___	___	__
Internal Loans	___	2.6	2.9	6.1	3.2
Opening Cash Balance	12.1	37.3	6.2	38..5	30.4
Others Funds includes Closing Balance	(20.6)	(44.9)	(6.1)	(46.3)	36.2
TOTAL	18, 709.6	20, 940.9	24, 665.2	25, 225.1	29, 498.6

Source: *Federal Ministry of finance, Office of the Accountant general of the Federation, CBN/ NBS/ NCC 2010 Collaboration Survey and Staff Estimates of 685 returns of which 89 were provisional data out of 774 Local Government*

The expenditure of the local governments was 27.1 per cent higher than the level in 2009 and represented 4.6 per cent of the GDP according to the Central Bank of Nigeria (CBN) report 2010. Recurrent Expenditure was an average of 60 percent of Gross Revenue from 2006 to 2010 while 40% was the capital Expenditure from the same period according to the CBN report

For local governments to serve the interest of people, they must have complete local autonomy in taxing and spending and they must be subject to competition within and beyond government. Local self-financing is important for strengthen governance, efficiency and accountability.

Although, Nigeria like most countries have opted for formula-driven fiscal transfers, the design of these transfers remains flowed. They do not create any incentive for setting national minimum standards or accountability for results and typically do not serve regional fiscal equity objectives either.

However, private sector participation in local government affairs should be encouraged through competition biddings, franchise operations with local government acting as a regulatory agency because the financial capacities of local governments are quite limited. Fostering private sector participation in the delivery of local public services has assumed greater significance at the national and state levels. Such participation enhances accountability and choice in the local public sector.

1.5 FACILITATING ACCESS TO LOCAL BORROWING

Large infrastructure deficiencies in developing countries call for significantly access to borrowing by states and local governments. But local access to credit requires well-functioning financial markets and creditworthy states and local governments. In developing countries, undeveloped markets for long-term credit and weak municipal creditworthiness limit municipal access to credit. Nevertheless, the predominant central government policy emphasis is on central controls

In several federations, both developing and developed, central governments apply certain rules and limits on the ability of sub-national government borrowing activity as shown in the table below. In contrast, in Nigeria, there are very few central government controls on states' borrowing activity and with the exception of some restriction on external borrowing, states have a high degree of freedom in determining in their borrowing choices. Overall, the framework for borrowing by state is weak and may not provide adequate incentives for fiscally responsible borrowing.

Table 1.5: Local Borrowing Rules around the World

S/No.	Type of Restriction	Description	Countries
1.	Affordability Formulae	Ceiling on i) Debt Service/Local Revenue ii) Debt Service/Local Current Savings	Argentina, Brazil, Italy, Japan, Spain, Lithuania, Poland, Columbia
2.	Indebtness Formulae	Limit on Total Outstanding Debt/ Net revenues	Brazil, Colombia, Italy.
3.	"Golden Rule" Provision	Borrowing for Capital Expenditures	Brazil, Canada, USA, South Africa, Switzerland, India.
4.	Balanced Budget	Local Councils are required to pass balanced budget	Brazil, Canada, Germany, Netherlands, USA.
5.	Local Approval	Local Council to approve borrowing for individual projects	Canada, Switzerland, USA

Source: *West 2002*

External Borrowing

The National Economic Council (NEC) in 2001 approved guidelines for states external borrowing.

The main provisions of the guidelines are:

i) States should seek federal government approval in principle ahead of full-scale negotiations for such as loans:

ii) A minimum condition for such approval is evidence that state has not over-borrowed externally or domestically. This was equated to evidence that the state's debt service obligations does not exceed 40 percent of its federation account statutory allocations;

iii) States should authorize Federal Ministry of Finance to deduct from the state's statutory allocations, the amount needed for debt service;

iv) States' external loans must be supported by Federal government guarantee before final approval;

v) Borrowing should be tied to specific investment projects whose feasibility studies should have been cleared by the National Planning Commission (NPC);

vi) Borrowing must be on highly concessional terms, specifically not to exceed one percent per annum; and

vii) Borrowing should be limited to financing of projects for "poverty eradication" and for infrastructure.

However, revenue capacity at the local level is limited because of centralization of tax administration as was in the case of recently introduced Land Use Charge in both Lagos and Oyo States. Tax decentralization is also important to establish private sector confidence in lending to local governments, especially property tax, and sharing in the risks and rewards of such lending.

Central government **bailouts and guarantee of sub-national debt** should, however, be ruled out through enactment of comprehensive frameworks of fiscal responsibility and fiscal insolvency, as was done in Brazil and South Africa recently. Transparency in local budgeting and independent credit rating agencies are also essential to smooth transition to a market-based approach to sub-national lending.

Robert Neuwirth, a World Bank expert, pointed out that access to deep capital market is essential for financing and encouraging private investments and enterprises in cities such as Lagos which habours a lot of economic activities ranging from the very micro to macro businesses. He stressed that urban city development has an economic potentials with trading activities alone in the city of Lagos generating about $10 trillion a year.

Speaking on the theme: “Managing Africa’s Urban Transformation, the experts explained that urbanization growth has strong correlation with the growth in the construction industry especially in Nigeria where it is expected that the industry will witness about 15 percent growth by 2020

The World Bank analyst, Neuwirth Robert, said: “The most successful global cities are those that anticipate and also make provision for the necessary public and private funding growth required, rather than responding to population growth and being constantly behind the curve.”

1.6 NIGERIA INVESTMENT CLIMATE AND OTHER FINANCING STRATEGIES

Report for 2011 released by the World Bank on Nigeria’s Investment Climate Assessment shows that, the business environment in spite of the series of reforms being carried out by the current administration to attract Foreign Direct Investment (FDI) into the country remained hostile. According to the report, Investors were losing 10 percent of their revenue to the hostile investment climate in the country.

The areas that account for the 10 percent loss, according to the World Bank, are poor quality infrastructure, crime, insecurity and corruption. The ten (10) percent revenue loss recorded in Nigeria was twice as high as what was obtained in South Africa, Brazil, Russia and Indonesia. The problems of entrepreneurs remained epileptic power supply, while **access to finance** and corruption followed in that order.

The report said that tax rates, cost of finance, micro-economic environment, transportation, tax administration and access to land were other areas that posed serious problems to entrepreneurs in the country.

The place of real estate development in national transformation cannot be over-emphasized. However, it is capital intensive requiring huge capital outlay usually obtained from the conventional and contemporary sources, and financing of real estate development has become more problematic with the interplay of interest rate, stringent repayment requirements, failure of past housing policies, rising cost of building materials, inadequate access to finance, and general economic situation combining to affect real estate investment in Nigeria.

(a) Real Estate Investment Trust

As a result of the money, market impact on money supply in the economy, which consequently affects the quantity of money available for all sectors of the economy; avenue has been created for people to invest in real estate in small holding by pooling money together in form that enables contributors invest in large portfolio or singular project with an expected return to each investor commensurate to their respective cash outlays. This could also be in the form of owning a part of the investment as owner-investor. This is the essence of the emergence of **Real Estate Investment Trust (REIT).** This might be the best option to ensure availability of finance for real estate development with investor’s risk and uncertainly reduced to the bearest minimum.

It is envisaged that the REIT would turn the present fragmented property finance market and companies into the largest and more efficient property market with small and large, private and corporate investors would greatly benefit. The **trustees of REIT** are vested with the underlying assets of REITs and are expected to protect the interest of the **Unit Holders.**

(b) Project Finance as a Tool for Economic Investment

There has been a new wave of global interest in project finance as a tool for economic investment. It helps to finance new investment by structuring the financing around he project's own operating cash flow and assets without additional sponsor guarantees. Thus the technique is able to alleviate investment risk and raise finance at a relatively low cost, to the benefit sponsor and investor alike. Project fiancé structuring techniques were used to attract international financing for many large-scale projects, helping to meet investment needs in infrastructural and other sectors.

Recent large-scale privatizations in developing countries, including Nigeria, aimed at strengthening economic growth and stimulating private sector investment have given further impetus to protect finance structuring. Governments have also been willing to provide incentives to encourage private investors into new sectors

According International Finance Corporation (IFC), an affiliate of the World Bank, after math of the East Asia crisis, project finance offers a means for investors, creditors, and other unrelated parties to come together o share the costs, risks, and benefits of new investment in an economically efficient and fair manner. **As the emphasis on corporate governance increased, the contractually based approach of project finance can also help to ensure greater transparency.**

In many countries, project finance structuring has helped to finance 15 years concession projects to develop, install, and operate a nationwide digital cellular network in Hungary in 1994; Greenfield aluminum smelter in Mozambique, in 1998 called "MOZAL". It was the largest private sector project in the country to date, and was expected to generate significant benefits in employment, export earnings, and infrastructure development. On the other hand, the Hungary project was an important part of the government's privatization and liberalization programme.

As already noted, project finance is tailored to meet the needs of a specific project. Repayment of the **financing relies on the cash flow and the assets of the project itself.** The risks (and returns) are borne out by the sponsor alone but buy different types of investors (equity holders, debt providers, quasi-equity investors). Because risks are shared, one criterion of a project's suitability for financing is whether it is able to stand alone as a distinct legal and economic entity. Project assets, project-related contracts, and project cash-flows need to be separated from those of the sponsor.

Finally, since project finance structuring hinges on the strength of the project itself, the technical, financial, environmental, and economic viability of the project is a paramount concern. The essential step of the procedure id to identify and analyze the project's risks, them too allocate and mitigate them.

CHAPTER TWO

DEVELOPING A PROPERTY TAX REFORM STRATEGY FOR NIGERIA

2.1 GENERAL BACKGROUND

Taxes on land and buildings can serve important economic, political and legal objectives in developing new fiscal policies and new approaches to property rights in a democratic society and developing economics.

Nigeria offers important perspective from which to view the development of property taxation in the context of the economic, fiscal, and political changes that have occurred since independence. Nigeria has continued in decades to grow economically, with a thriving private sector and steadily improved quality of life despite all threats to security of the nation

As Nigeria continues to sustain its economic growth and invest wisely, it will be able to finance better services and raise its standard of living. Land is a major resources, and real estate investment and development play important roles in the reallocation of assets to sustain and nurture growth.

Transforming Nigeria economy through effective land management and property taxation is imperative in the sense that land is life and a platform for economic activities. The existence of bundle of interests in land market is a vital basis of all wealth. Therefore, raising revenue in form of taxation for sustainable infrastructural provisions and urban services would definitely impact positively on the economy of Nigeria.

For urban infrastructure and services to be sustained, land should be professionally administered and managed whereby reasonable land charges and taxes must be levied and paid to create and meet urban needs in Nigeria and sustain development. The wealth in Nigeria from land is more than enough to develop and sustain states, local governments and the Federal Capital Territory (F.C.T.) provided it is well managed and administered by Nigerian professionals.

Efficient reallocation of land assets and users will require financial incentives in the form of market-based rents, and improved methods of transfer-registration and protection of property rights, easier access to credit, and reflection of the real value of real estate in taxation and infrastructure fees.

As market transactions in real estate increase, financial institutions grow stronger and public policy formation continues to mature. Nigeria is well positioned to develop urban strategy that is economically efficient and equitable for various social and income groups.

Nigerian economic and physical transformation agenda is evidenced in many states such as Lagos, Oyo, Ogun, Ondo, Rivers and Katsina states in terms of human capital development, urban renewal programmes, infrastructures regeneration, improved security arrangement and good governance. The on-going urban renewal projects in the South-Western States of Nigeria offer the opportunity to restore integrity and character to a depressed neighbourhood in the major urban centres.

A number of considerations led to the designation of property taxes as local revenue sources. It is an immovable tax base which offers the possibility of independent local revenue even at the time of economics crisis. Property tax is an appealing local revenue generating option for developing countries given the primary store of accumulated wealth tied up in real estate. In addition, it is hard to avoid legally due to its high visibility and immobility. Despite its faults, however, the tax continued to provide revenue for even the most elaborate systems of local government in the world. Therefore, improved property tax revenues would continue to contribute critical resources necessary to enable local authorities to provide the level and quality of services required to sustain and promote further economic and social development.

The states and federal governments and even local governments must engage relevant professionals in the administration and management of lands and land-based taxes or whatever change in the nomenclature the states may give the property tax law. Land based-taxes or whatever nomenclature given to it are better handled by registered Estate Surveyors and Valuers as contained in the provision of Decree 24 of 1975 now cap III, NFL, 1990 that established the Nigerian Institution of Estate Surveyors and Valuers (NIESV).

The objective of this paper is to get a better understanding of the development of a successful system of property taxation in Nigeria in order to broaden our knowledge of the available alternatives and their relationship to specific political, legal and economic settings.

2.2 CONSIDERATION FOR PROPERTY TAX REFORM IN NIGERIA

Property tax policies often have long histories that are closely linked to complex systems of land ownership and property rights that have been developed over time. The British tax assessors used ownership or occupancy of property to estimate a taxpayer's ability to pay. With time, the tax came to be regarded as a tax on the property itself, that is, **a tax in rem** and not in the person. In the United Kingdom, the tax developed to a system of **"Rates"** based on the annual (rental) value of the property.

In Nigeria, following the British tradition, the world **"Rate"** is defined as a tax for local purpose imposed by the local authorities the basis of which is the annual value of land with buildings arrived at by using different methods of assessment methods to make the levy. There are different systems of the rates based on capital value of land only, or land and building separately or land and building jointly.

The rating system in Nigeria is usually referred to as **"Tenement Rate"** which means **land with buildings** held or occupied as distinct or separate holding or tenancy or any wharf or pier but does not include land without buildings.

Consequently, buildings housing plant and machinery are rateable tenements, but not the plant and machinery therein. Plant and machinery which are in the nature of building and structure have obtained distinctive consideration in the realm of property rating. The Common Law of England recognized that any plant and machinery sufficiently affixed to land or buildings become rateable as part of the property e.g. electricity gas, water tank, space, heating, swimming pool, air-conditioning, fire security, drainage, and lifts among others. The same applies to Indian Rating Laws.

The first step in carrying out property tax reform is to thoroughly analyze the existing property tax system, analyzing major constraints and opportunities for improvement and to consider the transition costs from one system to another. Existing system has the advantage that the **start-up costs** have already been met. Moreover, taxpayers are familiar with the existing system, and a major change will call for re-educating the public and perhaps selling the values of the new system. These transition costs may turn out to be quite high.

Property tax reform is about mobilizing technical and administrative resources to develop accurate urban property registration and property tax valuation rolls, to update them at regular intervals, and to bill and collect property taxes effectively. In order to be politically acceptable, these improvements must be introduced gradually and fairly, and they need to be linked with a major effort to educate the public about the relationships between the provision of essential urban services and the collection of the property tax. More importantly, ***the incidence of property tax is to show the tax burden, that is, the ratio of tax payments to personal income which varies with income of taxpayers.***

2.3 FISCAL AFFAIRS AND PROPERTY TAX REFORM

Two peculiar features of the Nigerian fiscal arrangements need immediate definition as follow:

(i) Although taxing powers are constitutionally assigned to each level of government (i.e. federal, state and local governments) , there is not necessarily a convergence of legal and administrative jurisdictions over a tax in one level of government. Thus, one level of government may have power to make laws on a particular tax, while another level administers the tax.

(ii) That a tax belongs to one tier of government by administration and collection does not necessarily imply its right to appropriate its proceeds to itself. Indeed, most federally administered taxes are collected on behalf of entire Federation, to be shared among the various governments.

(iii) A new trend in property tax administration in Nigeria is the introduction of Land Use Charge in both Lagos and Oyo States to replace the existing Tenement Rate by both legislation and centralized administration. The tax base is both land and improvements unlike tenement rate which is land with buildings. In addition, Land Use Charge is now a state government tax and local government approval of a reform policy and administration is not required. The proceeds of the Land Use Charge Revenue are to be shared between the state and local governments.

The implementation of property tax requires an assessment of policy and administrative functions. Policy issues include the types of property to be included in the tax base, the level of assessment, the valuation, and the tax rate. Administration is concerned with the property record-keeping, billing and collection of property tax and enforcement. Each country decides on which level of government will be responsible for each of these general areas.

Policymakers rarely consider reform of the entire property tax system, that is, rate and base structure, valuation principles, and administration. As a result, reform measures sometimes have offsetting effects unintended side effects and do not lead to the expected increase in revenue.

The concept of decentralization has given rise to four models of assigned policy and administration of property tax all over the world. In the Russian Federation (a unitary state), Senegal, France, and Indonesia, the three stages of property tax system (i.e. tax base identification, valuation and assessment) are carried out centrally while the tax revenues collection are assigned to the local governments.

Property tax in the **United States** is administered at the local government level. The tax amount is determined annually based on **market value** of each property on a particular date, and most jurisdictions require redeterminations of value periodically which is done by a BOARD or Similar body. Many states impose limits on how local jurisdictions may tax property.

Urban property tax in **Brazil** is imposed on the **capital value of all land and buildings** within the legally designated urban areas of each municipality. Like the other local tax, urban property tax is administered by each municipal government, which enjoys total autonomy in legislating, charging, and collecting the tax and in bringing defaulters to trial. Each municipality, through its own laws, fixes its own rates. The tax rates is between 0.2 percent and 1.5 percent.

In the Philippines, India, Colombia and Kenya, Local Governments are responsible for the administrative aspects of property taxation (e.g. discovery, valuation, billing and collection), while central governments retain the control over policy such as: rate setting and review of valuation roll periodically.

Under the Fourth Schedule of the constitution of the Federal republic of Nigeria, the functions of Local Government Councils include “the assessment of privately owned houses of tenements for the purposes of levying such rates as may be prescribed by the House of Assembly of the state”.

Under part II of the Constitution on Concurrent Legislative List, Section 9 provides that “A House of Assembly may, subject to such conditions as it may prescribe, make provisions for the collection of any tax, fee or rate for the administration of the Law providing for such collection by a local government Council”.

As with any tax legislation, the relevant provisions should be clear, unequivocal and comprehensive, covering all aspects of the proposed local property tax system. Not only must the legislation deal with matters of liability, assessment, exemption etc. but it must also cover the various administrative matters.

A legal framework authorizing and stating the procedure for any tax administration is therefore, fundamental and is a basic requirement for any property-based tax and indeed other tax systems. The legal framework should among others, address the tax policy and tax administration.

2.4 VALUATION ISSUES IN THE CONTEXT OF PROPERTY TAX REFORM

Valuation of property for taxation is necessary to determine the distribution of tax burden on the citizens. In this era of developing market economy even in the former communist countries where land has no value, market value-based property taxation is the current practice. Determination of property value is a critical aspect of property taxation, as such determines the amount of tax due payable by citizens or property owners.

There are two types of property tax systems in practice. Property tax can be levied on **annual or rental value** of the property, or the **capital value** of the land and buildings. Each system has a long history of association with the colonial heritage.

The annual value form is a tax on the yearly income from properties. Whereas, **the capital and site value forms are partial wealth taxes.**

2.4.1 Review of Optimal Tax Structures for Developing Countries

This section is to discuss the **advantages and disadvantages of annual and capital value systems** in the context of trends in property tax practices in developing countries. A change from annual value base and toward capital value reflects the fact that, as urbanization becomes rapid, the virtues of the annual value system become less and less important, and the comparative advantages of a capital value system become more apparent (Roy Bahl and Johnnes Linn 1998).

The move toward a capital value basis implies more than simply a change in the method of assessment. Capital value systems are administered centrally and are more technical requiring a larger staff of technical assessors than does rental value assessment currently practiced.

Moreover, the assessment of owner-occupied, rented, and non-residential properties (i.e. Commercial and Industries) on the same basis is not possible under annual value systems but is possible under capital value system. However, in some countries and cities, annual and capital value systems exist side by side.

Notwithstanding the so few advantages to the annual value system, many countries continue to use this system. The reasons are:

(i) Where the annual value system is understood and accepted by the taxpayers and the government, a change appears to be costly and distruptive;

(ii) The lower cost of assessing annual value is difficult to give up when there are so many other pressures on local government budgets;

(iii) It is well known that qualified valuers are hard to attract because government salaries tend not to be competitive, a problem which has resulted in some capital value systems working rather badly;

(iv) The rental system is likely to be more palatable to the influential interest groups, such as industrialists and owner-occupiers, and is acceptable to the courts; and

(v) There is a fear that a capital value scheme will lead to centralized assessment and eventually to a loss in local control over the property.

In these cases, a conversion from annual to capital value system may in fact reduce duplication, clarify procedures, and increases equity across different uses of real property, but in both cases, the economic base of a city is probably the most important influence on the level and buoyancy of tax revenues for local governments where the properties are located as it defines the limit to the city's local government taxable capacity.

Tax systems are also differentiated by varying tax base definition (i.e. tax base coverage), different rate structures, and perhaps most important of all, different assessment practices. Preference for each system could therefore, lean more on history, political acceptability, local situation, and administrative convenience. Each country or state should therefore, use the basis that will make the utmost use of the beast reliable market data.

2.4.2 Valuation Techniques

Tax assessors in the United States usually use a variety of techniques for determining the value of property that was not recently sold, that is, apart from comparable sales method, they use cost methods, income approach for income producing properties based on market values or (Capital Value). In the absence of market data, others use area-based method.

Property value standard is set by using the generally recognized principles and methods of real property valuation for tax assessment. The most common approach in determining this value standards are:

(i) The rental value method, that is, imposing tax on the annual rental value of buildings, and depending on the market situation, if there is no rent control, annual rental value method becomes more buoyant as market rents increase.

(ii) Capital Value method is a tax on the market value of the property which may be land alone, or land and improvements or building alone

Although, both capital value and rental value reflect the income to be derived from a property, they differ in distributional implication. The annual rental value (ARV) reflects the income from a property in its current use. Capital value reflects the market's assessment of the income to be derived from a property in the future.

As a result, the capital value definitions will tend to place a higher proportion of the property burden on "**under used property"** or vacant land ripe for development. However, only those in beneficial occupation pay tenement rates or property tax valued on rental basis.

The most unique aspect of capital value system is the possibility of assessing owner-occupied, rented and non-residential properties on the same basis. This is not possible under the annual value system. Moreover, centralized valuation system is common in capital value system because of the complex technical nature which is beyond the capability of local officials.

Where real estate market transaction evidence is limited, the options available would be to consider basing the assessed value on measures of building use, location, building size and plot size known as **area-based taxes**. Thus, the taxable value is primarily a function of the land or building area in square metres rather than the market price. This nonmarket-based value system reflects the lack of a normally functioning real estate market and of professional property tax administrations. The system also reflects the traditional use of the property tax that was imposed on private residential, commercial and industrial properties before the property tax reform in the 1980s in Nigeria which is value-based property rating.

In Kenya, the fiscal cadastre information (valuation roll) was broken into two components.

i) There is a valuation roll that contains land information and values for properties taxed under market value-based property rate. The valuation roll is broken into the **private valuation roll** and the **public valuation roll** and typically only covers land located in the established, gazetted area of local councils. (Roy Kelly, 1999).

ii) There is property tax information that is used for **area rating purposes** for land outside the gazetted area of town and municipal town councils. The Tax Rate is charged per square metre by the council on taxable property.

Table 2.1: Breakdown of Property Rating in Kenya (1995)

Type of Local Authority Councils	No. of Rating Authorities	Local Authorities Using Valuation Rating	Local Auth. Using Area Rating	Local Authorities Using Both
Municipalities	17	37	4	4
Towns	16	14	6	4
Countries	38	22	28	12
TOTAL	71	73	38	20

Source: *Ministry of Lands and Ministry of Local Authorities, 1997*

The implementation of separate valuation role into Tax on property of enterprises (corporate bodies) and property of individual will make tax administration easier and productive. The current system of Taxation in the **Russian Federation** is the same as that of **Kenya** and also shows once again that **land tax** is different from **land rent** (World Bank Institute, 2001).

Table 2.2: Proceeds of Land and Property Taxes, 1995-1999 (in Rubles millions)

Tax Categories	1995	1996	1997	1998	1999
Tax on Property (assets of enterprises)	15,900.0	36,900.0	46,800.0	45,900.0	51,400.0
Tax on Property of Individuals	138.1	290.3	441.8	528.4	-
Land tax and Land rent	3,265.6	5,262.3	9,435.9	11,027.0	21,890.0

Source: *Data from State Tax service and the Federal Treasury in Russia*

- ❖ A collection rate of 69 percent was reported in 1997 and of 60 percent in 1998.
- ❖ Land tax and Land rent revenues are combined in the revenue report statistics.
- ❖ According to the Federal Budget Law, these revenues are typically divided among the federal, regional, and local budgets in ratio 30:20:50

The introduction of Land Use Charge in Lagos State in 2001 and now replicated in Oyo State in 2012 was on adoption of market value-based area system of taxation with the incorporation of market value elements into its area-based system. The tax base varies by type of land, building use, and location. This differentiation reflects market data with the adoption of **comparate sales value of property in each neighbourhood of the city.** This approach is also a possible alternative method to determine accurately, fair and equitable tax value.

2.5 REASON FOR POOR PROPERTY TAX YIELD

There are many reasons why property taxes or call it tenement rates are not yielding expected revenue to finance local government expenditures. The incidence of property tax depends on its implementation process. Property tax policies such as the tax rate structures, exemptions and relief measures, tax base definition, valuation as well as assessment and revaluation frequencies are key features of the property tax system.

The potential yield or buoyancy of property tax revenues depend on effective system of billing and collection which is assigned to Local Governments in Nigeria and in most developed and developing countries. However, in principle, property tax should be done by the level of government responsible for the provision of services. Hence, there is justification for taking over the administration of property tax by the state government which is responsible for most infrastructure development and service delivery while the Local Government remain just an appendage of state government.

In rapidly growing city, a one-time survey and identification of taxable properties is obsolete as soon as it is completed unless there is provision for frequent review of tax base to incorporate new structures into the tax base through regular inspection by the permanent staff of the government ministry.

Corruption is one of the main factors responsible for the property's poor revenue efficiency all over the world. There is empirical evidence that collusion between taxpayers and tax official in assessment of property values and outright fraud by tax officials are largely responsible for the low effectiveness of property tax.

Tax evasion can also reduce expected revenue from property tax. The benefit from evading a tax, therefore, should be reduced to a minimum. Thus, the rates of taxes and charges should be set at a reasonable level. Excessively high rates and charges tend to promote evasion of corruption. A taxpayer will find it economically beneficial to pay a bribe and default in complying with tax laws as long as the evaded tax is greater than the cost of the prescribed penalties.

Over-reliance on intergovernmental transfer does not provide incentive to collect property tax as it constitutes over 70 percent of total revenue accruable to states and Local Governments, however, with the exception of Lagos State whose internally generated revenue in recent time has increased from ₦18.5 billion monthly to ₦28.5 billion monthly in 2012.

Political vulnerability is also a significant constraint on property tax yield because influential people and politicians own majority of high brow properties in GRAS and prime locations, hence, an increase in property taxes would have serious consequences on them.

Local Governments are not usually active participants in valuation process, and thus did not cooperate with state government in the implementation of property tax reform process. Even when consultants were engaged to assist them they did not cooperate with them and did not pay their professional fees as at when due.

Political interference can therefore also significantly affect the operation of the property tax to the extent that ordinary taxpayers lose confidence in the fairness of the tax. This can result in widespread unrest and ultimately in taxpayers deciding to withhold payment.

Inherently, the property tax by its structure is not an automatically buoyant revenue source. Property tax revenues stagnate primarily because of lags in maintaining tax base, poor coverage, inaccurate assessments and inefficient collection and enforcement as reflected in the table below:

Table 2.3: Property Tax Revenue as a Percentage of Own-Revenue Sources in Nigeria

Year	Internal Recurrent Revenue (IGR)	Tax Revenue ₦:K	Non-Tax Revenue ₦:K	Tax as a Percentage of IGR.
2001	₦ 7,152.90m	1, 758.90m	5,394.00m	2.5%
2002	₦ 10,420.93m	3,262.86m	7,158.06m	31.31%
2003	₦ 20,175.50m	3,471.30m	16,704.20m	17.21%
2004	₦ 22,407.75m	4,852.91m	17,554.84m	21.60%

Source: *Central Bank of Nigeria (CBN), 2004.*

This is not encouraging but property rates revenue constitute a significant proportion of local government internally generated revenue IGR from 2002-2004

Compared to other developing countries, property tax capacity provided an average of 22 per cent of the total recurrent revenues for local governments and represented 1.3 percent of total government tax revenue and 0.3 of GDP (GOK, 1995, 1996a, 1996b).

Property tax policies vary even among developed countries. In the United States of America, states are recognized as having a plenary power to assess taxes on their citizens and an activities that occur within their borders, so long as those taxes do not infringe on a power reserved for the federal government. Typically there is a tax on real estate. **Real estate taxes** are often imposed on the value of real estate by reason of its ownership in America based on the **appraised value** of the real estate multiplied by **tax rate and assessment ratio.**

However, one difficulty which inhibits enforcement is that property taxes generally are not levied on the property but on the owner, that is, **the tax is in personam, not in rem**. This means that the owner must be located and brought to court in order to institute proceedings for nonpayment of taxes. This greatly complicates the collection of the tax, particularly where ownership titles are contested or unclear.

The use of regular courts for trying tax defaulters has reduced considerably the recovery of tax arrears. Its preferable to establish special courts such as **“Valuation Courts”** to try defaulters within a short time. Regular courts are congested most often due to shortage of Magistrates or Judges, frequent adjournments and complex court proceedings.

Finally, taxing authority must provide incentives so that the majority of taxpayers can comply by the due date. The incentives can range from discounts for prompt or early payment to visible signs of the expenditure of revenue locally. Sanctions need to be applied on those tax payers who have not paid by the due date and such can include heavy fines, interests penalties and a lien on property until the debt is payed by the owner.

2.6 ANALYSIS OF THE NEW LAND USE CHARGE LAW

The Land Use Charge in all respect is an area-based property tax with the incorporation of market-based assessment methods such as comparative sales and construction costs to arrive at the assessed value. This is a **capital method** of valuation rather than the earthswhile **annual value system** applicable to rateable values of property under the Tenement Rate Laws.

Land Use Charge appears to be the best tax instrument to curb speculative buying of real properties being a property tax imposed directly on ownership rather than the capital gains tax (CGT) on real properties, which is imposed at the time of ownership transfer.

Taxation of wealth or real properties should form an important element of the overall tax structure, not for revenue purposes, but to complement income taxation, ameliorate the significant unequal distribution of wealth, and ensure efficient resource allocation.

However, the problem created in Land Use Charge Law was the use of many variables that has to be determined by the Honorable Commissioner for Finance who is not an expert in Land Matters as contained in the formula.

The Land Use Charge will be examined on the basis of an ideal properly tax system which conform with the global principle and best practices. This will involve design, policy, administration and implementation. The analytical concept provides the necessary foundation and context upon which to develop appropriate tenement rate, or properly tax or land use charge reform for Nigeria;

(i) Policy Issues,

(ii) Tax Base Identification & Definition

(iii) Tax Base Valuation,

(iv) Tax Collection and Billing

(v) Tax Enforcement

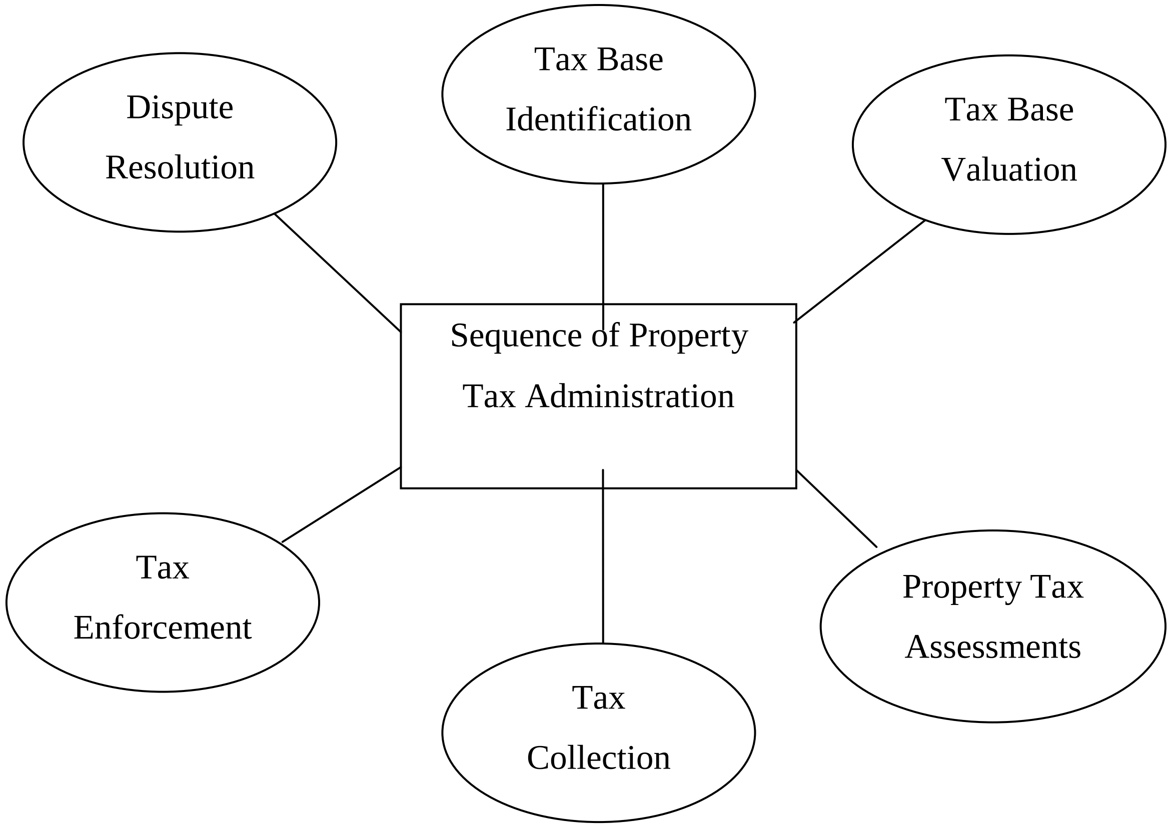
(vi) Tax payer Appeal Rights and Dispute resolution

2.6.1 Policy Issues

The major reform in the property tax development in Lagos and Oyo States concern the change from annual value system associated with tenement rate to capital value system associated with Land Use Charge or formula basis for assessing land and buildings (or improvements on land) under capital value system.

In principle and practice, property tax administration involves tax base identification, tax base valuation, tax base assessment, setting the rates, preparing the tax bills, collecting the tax, dealing with the appeal process and collection enforcement. (See Diagram 1)

Diagram 1



Roy Kelly Model, 1999.

Tax administration and enforcement, according to Kwang Choi (1999), have been a constant sources of public discontent. The problems playing the tax systems are administrative. The gab between tax law and practice, indicative of the shaky state of tax administration, must be closed in order to achieve a reasonable degree of efficiency.

2.6.2 Tax Base Definition

The real property is defined in section 2 of Land Use Charge Law and generally as: a parcel of land; an improvement, a parcel and improvement, or a wharf or pier. The categories of chargeable property include:

- Residential building;
- Commercial property including shops, shopping complexes, offices; and
- Industrial property
- Private institutions e.g. primary, secondary schools, and tertiary institutions.

2.6.3 Definition of Land Use Charge

The Land Use Charge in section 2 of the Oyo State Law is defined as including "all property and Land-base rates and charges payable under the Law is an aberration as far as the principle and practice of property taxation is concerned.

Land-based rates are ground rents, survey fees, premium and development charges payable on land leased by governments at all levels and development agencies either public or private sector guided by different laws and regulations.

2.6.4 Tax Base Identification

Section 4 (2) provided that the Commissioner for Finance may appoint such property identification officers, qualified assessors and other persons as he considers necessary. It should be noted that such an assessor or identification officers must be a registered Estate Surveyor and Valuer in accordance with the provisions of Act (Decree) 24 of 1975 now Cap. III, NFL. 1990.

Tax assessors in the United States **determined property values** in a variety of ways, but are generally required to base such valuation or determination of property values on **fair market value**. Common valuation techniques include **comparable sales, depreciated cost,** and **income approach** (Internet IL System, page 11)

The valuation report, maps and explanation of the process and valuation analysis must be made available to the public during a specified period between 21 and 30 days for inspection.

2.6.5 Tax Base Valuation

Real property valuation (i.e. land and building) under the Land Use Charge Law is based on the **area in square metres** multiplied by **average Sales Value** of the neighbourhood properties and not on the physical characteristics of each property. This translate to capital value approach to valuation.

The disadvantage of area-based formula for determining Land Use Charge payable by property owners is that the benefit's from services provided by the state and Local Governments are usually more closely reflected in **property value** than in the size of the property. Moreover, market value has the advantage of reflecting the benefits of neighbourhood amenities which are usually created by governments.

Secondly, **sales comparison method** is applicable to all property which are capable of being bought and sold in the open market. This would require a manual of comparative sales analysis in each town and city of the state.

As regards the valuation of **specialized properties** such as: Petrol Filling Stations, Hotels, Industries and Institutional Properties, the average sales value in the neighbourhood does not adequately reflect the income producing potential of these properties. There are investments properties that could be valued using income approach. These groups of properties will bear the heavy burden of area-based valuation for taxation amounting to excessive tax. It is better to adopt valuation methods peculiar to each category of properties where data on recent property sales are not available or not appropriate.

Special properties are properties that by nature do not transact sufficiently, to be able to determine value by comparison of previous sales. In such circumstances, the valuer needs to resort to a valuation model that addresses the underlying fundamentals of that property so that its value can be determined by reference to the wealth producing qualities of the assets

2.6.6 Assessment Procedure

Land Use Charge is a product of assessed value multiplied by the average charge rate expressed as: LUC = M x [(LA x LV) + (BA x BV x PCR)] the land area is multiplied by average value of land in the neighbourhood plus the total developed area of building multiplied by the average value of medium quality of buildings in the neighbourhood and the Property Code Rate (PCR). Assessed Value = (LA + LV) + (BA x BV x PCR)

In practice, the assessed value is equal to market value of property in Oyo State. Whereas, **assessed values** are usually based on the **appraised value** of property. The term appraised value distinguished full market value from assessed value when the assessed value is a proportion of full market value (FMV). **According to various laws, the assessed value of property for tax purposes must represent either the full market value or a specified percentage of such value**. This is usually a legislative policy decision, and not an administrative one, that is, the State House of Assembly is responsible for determining the specific percentage of market value which is referred as Assessment Ratio which varies between 0-100% of FMV.

Thus, the assessment of property for taxation is merely the means by which the relative burden of property tax (or Land Use Charge) is distributed among the tax payers. Therefore, there is need to amend the basis of calculating Land Use Charge as published in the Gazette of 6th November, 2012 for correction. There should be an all embracing bracket, governed by the annual charged rate. The annual charge rate is only applicable to the assessed value of land which would result to heavy tax burden because the assessed value of improvement is left intact without annul charge rate. Secondly an assessment ratio of between 20% and 50% should be adopted by the State House of Assembly to bring down the taxable value.

2.6.7 Liability to Pay Land Use Charge

Generally, liability for Land Use Charge or property tax payment is a choice between the owner of a property or the occupier of a property. Under the Law, the taxable value is primarily a function of the land and building area in square metres multiplied by average real property value in the neighbourhood.

Both the owner and the occupier are liable to pay property tax under the 1999 constitution of Nigeria. The owner of individual property pay **"withholding" tax** (10%) on rent received to the State Government while the occupier or tenant pay Tenement Rate to the Local Government where the property is located.

In Section 5 of Oyo State Land Use Charge Law, the owner of the property shall be liable to pay Land Use Charge in respect of any chargeable property.

However, the law empowers the occupier of a chargeable property to pay the Land Use Charge who is a tenant, and such shall be recoverable from the rent or other money due or, to become due to the owner.

This is not possible if the Land Use Charge is higher than the rent since the assessment is not based on the annual rental value of the property but on the average sales value of the area of the property. For example, a real property in Ibadan Municipality was levied to pay Land Use Charge for sum of ₦300, 000.00 when the tenant was paying ₦150, 000.00 rent in 2013, the occupier refused to pay and challenged the taxing authority on the basis of assessment.

2.6.8 Rate Structure

The value of the annual charge rate is set by the Commissioner in each financial year and shall be published in the state Government Official Gazette and in one or more newspaper circulating within the state. The Land Use Charge Law came into effect on 12th July, 2012 and gazette as No. 18 vol. 37 of 6th November, 2012.

However the adoption of differential rate structure by the state Government is very important in the distribution of burden of taxation among the various property class; residential, commercial industrial and institutional properties.

2.6.9 Provision for Updating Tax Base

The provision for updating assessed value of taxable property was not included in the law. Consequently, the new Land Use Charge should not be characterized by narrow tax base when new developments are captured as real estate markets expand. which would eventually lead to the failure of the tax system to generate adequate revenues for planned expenditures. This will produce a climate of fiscal crisis, the most obvious symptoms being persistent inflation, itself a form of implicit taxation.

Periodic reassessment of the tax base is a fundamental issue in property taxation practice to capture the changing values of properties or keep pace with the growth of urban incomes. These also include change in value due to conversion and alteration of structures as a result of improvement in public provision of infrastructures.

The provision for updating assessed values takes one of the three forms:

i) The less frequently used one involves yearly value updates, which are based on a sampling of property sales.
ii) The more common provision is for a specified reappraisal cycle of every five years or ten years.
iii) The other possibility is simply to index the property tax base as practiced in Brazil, Chile, and United Kingdom.

2.6.10 Tax collection and Billing

The responsibility for collecting property tax which is applicable to Land Use Charge is clearly a very important one since affective collection performance is a vital element of a successful property tax system.

Section 3(2) of Oyo state Land Use Charge Law empowers each Local Government Area in the state to be the **collecting authority** and it shall be the only body empowered to levy and collect Land use charge for its area of jurisdiction.

Whereas section 10(1) authorized the commissioner to issue in each financial year a Land use charge demand Notice with respect to every chargeable property that has been assessed in accordance with this law. Under section 10(2) the LUC demand Notice shall be delivered to the owner or occupier of the property.

The question then arises as to who delivers the demand Notice? Is it the assessor appointed under section 4 (2) or the Local Government whose authority to levy and collect has been taken over by the commissioner under section 10(1) of the law?

It is important in the principle of taxation to separate the assessment and collection functions to demonstrate impartiality on the part of those responsible for these two main elements of the property tax system which is applicable to Land Use Charge. However the **operational link** is needed to pass information between those responsible for assessment and those responsible for assessment and those dealing with tax collection.

2.6.11 Taxpayer Appeal Rights

Section 16 provides that an Appeal shall not lie unless the prescribed fee is paid to the Assessment Appeal Tribunal. The prescribed fee was not stated in the law.

Under a normal appeal process, appeals are lodged first with a notice given in the prescribed manner to the body empowered to assess, in this case, the Commissioner for Finance in order that any errors made in preparing the assessment can be rectified for differences of opinion discussed and resolved through negotiation.

However, if such contact between the “appellant” and “assessor” cannot resolve the dispute, there may be need to have facility to refer the appeal to an **Independent body** which is the Assessment Appeal Tribunal provided for in section 13 (1) of the

Land Use Charge Law. Section 15 of the Land Use Charge Law 2001 of Lagos State provided that an Appeal shall not lie unless:

(a) Notice is given in the prescribed manner to the Commissioner for Finance.

(b) The prescribed fee of 50% percent of the amount of the assessed Land Use Charge is paid.

The Commissioner should in essence set up a body for dispute resolution administratively and professionally on complaints arising from disputed assessment before further appeal to Assessment Appeal Tribunal.

2.6.12 Collection Enforcement

The Land Use Charge Laws 2012 of Oyo State provided in section18 for enforcement of **tax liabilities** at the magistrate court not lower than senior Magistrate Grade 1. Will the Commissioner for Finance apply to the court rather than by an Agency responsible for collection of Land use charge as provided for in section 3(2)

Interest penalties accrue at the rate of 10% for delayed payments between 45 and 75 calendar days, 25% between 75 and 105 days and 50% between 105-135 calendar days before the defaulter is charged to court.

Experience has shown that regular courts in Nigeria cannot handle tax matters because of delays and court procedures. That was why the Tenement Role law, cap 160 Laws of Oyo state 2000 amended in 2001 provided for the establishment of valuation courts to handle appeals and prosecution of rate defaulters. Nobody will be prepared to pay 50% of the Land Use Charge as a condition for appeal when the injustice could be redressed through dispute resolution mechanism put in place by the state government.

2.7 BUILDING A PROPERTY TAX IMPROVEMENT STRATEGY IN NIGERIA

Property tax revenues stagnate primarily because of lags in maintenance and completeness of the tax base coverage, in accurate valuations, and inadequate collection and enforcement. Although tax policy concerning tax base definitions, exemptions, valuation standards, and collection/ enforcement provisions can improve revenue yield, the key to increasing revenue buoyancy is largely improved administration.

2.7.1 Coverage Ratio of Tax Base Identification

The basis of a good property tax practice is the compilation of property related on street to street basis called **"fiscal cadastre"**. This is a valuation roll that contains land information and values of properties to be assessed. The valuation roll is legally to include information on all private and public land located within urban areas of the local government council. The preparations of cadastral maps are essential to successful valuation and collection and a unique property identification number is assigned to each identified real property.

This system or process provides a simple means to keep track of all parcels and to link assessment, billing, and collection records.

2.7.2 Improving the Basis of Valuation

Tax systems are differentiated by varying coverage of tax base, different assessment practices, different rate structures. Properties can be valued for rating purposes on the annual value basis or the capital value (sale value) basis. Preferences would, therefore, lean more on history, political acceptability, local situation, and administrative convenience. Each country or locality should, therefore, use the basis that make the utmost use of the best reliable market data bases.

i) These mixed systems are common in cities of the former French colonies (for example, Abidjan and Tunis), where land is assessed on a capital value basis and improvements on an annual value basis.

ii) Mexico levies both an annual and capital tax

iii) In Thailand, a capital value basis has been used for vacant land, but an annual value basis for the land and building tax (Hubbell 1974)

Because property tax is annual (recurrent) tax, it is easier for taxing authority as well as the tax-payers to relate the change to the annual return on property than the capital value. Otherwise, **levying excessive tax on property beyond the annual returns on property investments will be negating capital formation necessary for economic development and stuffing much needed funds away from property sector and housing in particular.** Given the excessive tax that may result, tax will become a major consideration when investors have to decide on where to locate, relocate or undertake expansion programme.

2.7.3 Assessment Procedure of Property Tax

Central to the evaluation of assessment practice is to determine how much rate or tax would be levied, and this will depend on the tax rate assessment ratio, and the appraised of the real property as at the date of assessment. Among the important considerations in determining assessed value are location, the specific amenities of the property, construction material, tax rate, valuation and assessment ratio which is statutory.

Assessment for property taxation purpose, is to determine the amount of tax, that is: - Amount of tax = Market Value x Assessment Ration x Tax Rate. This means that amount of tax is computed as the determined market value times an assessment ratio times the tax rate.

Assessed Value

Many jurisdictions in the United States impose tax on a value that is only a portion of market value. This assessed value is the **market value times an assessment ratio**. Assessment ratio is a proportion or percentage of market value.

If the basis of valuation is annual value, the assessment of institutional and industrial property will be the estimated capital vale and later converted to the annual rental value with some arbitrarily chosen discount rate.

On the basis of capital value system, the basic assessment methods are comparative sales price, construction costs, or discounted cash flow.

It is recommended that a mixed system of assessment of property be adopted for taxation and that is: Comparative sales price for land value determination and annual rental value for buildings. However, if area based formula is used to determination the assessed value on capital value must be very low and assessment ration should be applied to lesson the burden of taxation.

Property owner should be made liable to pay the tax levy or the occupier because of the absentee landlords or disputed ownership. In that case the income of the property must be taken into consideration to avoid excessive taxation. The tax burden must be a proportion of the property income

2.7.4 Preparation of Valuation Roll

Property tax administration begins with the preparation of valuation roll or a fiscal cadastre which is a centralized function of the assessing authority. This is the responsibility of a professional department headed by a registered Estate Surveyor and Valuer in Nigeria e.g. a Central Valuation office located in a Ministry Local Government and Chieftaincy Matters in Oyo State.

A fiscal cadastre shows the location, actual address of each property in a town, name of owner/occupier, property gross value or market value, type of property and accommodation, and the assessment number to facilitate identification for tax purposes.

The popular and best known practices now is to prepare two formats:

(a) Valuation roll for individual property owners, and
(b) Valuation roll for corporate bodies or legal entities (e.g. Limited and Unlimited companies or enterprises).

The billing and collection systems will be based on the property information in the fiscal cadastre or valuation roll as it will facilitate the delivery of demand Notice to the owner of occupier of the assessed properly.

2.8 INSTITUTIONAL FRAMEWORK FOR PROPERTY TAX ADMINISTRATION

Designing and building the property tax database is a formidable challenge in developing countries and it requires intergovernmental and inter-agency cooperation. In the Russian federation, integration of information from various independent database into a **property tax information system** was accomplished only by strong local political leadership and new information management software developed with assistance from USAID. The Czech Republic is in the process of linking land and tax information electronically through cooperation between the ministry of finance and the cadastral office (M H. Malme and J.M. Youngman, 2001).

The laws that govern property taxation are enacted by the State House of Assembly in Nigeria, which also enacts an annual budget law that stipulates the upper limit for property tax rates. Property tax policy issues are highly centralized in the. Ministry of Finance. The day –to-day details of administration are performed by the Central Valuation Office with zonal offices located at various centres in the state. As a result, alternatives to change the property tax system generally originate from the ministry of finance. Local Governments are generally assigned the billing and collection of property tax.

The Ministry of Finance shall manage the property tax proceeds collected through designated Commercial Banks and share the NET REVENUE between the State Government and LOCAL GOVERNMENTS as may be agreed by the two parties. It would be equitable and transparent if a body is set-up to manage the fund with Commissioner for finance as chairman. And members to include Accountant General, Auditor General for Local Government and other stakeholders.

2.8.1 Land Use Charge Valuation Office

There is compelling reason to establish a Central Land Use Charge Office in a relevant professional through the reorganization and strengthening of the exiting Oyo State Valuation Office established in 1995 with the financial and expert assistance of the World Bank under the Oyo State Urban Project (IDF II) the head of Land Use Charge office must be a registered Estate Surveyor & Valuer to perform the following functions:

(a) Set valuation standards for Land Use Charge assessment,

(b) Carry out field work on identification and assessment of chargeable properties, and supervise appraisals engaged by government for the same purpose.

(c) Delineate the township map into neighbourhoods for data collection and monitoring of Land Use Charges collection;

(d) Updating of the tax base periodically;

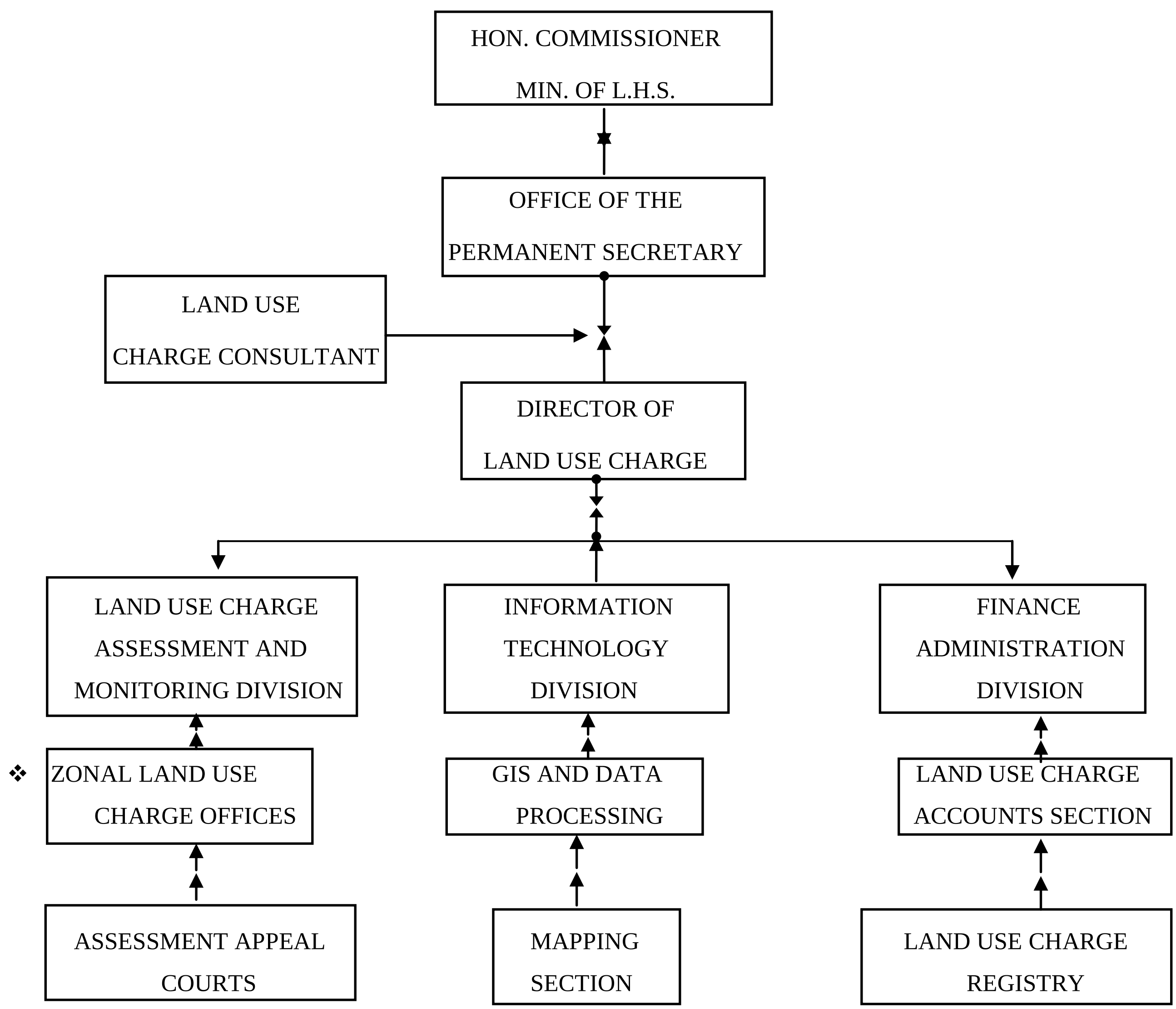
(e) Attend to complaints an property assessment of individuals and corporate bodies and

(f) Supervise the ‘Collecting Authorities, that is, Local Government and render report

The appointed Consultants should not combine assessment function with the collection functions unless with the participation of respective Local Government Staff in order to develop their capacity to mange Land Use charge collection efficiently.

The Central Valuation or Land Use Charge Office will coordinate the Consultants operational activities and render reports to he appropriate authority.

LAND USE CHARGE OFFICE ORGANOGRAM



2.8.2 Information Technology Division

Local authorities do not have the capacity to systematically maintain and coordinate their fiscal cadastre information (i.e. Valuation Roll), hence they depend on the state Rating Valuation Office in the Ministry of Local Government in Oyo State but in the Ministry of Lands in Kenya according to Roy Kelly (1999) to create and update their valuation roles. All fiscal cadastre information (i.e. Valuation Rolls) is maintained with the use of computers.

Property taxation is an ideal tax for utilizing computer technology to support property tax administration. Computer can be used to facilitate all aspects of administration. For example:

a) Managing individual property information,
b) Property valuation
c) Tax assessment, (printing of field survey sheet)
d) Billing system (printing of demand notice)
e) Collection of tax (Delivery of demand notice)
f) Enforcement process (record of Defaulters).

Successfully utilizing computerization depends on the ability to link the data processing activities with the administrative components of property taxation or land use charge. These two components must be effectively integrated to form a comprehensive property tax (or hand use charge) administration management system.

The operation procedures such as the assignment and maintenance of unique property identification numbers, mapping, field data collection, valuation, bill delivery and monitoring, collection monitoring, enforcement and tax payer service must be integrated with the data processing components.

The data processing components include: data entry, verification and validation, valuation and assessment, tax billing, collection monitoring, system control and information retrieval. Ignoring the administrative components is a guarantee for computerization failure.

Maps should be used to ensure that all those listed properties have complete and accurate information necessary for rating purposes. The government must avoid the tendency to use property taxation to justify tremendous investment into computerized geographic information systems, which emphasizes the geographical components of digitized parcel mapping often based on a Global Positioning System (GPS). Are usually supply driven by the technology rather than demand driven by real needs of the property tax administration system. Expectations are usually not realized because these expensive high-technology solutions fail to consider all aspects of property taxation, especially its administration interface with tax officials and tax payers.

A computer-based geographic information system (GIS) is only needed for facilitating property identification, information analysis and tax map production would suffice for an ideal property tax administration.

2.8.3 Functions of Local Government Authority

Section 3 (2) Local Government Area, for the purpose of Land Use Charge Law in Oyo State, shall be the '**collecting authority'** and it shall be the only body empowered to levy and collect Land Use Charge for its area of jurisdiction. For this propose of carrying out these functions, the Local Government shall:

(i) Set up collection machinery in the Local Government Estate and Valuation Department.

(ii) Deliver 'Demand Notice' produced by the state to the owners of properties within its domain.

(iii) Organize public enlightenment drive on Land Use Charge Collection with a view to soliciting and ensuring their co-operation.

(iv) Keep records of ‘Demand Notice’ and tax payers served to be able to prepare the list of defaulters for prosecution.

(v) Prepare reports and submit to the zonal Land Use Charge Office or directly to the Land Use Charge Office

(vi) To generate and instill confidence in the Land Use Charge Collection through demonstration of probity and accountability in the collection, disbursement and use of funds generated, and

(vii) Assist the Central Land Charge Office in the identification of taxation probabilities in each local government area

2.8.4 Capacity Building and Capability

It is important to identification between capacity and capability. Capacity refers to the knowledge, skill and attitudes of individuals or groups and assigned to them. Capability on the other hand refers to the overall ability of the individuals or to actually perform the responsibilities. Local Governments Estate and Valuation Departments and the Valuation Office in the ministry of Local Government & Chieftaincy Matters are understaffed inspite of having the capacity to perform their functions.

It is essential that the design of training programmes must meet the objectives of delivering appropriate knowledge skills that can enhance the effectiveness of staff. Therefore, better capacity development depends crucially on better knowledge, as well as on appropriate skills and altitudes.

The enabling environment upon which the building of capacity is based is essentials. Without a supportive policy and legislative framework, no local government valuation department and State Valuation Office will have capacity to work efficiently, including other ministry and departments involved in the tax administration, notwithstanding the capacity of individuals within it.

2.9 RECOMMENDATION

It is essential for state government to balance the need to maintain political legitimacy with the fiscal imperative to raise revenue political interference can significantly effect the operation of the property tax to the extent that ordinary taxpayers lose confidence in the fairness of the tax.

For any property tax reform, it is imperative that the basis of assessment fulfils a number of key criteria. These include ease of administration, simplicity in application, cost effectiveness and efficiency in relation to maintaining the quality of the tax base. The basis of assessment must be sustainable otherwise the property tax system will fail to meet the objectives of fairness and equity.

However, the first step the state government could have taken in the transition from Tenement Rate based on annual rental value to Land Use Charge based on capital value challenges, system assessment was to a through analysis of the existing property rating system, identifying the major constraints and opportunities for improvement. Based on this analysis, an appropriate reform strategy would have been designed, focusing on the policy and administrative dimensions as well as the implementation strategy itself.

In conclusion, the lesson learnt from various property taxation best practices is that levying excessive tax on property beyond the annual return on property investments will be negating capital formation necessary for economic development and stuffing much needed funds away from real estate and housing in particular. Moreover, excessive taxation will discourage business establishments, industrial and tourism developments in the country. For this not to happen, real property should be assessed by professionally trained assessors in line with Decree 24 of 1974 now cap III NFL 1990 that established the Nigerian Institutional of Estate Surveyors and Valuers.

The improved property tax revenues or annual Land Use Charge could provide the critical resources needed by tee states and local governments to provide the level and quality of services required to sustain and promote further economic development.

CHAPTER THREE

INFLUENCE OF TAX POLICIES ON URBAN INFRASTRUCTURE AND REAL ESTATE DEVELOPMENT

3.1 INFRASTRUCTURE AND URBAN DEVELOPMENT

The tax policies of governments influence directly or indirectly the patterns of urban development and may have some potential for aiding the implementation of land use plan. Although tax policies are primarily designed to raise revenue for funding public expenditures, it may be possible to design them to serve planning purposes as well.

The world **"Development"** is used very widely in relation to land. Among architects, engineers and surveyors, it generally means the process of carrying out constructional works which are associated with a change in the use of land or of land with its buildings, or with a change in the intensity of the use of land, or with a re-establishment of an existing use.

Land is unique in that each parcel or plot has a specific location with its own particular geography. Land development is the consequence of many decisions and private nature that may trigger various actions which taken together produce the total pattern of land development

The changing pattern of urban growth is generally characterized by the broad pattern of growth, decay, rebuilding, central business and shopping centre, industrial estates, and outer residential suburbs.

The world **"real estate"** in general parlance, especially in the United States of America, connotes property consisting of land and buildings on it, along with its natural resources, such as crops, mineral, or water, an interest vested in immovable property of this nature. It is **"real property"** in the British usage often shortened to

“property” and it includes all forms of rights and interests arising out of land and building.

Africa’s **infrastructure** sectors, according to the World Bank (2010), lag will behind those of the rest of the world and the gap is widening. Inadequate and expensive infrastructure is retarding growth by 2 percentage points each year. Solving the problem will cost over us$90 billion per year, which is more than twice what not the answer. Prudent policies, wise management, and sound maintenance can improve efficiency, thereby stretching the infrastructure dollar. Improving efficiency, increasing regional power trade, and deregulating the trucking industry could reduce the investment cost needed significantly.

“Infrastructure” can be described as **facilities and services** which enhance the physical, social and economic development of a nation and her people and it includes: transport, water supply, sanitation, solid waste management, bridges and roads, energy and housing. Infrastructure also includes; hospitals, educational institutions and communication facilities.

The goal and objectives of urban infrastructure improvement is to ensure greater efficiency in the operation of cities in Nigeria and enhance the quality of life of urban residents and operations of manufacturing and agricultural activities. Investments in water, sanitation, energy, housing and transport also improve lives and help communication technologies will promote growth, improve service delivery and support social and cultural services.

3.2 URBAN LAND USE PATTERN

A regional or physical development plan must take into consideration both rural and settlements together and integrate the three factors of development, such as economic, social and physical. Their components are housing, infrastructure, industry, health, education, recreation and so on. The investments on these infrastructures change the physical character of the region and the human settlements therein. Depending upon the job opportunities, population increase (by natural and migration) will occur in each town.

All towns need housing infrastructure and community facilities. But the type of facility and the nature of institution cannot be uniform for all towns. The area and population served by each town and the hierarchy of the town in the total human settlements pattern decides the scale of these facilities.

Land development is the consequence of many decisions and implementing actions of both a public and private nature. Priming actions often trigger secondary actions which taken together produce the total pattern of land development. Thus an industrial or commercial location decision may set in motion a whole chain of other decisions and actions, for example location decisions of households, firms and institutions.

The changing pattern of urban growth is generally characterized by the broad pattern of growth, decay, rebuilding, central business districts and shopping care, industrial estates, and outer residential suburbs.

Increase in traffic along any new road will attract traders who set up roadside stalls for selling goods to passing vehicles. Lacks of shopping facilities have encouraged owners of some residential houses to convert their garages into shops and rend food articles, beverages and drugs. The Government Reservation Areas, which are environmentally attractive due to low density of population, are being apportioned for private development, which attract various non-conforming uses.

Land use within an urban area can often be conveniently subdivided into four separate and distinct districts or zones.

i) Central Business District (CBD), which is the optimum location for many economic activities and hotels, having maximum accessibility. The principal land uses of the ancient Yoruba cities are the royal palaces, the central markets, the roads, the residential quarters and the defence wall.

ii) Surrounding the town center in all directions are residential development.

iii) Town extensions (suburban) and industrial and institutional areas which are developed on the outer ring, mainly along transportation routes. The land is cheaper and density is moderate.

iv) Rural-urban ringe accommodating commuters, who wish to live in rural surroundings.

Rural Settlements Pattern

For integrated rural development, the policy should be to increase the opportunities, for employment by the introduction of intensive agriculture, industries for processing agricultural products and workshops for repairing agricultural implements. In addition to employment, basic amenities like health, education and welfare services have to be provided at easy reach of rural population. This can be achieved by selecting important villages, preferably of larger population with easy access to rural people, as centers where small-scale industries and community facilities can be economically operated.

These villages, serving as central villages for the surrounding area can attract, by their enhanced job opportunities, migrants who might otherwise move to bigger towns.

3.3 EFFECTS OF URBAN PLANNING ON LAND USE VALUES

Land values are influenced by a variety of factors, such as accessibility and compatibility. If there is a shortage of land available for a certain use, prices will tend to rise until further land is transferred to this use, unless land use but very authoritative Uthwatt Report (1942) the effect of town planning is to transfer land values but not destroy them.

The most important factors influencing land values is considered to be the interaction of supply and demand in the property market. Users of land bid for sites in accordance with what will maximize their profits and minimize their costs. The supply of land is fixed but its use may change. In practice, the market prices of the developed real properties determine the land values (the residual method of arriving at land values) which the developer can afford to pay.

3.3.1 Factors influencing land values are summarized as follow:

i) Supply and demand: a limited supply of building land will force up to the price;
ii) The permitted use to which it can be put under planning regulations, of which central area uses such as shops, offices and theaters, are the most valuables;
iii) Highly priced land are in the most accessible location like central business districts (CDB);
iv) Physical characteristics which affect the cost of development and sustainability for a given purpose, industrial areas for example needing extensive flat sites;
v) Availability of public services, such as roads, sewers, water and gas mains, electricity cables and communication.
vi) Forms of title (freehold or leasehold) and any restrictive covenants or other encumbrances which will affect its use.
vii) General nature of the surrounding development and its compatibility.

Values are best established by reference to the price paid for comparable properties in the market. In practice, there are few really comparable sites or building and there is all too frequently little information available on property transaction. Generally, auction prices are accepted as the truest indication of market prices.

Commercial and similar uses are located in city centres, as they are able to pay the high land prices and secure the benefits of maximum accessibility and convenience. Generally, commercial and industrial uses can attract land away from residential uses because rents serves to act as sorters and arrangers of land use patterns, and planning control alone does not decide land use.

However, while commercial activities can also locate in higher density office block and business centers, industrial and housing where activities have less flexibility. Industrial activity will shift to suburban locations or moving beyond the region to lower cost rural areas (e.g. Nigerian Brewery PLC and Coca-Cola Bottling Company along Ife-Ibadan Expressway; British America Tobacco Company Ltd and Eagle Flower Mill along Lagos-Ibadan Expressway).

Competition between firms to be in the desired positions will force the land values above those of the surrounding land used for residential purposes. If all the land in a given part of the town is used for complementary purposes, this is likely to enhance the land values, whereas, if they are incompatible this may lower the land values. Competition between Commercial Banks along Idi-Ape Iwo Road Roundabout in Ibadan has forced land prices up and resulted into the change of use of land from residential to commercial consequently many residential buildings were either converted or sold off for Banking structures and eateries. These developments have enhanced property tax values in the area.

In a similar vein, if there is a residential district well served by schools, open spaces and transport, persons will wish to live there and both property and land values will be higher than if it lacked these facilities, consequently increasing per capita tax base of the district and more revenue for governments.

Development in transport systems may also lead to changes in urban land values. For example, the extension of a bus route, or the carrying out of major road improvements, may cause changes in land values in adjacent areas. This was the case of Lagos-Ibadan Expressway, the Ring Road now called Moshood Abiola bye-pass on the Southern part of Ibadan, Eleyele-Sango dual- carriageway. The proposed Ibadan Circular Road will definitely open up the rural areas and increased land values, and consequently encouraged land speculations unless government prepare master plan for Ibadan and enforce strict planning control regulations.

Shortage of land for residential purposes retards the housing programme and is blight on the building industry. Then, when land is made available for development, competition tends to force up the price which, coupled with increasing building costs, may cause the projected buildings to fail to meet the criteria for investment return or cause rents to reach levels which occupants cannot afford or are very reluctant to pay.

Farmland near the towns and cities often has a ***potential development value***, described by the Uthwalt Committee as ***floating value***, which increases as the likelihood of development becomes more certain. Successful planning should seek to understand the economic and social forces which shape our environment and assist in the allocation of land uses to meet those needs in a manner beneficial to the whole community. This involves ensuring an adequate supply of land to meet various anticipated demands.

Urban renewal projects embarked upon by some state governments is a programme of land redevelopment in areas of moderate to high density urban land use. It involves the relocation of business, the demolition of structures, the relocation of people and the use of eminent domain (government acquisition of property for public purpose) as a legal instrument to take private property for city-initiated development projects. **In essence, urban renewal has effect of transferring land values and consequently on the property tax revenues payable to the government**. Additionally, urban renewal can have many positive effects. Replenished hosing stock might be an improvement in quality, it may increase density and reduce sprawl, it might have economic benefits and improve the national and regional economic competitiveness of urban centres in Nigeria.

3.4 REAL ESTATE DEVELOPMENT AND ECONOMIC GROWTH

Development is a process of carrying out the constructional works which are associated with a change in the use of land or of land with its buildings, or with a change in the intensity of the use of and, or with the reestablishment of an existing use”. Whereas, property investment connotes the commitment of capital to land to create development with the expectation of good returns, which may be a yield in financial returns or for social status, prestige or satisfaction. It is the injection of capital into land that produces real estate.

Property development connotes an investment in landed property with the commitment of scarce resources to the purchase, development or security of landed property with the ultimate aim of achieving a predetermined goal or satisfaction. Such developments include: residential buildings, office development, industrial development, recreational development, hospitals, schools, religious buildings, and road and port infrastructural development.

What we see today in Abuja, in modern Victoria Island, in Lekki Peninsular, the Victoria Gardens, and in the Alma Beach Estate, Gbagi Central Business Districts in Ibadan, Skylines of Marina Lagos and a host of other high rise buildings in other major cities like Kaduna, Port Harcourt and Ibadan.

Real Estate development provides a backbone for a nation’s economic development and growth. It generates earnings and stimulates spending. It has indirect and induced impacts on the economy and adds to country’s GDP. Within the economic sector, according to CBN report, 2010, agriculture, transport, communications and roads/ construction collectively absorbed 30.9 percent of the recurrent expenditure and contributed substantially to the GDP in Nigeria as contained in the table below:

Table 3.1: Section Growth Rates of GDP (2006-2010) Percent

Activity Sector	2006	2007	2008	2009	2010
Building & Construction	13.0	13.0	13.1	12.0	12.2
Services	9.2	9.9	10.4	10.8	11.9
Transport	6.9	7.0	7.0	6.8	6.7
Communications	32.5	24.5	34.2	34.2	34.5
Utilities	4.9	4.9	3.7	3.2	3.3
Hotel & Restaurant	12.9	13.0	12.9	11.9	12.0
Finance Insurance	5.0	5.0	4.8	4.0	3.9
Real Estate & Business Services	11.3	11.4	11.4	10.6	10.4
Production of Govt. Services	5.9	5.9	6.0	5.9	5.7
Comm. Social & Pers Services	10.6	10.6	10.7	9.8	9.9

Source: *Central Bank of Nigeria, Report 2010.*

The current transformation agenda of governments in Nigeria at the national and state levels, involves improved transportation, new industrial estates tourism development, ind3epedent power project s and building of water dams to boost water production, hydro-electricity and irrigated agriculture.

Real estate development has succeeded in transforming Dubai economy into an important Trade Centre and business port, leading to the country's economic boom and indeed, one of the world's fastest growing economies. The multiplier effect equally stimulated the banking sector. Thus, the country has equally assumed the biggest banking and financial market in the United Arab Emirates. In 2005, Dubai economy recorded a 16% growth. The non oil sector spurred by real estate development contributed about 94% while oil contributed 6% of the country's Gross Domestic Product (William, K. 2011).

In Rio de Jeneiro, Brazil Proto Maravilha is changing all the Barbour's area. The Proto Marvaliha Urban Operation (PMUNO) in Brazil is a large-scale urban waterfront revitalization project. It covers a centrally located five million square metre land area. The project aims to develop the port area increasing the city centre attractiveness as a whole and enhances Rio's competitiveness position in the global economy. The urban renovation involves: 700km of public networks for water supply, sanitation, drainage, electricity, gas and telecom; skin of tunnels. 70km of roads, 650sq.km. of sidewalks, 17km of bike path; 15,000 trees, 3 plants for sanitation treatment.

The federal and state governments of Nigeria, in their effort to develop tourism, have created Tourism Development Authorities charged with the responsibility of planning and controlling the process of tourism development.

Tourism is one of the world's fastest growing industries as well as a major source of foreign exchange and employment of many developing countries. In realization of the enormous benefits derivable from having a vibrant tourism industry, governments all over the world have intensified efforts at promoting the growth of tourism through the application of robust tax regimes.

Aside from taxation serving as a source of revenue for developing the tourism industry, favourable tax incentives have also proved to be a potent tool for its development. Taxation is therefore necessary for the development of the Tourism industry which in turn contributes to boosting the tax revenue (in the form of additional payment of Valued Added Tax, Personal income tax, Company Income Tax etc) accruing to the government.

Some of the Tourism Development in Nigeria includes:

- Development of the coastline of Lagos Bar Beach, Badagry Beach and Lekki beach by Lagos State Government;
- Development of the Osun Shrine Village and the hosting of the Osun-Oshogbo Festival by Osun state Government;
- Development of the Arugungu Festival village and the hostying of the Arugungu Festival by Kebbi State Government;
- Development of Obudu Cattle Ranch and the Tinapa project by the Cross river State Government;
- Development of waterfalls, Springs and Mountainous temperature climate of he Manbella plateau and Gembu in Adamawa state. Others are;

- The Jos Wildlife in Jos, Pleteau State
- The Oyo National Park in Oyo State
- The Olumo Rocks in Abeokuta in Ogun State
- Yankari Games in alkalani Local Government, Bauchi State

Investment in the real estate sector such as Shopping Mall, Event Centres and Housing by WEMA BOARD ESTATE and other Public Agencies is gaining ground because it offers windows of opportunities to earn good returns on investments as well as offers security on investment. ODU'A Investment Company Limited has commissioned a N200 million estate in Ibadan, the Oyo State Capital, raising the portfolio of its estate investment. The estate, named Almond Court, is located in the heart of Ikolaba Estate, near Agodi. When the defunct Nigeria Airways gave up its right to land for buildings in Ikeja GRA, the private sector made good use of the opportunity to invest therein. The current economic situation does not permit single unit duplexes and bungalows in colonial designs on large expanse of land. It has been replaced almost completely with more modern designs and trappings of wealth and glamour.

Real estate investment in Nigeria provides a diversified benefit to investors, providing a systemic dilution for portfolio baskets on a risk adjusted basis. Real estate investment is a long term investment. Confronted with liquidity risk, market risk, interest rate risk, and other qualitative risks.

Massive tourism industrial can be developed into international standards by providing adequate accommodation, good restaurants, recreational facilities, adequate communication networks and adequate security. Moreover, real estate development in Nigeria will have cumulative effect of providing tremendous employment opportunities for numerous unemployed people, thereby, reducing crime in the society, it will lead to improved standard of living of Nigerians and reduce preasure on the nations oil resources, thereby the devastating effects of oil production on the environment of oil producing communities.

3.5 PUBLIC-PRIVATE PARTNERSHIP APPROACH

The concessioning of the Lekki Expressway in Lagos State, Lagos-Ibadan Expressway, The Ibadan 110 kilometer Circler Road by the Lagos and Oyo State Governments and the Federal Government is another laudable approach to road infrastructural development in Nigeria. Concessioning is set to met the needs of a growing economy, and attract private investment in public works that could be supported by **user charges.** It will also improve investment efficiency and management of road infrastructure and encourage real estate development.

The thinking of governments around the world in recent times in has been that of sharing the financial burden and professional expertise in the provision of public utilities and infrastructure with the organized private sector. The ideas of the public-private partnership scheme is to provide what constitutes a social amenity without the huge financial strain that comes with the palming and execution of such projects.

According to Dr. Emanuel Ege and Dr. Charles Asenime of the university of Lagos and Lagos State University respectively: **Public-Private Partnerships are characterized by the sharing of investment risk, responsibility and reward between the partners.** The reasons for establishing such partnerships vary but generally involve the financing, designing, construction, operation and maintenance of public infrastructure and services. The underlying logic for establishing partnerships is that both public and private sectors have unique characteristics that provide them with advantages in specific aspects of services or project delivery.

The concessioning of the Lekki expressway takes on the **Build-Own-operate-transfer (BOOT)** approach. The private developer (Lekki Concession Company Limited, LCC) obtains **exclusive franchise** to finance, build, operate, maintain, manage and collect user fees for a fixe period on the Lekki expressway, to amortize investment. At the end of the franchise, the title reverts to a public authority which is the case would be the Lagos State Government.

The scheme operational objectives include providing the road users with added values, convenience, efficiency, cost-effectiveness, accident and pollution reduction, neighbourhood/community economic employment, better health and neater environment and **property/asset appreciation** resulting into higher per-capita tax base.

Joint public-private real estate development can be an effective mechanism for governments to get the sector to implement its urban land development goals without wasting scare resources. The government can act as a catalyst to promote desirable development.

Teaming up creates mutual benefits for public agencies and developers. The possible benefits to the public sector include:

- Urban redevelopment of decayed neighbourhoods considered too **"risky"** by developers to tackle on their own (urban renewal);
- Increased economic activity and taxes as underutilized and surplus lands become developed;
- Financial gains from ground lease income and participation in ongoing cash flow from **joint developments projects**; and
- Private developer-provided public spaces and amenities such as theatres and cultural centres, and developer subsidies for new public facilities.

Land readjustment is one method for structuring joint development projects where the public sector uses its land acquisition powers to assemble land. It has been very successful in Korea and Jaoa (Doebele, 19820). In many urban areas, the configuration of individual plots si inefficient and odes not allow for the efficient provision of roads and urban services. In its simplest form it involves the pooling together of land owned by the participants of a redevelopment scheme. Upon completion of the planning, replotting and deployment of urban services, the participants receive back a portion of their land and the rest is sold to generate fund to pay for the redevelopment of the area. Special assessment charges are also levied on the beneficiaries as revenue to the government.

States in Nigeria will definitely realize important benefits when Public-Private partnerships are used in the appropriate context. Potential benefits include: cost savings, risk sharing, introduction of innovations on service delivery, introduction of new technologies and economy of scale, introduction of more innovative revenue sources, efficiencies through more flexible quicker approvals for capital financing and a more efficient decision making process. More efficient service delivery not only allows quicker provision of services, but also reduces costs. It will also help to stimulate the private sector and contribute to increased employment and economic growth.

3.6 PROPERTY TAXES EFFECT ON ECONOMIC DEVELOPMENT

Taxation is a process by which resources are transferred from the private sector of the economy to the government. In this process, tax policy affects the allocation of resources and distribution of income Tax policy affects the rate of economic growth by affecting rate of investment. Indeed, many similar tax and non-tax measures have been used to create investment incentives and promote activities in the country such as tourism industries.

The imposition of a property tax affects the allocation of resources only if the supply of land and of improvements responds to the imposition of a property tax. Society might be worse off in the property tax results in relocation of investments from housing to automobiles, but the society might be better off, for example, if property taxation induces improvements of slums. Unless a particular property tax practice is permitted to remain in force for a sufficiently long period, its main effects will be to redistribute income and generate public revenue.

Urban areas in developing countries are already plagued by a shortage of buildable and serviced land by high land prices, and by an inadequate housing stock. It would therefore be unwise to allow the property tax to make things worse, hence, governments should adjust their property tax structures to promote better use of the land resource.

3.6.1 Income Tax Effect

Federal and states income tax policies encourage the purchase of homes as opposed to renting and speculation in land. The consequent result is the fragmentation of land tracts, rising land prices, and the promotion of sprawl. The encouragement of home ownership, according to Clawson (1971), takes three forms in USA:

(i) The imputed rent of the owner's dwelling does not have to be included as part of his income for federal income tax purposeds:

(ii) Payments for real estate taxes may be also deducted from gross Income; and

(iii) Interest on home mortgages may also be deducted.

Speculation in land is encouraged because income from land sales qualifies as capital gains which are **taxed at a lower rate** than ordinary income**.** Also, when the income tax policy provided for the write off of depreciation, owners of deteriorating rental housing make more profit by not rehabilitating it, thus furthering the decline of blighted areas in USA.

3.6.2 Real Property Tax Effects on Real Estate Development

Real property tax, apart from serving the purpose of raising revenues, it may also be viewed as a means of promoting sound urban development. Tax on land and buildings, especially, is a more effective method of controlling its use than regulations. However, property tax and land use policy objectives must be coordinated in a way that would include an efficient uniform assessment system, an adequate land use control system, and efficient budgeting for community facilities. Other objectives will include incentives for increasing investment in construction (or business), increasing home ownership, speeding up the development of land, discouraging urban sprawl or land speculation, preservation of historically or esthetically valuable areas an structures. These various policy concerns are all somehow related to the goals of promoting a better use of urban land and holding down land prices.

Large cities and metropolitan areas have a larger capital tax base than smaller cities and rural local government, hence they rely more on property tax revenues. Moreover, since commercial industrial and tourism industry are always taxed at higher rate than residential properties, large cities with a high proportion of these class of an properties have greater ability to levy property taxes.

The incidence of property tax assumes the application of equal rate to all properties, that is, a tax strictly proportional to property value. The property tax however, typically is not applied at uniform legal rates, and a great deal of additional variation Is introduced by assessment and administration practices.

The assessment practices now used in many developing countries were influenced heavily by these countries' colonial heritage but have developed overtime into unique systems. Among the countries which use capital value bases, there is a wide diversity in assessment practices. Each country has introduced its own variation on the basic assessment methods such as: comparative sales, construction costs, or discounted cash flow. When each of these many variations was applied in the same country, markedly different patterns of assessed value would surely result.

Indeed, probably more than for any other major tax, the incidence of the property tax depends on its implementation. Unless one takes account of this implementation, it is impossible to determine the distribution of tax burdens.

Property tax structure and administration may discriminate among properties of different values by applying graduated tax rates, by allowing assessment ratios to vary across value classes, or by granting exemption to properties in particular value classes.

3.6.3 Effects of Differential Taxation of Real Property

In raising tax revenue, higher rates on land and lower rates on improvements is a favourable approach to property taxation of real property on the grounds that they will force landowners to develop land to its fullest potential and this will stimulate investment in construction, advance the timing of land development, encourage the **'infill'** development of underutilized urban land, and discourage speculative landholding practices.

a) Real Estate Speculation and Tax Policy

The inelastic supply of land offers the potential for a tax that does not carry with it the usual **dead weight economic loss** that accompanies a distortion in the price signals for supply and demand. Almost alone among potential tax bases, land is both immobile and limited in supply. A tax on land cannot cause the owner to withdraw it from the jurisdiction (or location), or shifts its production to another location, unlike a tax on building, a tax does not provide a distinctive to new building, or more intensive use of the site.

The rate of appreciation in **land values** is likely to be increased as a result of **vacant land tax,** however. For much the same reason that site **value taxation** is likely to accelerate the rate of increase in **land prices.**

Rate estate speculation has been a difficult problem for along time and the government has placed a high priority on containing real estate inflation. Furthermore, the government was seriously concerned about the concentrated distribution of real assets and the severe shortage of urban land for housing and business. In addition, the rapidly rising price of housing has contributed to serious social instability

Taxation of wealth or properties should form an important element of the overall tax structure, not for revenue purposes, but to complement income taxation, ameliorate the significant unequal distribution of wealth, and ensure efficient resource allocation.

As a means of curbing speculation on real properties, the government has always relied on capital gains tax (CGT) on real properties rather than the property tax on real properties. However, it has proved to be ineffective in controlling speculative real estate purchases because, the high tax rate on capital gains on real properties may have a psychological impact on the real estate market, dampening speculative initiatives, leading to under reporting or disclosure of actual value of property transactions to the government.

The best tax instrument to curb speculative buying of real properties would have been a property tax imposed directly on ownership rater than the Capital Gains Tax on real properties, which is imposed at the time of ownership transfer. Otherwise, both administrative difficulties on the tax collectors side and widespread tax evading efforts by the taxpayers will mollify the government's effort to cool speculation on real estate via heavy taxation on capital gains from real properties.

b) Low-Value/Owner Occupied Residential Properties

Owner occupied residential properties tend to receive preferential assessments or outright exemptions; where immediate goal is to encourage homeownership. Low-value properties are common in the core area of the city of in the modern slum areas on the periphery of urban areas. Therefore, the exemption of low-value properties from property taxation will favour low income people because those who own land will gave more disposable income available for improvements and a greater incentive to make them, since they do not pay taxes on the land and improvements as long exemption or deductible limit. This would encourage more investment in low-cost housing that world a flat rate tax on all property.

In the United States, state governments placed additional limits on property tax rates and several states exempted **owner-occupied residence** from taxation. These homestead exemptions were later criticized because they provided large amount of relief to wealthy homeowners and disproportionately reduced the revenue of local government whose property tax base was made up largely of residential property.

c) Industrial and Commercial Properties

Industrial and Commercial properties are often more heavenly taxed then residential properties. The jurisdiction is that owners of those properties have greater ability to pay than owners of residential properties, in other words, the main objective is that of equity. If lower taxes are charged by industrial and commercial properties, it is usually with the purpose of encouraging and attracting business investment in a particular state of province or a country.

d) Property Tax Financing of Improvements in Physical Infrastructure

Special assessment is a form property taxation principally used to finance improvements in the physical infrastructure in already subdivided or built-up urban areas, especially where urban renewal projects had taken place. The basic principle underlying those special assessments is to recoup the cost of infrastructure projects, especially road constriction and improvement, by levying one-time lump-sum charges on the owners of surrounding or neighbourhood properties. It is known as neighbourhood improvement charges in Lagos State, Nigeria and valorization system in Latin American Countries of Columbia

Columbia in 1960s built up a considerable body of technical expertise, both among public agencies carrying out valorization projects and among private consulting agencies specializing in studies of feasibility and cost allocation for and municipal valorization programmes. At its pick, the valorization system contributed significantly to the mobilization of fiscal resources in Bagota. It made possible extensive infrastructure works which have given the city’s inhabitants is relatively high access to road transport in most areas, including poor neighbourhood, and high access to sewerage. The system has thus contributed to an equitable and efficient infrastructure.

The most critical constraint thwarting infrastructure investment is the chronic lack of capital to finance projects, consequently, infrastructure development persistently lags behind demand in the country. In Nigeria, lack of adequate electricity, water transportation services forces enterprises to divert precious resources to find the self provision of infrastructure. This has major effects on the production capacity and employment opportunities for young school leavers.

The poor state of electricity supply and other basic infrastructure in Nigeria constitute a formidable challenge and major obstacle to the economic growth and development of the country. This particularly so, given the quest to make Nigeria a preferred investment destination by ensuring an enabling environment for business to thrive.

However, the surest way to solve this infrastructure deficiency is to improve special assessments on all property owners to finance the new infrastructure investments and through Public-Private Partnership (PPP). The special assessment or Real Estate Tax on real property owners would ensure that the costs of infrastructure are recovered by passing them onto benefiting properties. It may also provide a more powerful incentive to encourage the development of vacant land and slum areas.

3.7 BURDEN OF TAXATION DUE TO VALUATION APPROACH

In most cases, the property tax laws stipulate that all property should valued. According to the **open market value** of the property or, where the market value cannot be ascertained, the replacement cost of the buildings, structures and developments, adjusted for depreciation.

The open market value may relate to the full value of the property which is **capital value** of land and buildings or site value. An alternative approach is to determine the yearly rental value of the property, that is **annual rental value** of real property

Where transaction evidence is limited the options available would be to consider basing the **assessed value** on measures of use, location, building size and plot size, referred to **area-based** method. However, this method does not reflect the income generating capacity of special buildings like hotels, school buildings, petrol filling stations etc.

While there may be economic consequences between the choice of **value basis,** it is often more important to consider political credibility and administrative feasibility.

In comparing the annual or rental value of properties and the capital value approach, two main arguments are usually given

(i) Rental Value approach is becoming unpopular because of the changing housing tenure patterns, the difficulties of assessing the nonresidential base, and the difficulties of administration.

(ii) The second argument relates to the fact that the tax on rental value of real property is based only on the **present-use value** of a property rather than on the property's **development value** associated with capital value**.** Land is not valued under annual rental vale because the **current-use value** is zero.

Where controlled rents are used as the property tax base, assessed value grows only with new construction because controlled rents are rarely increased. The rent controls are usually imposed by the state and central governments. In some cases, which do not feel the pain of the loss of property taxes. Another point is the considerable opportunity costs of rent control

Any gains from rent control, which protects low-income families from rent increase, are therefore achieved by sacrificing revenue, and therefore the public services available to these same low-0income families may ultimately be reduced.

3.7.1 Valuation Based on Sales Comparison Metho

The current valuation methodology under the Land Use Charge Laws of Oyo and Lagos States implementation did not categorize buildings according to use upon which to set assessment guidelines but simply adopted uniform comparative average sales value of land and buildings in the neighbourhoods of each urban area so designated for Land Use Charge payment in Oyo State.

The average sales vale of real property is applicable to all property which is capable of being bought and sold in the open market on the assumption that they are exactly alike, there is no difference in occupational or amenities provided in buildings compared and also in age, occupational use, or neighbourhood character. Most important questions may arise are the availability of adequate sales dater and closeness of time sales. The real estate properties are often categorized or grouped to be utilized by government in preparing assessment guidelines and to establish a uniform valuation buses. **The purpose of any valuation for taxation purposes is to provide the basis for distributing tax burden**.

The valuation of specialized properties such as Petrol Filling Stations, Hotels, Cinema Houses, Cold Rooms, Educational Institutions, the comparison sales value method of valuation does not adequately reflect the income producing potentials of these properties. These groups of properties may therefore be overtaxed and the may discourage investment in this group of properties or encourage tax evasion or relocation to other states. **Property tax must relate to the income of the investment properties in consideration for other taxes and charges to be paid to government which are also statutory**. Therefore, there is need to establish different approach to determine the assessed value of special properties.

3.8 CONCLUSION

The rate at which urbanization is proceeding and pushing up the demand for residential, industrial, commercial and institutional structures will no doubt increase the property tax revenue potentials for state and local governments.

The concentration of these categories of properties, especially high rise buildings and high value residential, commercial and industrial properties indicate more taxable capacity in urban centres and metropolitan areas of the country. To tax these properties would generate more revenue and would be equitable, since these properties are in the Lands of higher income individuals and business.

The cities strong real estate market, stable economy and available professionals in the construction and urban development will give Nigeria the foundation for a modern property tax system if it chooses to develop one.

To maintain an increasing urban economic productivity in the 21st century, will require a set of urban land policies which ensures that adequate supplies of serviced land are available for productive enterprises as well as residential and social uses.

Finally, the critical policy objective of the government at both the federal and state levels, should be to concentrate on the provision of infrastructure to support and facilitate economic activities. This means providing modern electricity, water, transportation and communication systems to enable manufacturing facilities to maintain low operating costs.

CHAPTER FOUR

THE SOCIAL AND ECONOMIC IMPLICATION OF URBAN RENEWAL ON TRANSFORMING NIGERIAN ECONOMY.

4.1 URBAN RENEWAL CONCEPT

The current transformation agenda of governments at national and state levels, particularly in the South West of Nigeria, involves improved transportation networks, new industrial estates, new water and sewage systems, and much better environmental services. The need for investments in basic urban infrastructure and equipments will increase dramatically, and they will require changes in land use. This in turn, will entail interurban compulsory relocation process.

One of the major social and environmental problems triggered by urbanization process in the developing countries is the frequent need to displace and relocate some urban inhabitants against their will. Several main social issues raised by involuntary relocation as part of urban growth such as: the magnitude of displacement; the risks of impoverishment through compulsory displacement; and the need for sound strategies. To reduce the economic losses, social trauma and psychological pain inflicted on displaced people, urban investments and growth programmes must address relocation issues with seriousness.

Urban compulsory relocation raises critical issues such as: land availability, job losses and job creation, reconstruction of housing stocks and viable new neigbourhood adequate environmental management, as well as major financial and political issues.

There has been hues and cries over the state governments in the South West collective resolve to give facelift to major cities and restore the past glory and integrity. The demolition of structures to widen the roads is part of the pains, and economic losses as a result of displacement the people have to endure in order to enjoy the measures of development they expect.

It has been argued that when the roads are completed, they will further open up the states for investors, make the roads accessible to motorists and position the states in the South West among developing ones in Nigeria. The turn around fortune and transformation of Ibadan and other state capitals in South West is an evidence of visionary leadership in government

The concept of urban renewal can be traced back to the earliest days of urban development, and often stems from an expansive style of governance. Its potential value as a process was noted by those who witnessed the overcrowded conditions of 19th century London, New York, Paris and other major cities of the revolution. From this a reform agenda emerged d using a progressive doctrine of “that renewal would reform its residents.

Urban renewal is a programme of land redevelopment in areas of moderate to high density urban land use. Renewal has had both successes and failures. The process has had a major impact on many urban landscapes, and has played an important role in the history and demographics of cities around the world.

Urban renewal involves the relocation of businesses**,** the demolition of structures, the relocation of people, and the use of eminent domain, (government purchase of property for public purpose) as a legal instrument to take private property for **city-initiated** development projects. In some cases, urban renewal may result in **urban sprawl** and less congestion when areas of cities receive freeways and expressways

4.2 URBAN RENEWAL INITIATIVES AROUND THE WORLD

Urban renewal has been seen by proponents as an economic engine and a reform mechanism and by critics as a mechanism for control. It may enhance existing communities, and in some cases result in the demolition of neighbourhoods. It may also have economic benefits and improve the global economic competitiveness of a city's centre

For instance, Melbourne Docklands urban renewal projects, a transformation of a large disused dock into a new residential and commercial project for 25,000 people increased tax revenues for government. In late 1964, the British Commentator, Neil Wates expressed the opinion that urban renewal in USA had demonstrated the tremendous advantages which flow from an urban renewal programme such as remedying the **'personal problems'** of the poor, creation or renovation of housing stock, educational and cultural opportunities.

Under the powerful influence of multi-millionaire R.K. Mellon, Pittsburgh became the first major city to undertake a modern urban renewal programme in May 1950. Pittsburg was infamous around the world as one of the dirtiest and most economically depressed cities, and seemed ripe for urban renewal. A large section of downtown at the heart of the city was demolished, converted to arks office buildings, and a sports arena and renamed the Golden Triangle in what was universally recognized as a major success

In 1956, the USA Federal-Aid Highway Act gave state and federal government complete control over new highways, and often they were routed directly through vibrant urban neighborhoods, isolating or destroying many since the focus of the programme was to bring traffic in and out of the central cores of cities as expeditiously as possible and nine out of every ten dollars spent came from the federal government. This resulted in a serious **degradation of the tax base** of many cities, isolated entire neighborhoods, and this meant that existing commercial districts were bypassed by the majority of commuters. Segregation continued to increase as communities were displaced and many African Americans and Latinos were left no other option than moving into public housing while whites moved to the suburbs in ever-greater numbers (Bullard, Robert 2007).

Atlanta in USA lost over 60,000 people between 1960 and 1970 because of urban renewal and expressway construction, but a downtown building boom turned the city into the showcase of the New South in the 1970s and 1980s. In the early 1970s in Toronto Jacobs was heavily involved in a group which halted the construction of the Spading Expressway and altered transport policy in that city

In Rio de Jeneiro, Brazil Proto Maravilha is changing all the harbour's area. The Porto Maravilha Urban Operation (PMUNO) in Brazil is a large-scale urban waterfront revitalization project. It covers a centrally on located five million square metre area. The project aims to redevelop the port area increasing the city centre attractiveness as a whole and enhances Rio's competitiveness position in the global economy. The urban renovation involves: 700km of public networks for water supply, sanitation, drainage, electricity, gas and telecom; 5km of tunnels; 70km of roads; 650sqkm of sidewalks, 17km of bike path; 15,000 trees; 3 plants for sanitation treatment.

During the 1990s, the concept of **culture-led regeneration** gained ground. Examples most often cited as successes include **Temple Bar in Dublin** where tourism was attracted to a bohemian **'cultural quarter'** Barcelona where the 1992 Olympics provided a catalyst for infrastructure improvements and the redevelopment of the waterfront area, and Bilbao where the building of a new art museum was the focus for a new business district around the city's derelict dock area. The approach has become vey popular in UK due to thee availability of lottery funding for capital projects and the vibrancy of the cultural and creative sectors.

4.3 MANAGING URBAN TRANSFORMATION IN NIGERIA

The Nigerian built environment is fast decaying. The factors responsible for this can be attributed to rapid urbanization, rural-urban migration, and decades of steady economic downturn, decay of urban infrastructure and negligent housekeeping (World Bank, 2005).

The urbanization process in many developing countries, particularly Nigeria, has not been accompanied with corresponding supply of adequate houses, basic amenities and infrastructures. These have created demand on housing stocks leading to high rents, overcrowding and development of slums and squatter settlements. These have serious impact on the habit environment and serious consequences on health of city residents.

Cities account for two third of global energy demand, 60% of water consumption, and 70% of green house gas emission. With this growth in size of cities comes increase in demand for efficient urban infrastructure and sustainable development project in alternative energy, public transport, water supply as well as in health care.

The problems of urban renewal and slums upgrading have their origin in colonial urban planning which was based on the principle of segregation and which separated Nigerian cities into **"European"** and **"African"** areas. The former was fairly protected because of its layout and substantial buildings; the letter was left in its pre-industrial and pre-colonial traditionality.

The township ordinance was passed in 1917. Its main purpose explained Sir Fedric Lugard plan to establish the broad principle of municipal responsibility, graduated according to the importance of the community, and the measure of its ability to accept, and discharge satisfactorily the conduct of its own affairs. Townships were graded into three classes, from first to third, according to the degree of control and responsibility vested in the governing authority, and they include practically all centres where Europeans (5) reside.

Only Lagos was a first-class township, and Ibadan was one of the eighteen (18) second-class townships in Nigeria then. The Ibadan Township Area was located in parts of the southwest. It encompassed part of what later became known as the New

Reservation (or Jericho) the Railway Station, Iyaganku, Iddo Gate and Lebanon Street.

The introduction of western culture through Township Ordinance of 1917 has brought an economic revolution as well as new ideas, the inter play of contrasting cultures has also had a striking effect on the structure of indigenous cities in Nigeria.

On the other Land, this influence had led to the building of new cities such as Port-Harcourt, Lagos, Enugu, Kaduna and Maiduguri. Their growth was based on the introduction of western-style economic system and transport network.

The spatial and demographic expansion of urban settlements has outgrown by far the capacities of supplying drinking water and energy, waste disposal and sewerage, sanitation, among others, leading to snowballing deterioration of the environment. One of the major social and environmental problems triggered by the process is the frequent need to displace and relocate some urban inhabitants against their will.

Most of the pre-colonial ancient cities and urban centres in Nigeria evolved over a long period on a radial road pattern, particularly in Yorubaland, which is ill suited for present day traffic needs. The towns or city centre is characterized with concentration of people and traffic, variety of land use, intensity of buildings, historic and civic interests, diversity of ownership and high land and property and high land and property values which made it the most vital part of the town. The city centre is the social hub of the town, the centre of local business and civic life, the entertainment and shopping centre. Hence, it must not be permitted to disintegrate under the strain of intolerable traffic conditions or the impact of haphazard development.

Ibadan is one major Nigerian city that was for a long time allowed to grow without a master plan. Consequently there is a great mix of activities, such as commercial and residential, and sometimes residential and industrial, as in the case of small to medium sized industrial establishment.

The metropolitan area of Ibadan has one of the highest population densities in Nigeria and the most densely settled areas remain the central and indigenous core of the city. This coupled with ineffective planning in recent years has given rise to a number of problems, especially housing, traffic congestion, flooding and deterioration of city structures.

The extent to which cities are planned largely determines their levels of functional and aesthetic efficiency and productivity, better planned city function more efficiently and are therefore more economically productive than less planned or the unplanned areas. There is hardly any management information system on which decisions for planning the scope, the rate of growth and the revenue receivable for many services or infrastructural facilities can be based.

The rapid and uncontrolled growth of pre-colonial cities (e.g. Ibadan, Akure Abeokuta Osogbo, Ado-Ekiti and Others) which has resulted in unregulated development and inappropriate land-use changes has also resulted in an estimated 70% of the population living in unplanned, poorly serviced and heavily polluted informal settlements. The lacks of an effective and efficient mass transit system means rapidly increasing numbers of vehicles on ever-more congested roads leading to overcrowding, increased air pollution, stress and increasing accidents.

4.3.1 Sanitation and Sewage

In the core area of the city where the indigenous people live, is overcrowded and unplanned characterized by lack of access to basic environmental infrastructure and services such as water supply, sanitation, solid waste disposal sites, good drainage and good roads. Children under the age of five die each year from diarrheal diseases, largely as a result of poor sanitation, contaminated drinking water and associated problems of food hygiene. Infections and parasitic diseases linked to water are the third leading cause of productive years lost to morbidity and mortality in the developing world (World Bank 1993). Diarrheal death rates are typically about 60 per cent lower among children living in households without such facilities. According to the National Population commission (2006), only 18.47% of households in Oyo State have water closet, 32.73% use pit latrine and 37.13% use nearby bush.

4.3.2 Municipal Solid Waste

Another persistent problem for urban area is inadequate collection and disposal of household garbage. Although most municipal governments spend 20 – 50 percent of their available operational budgets for solid waste services, typically, half of the urban household benefit from collection services. Most wastes that are collected end up in open dumps or drainage systems, threatening both surface water and ground water quality and causing flooding, which provides a breeding ground for diseases-carrying pests. Open-air burning of wastes, spontaneous combustion in land-fills and incineration plants that lack effective treatment for gas emissions can cause air pollution. Lack of the most basic solid waste services in overcrowded low income neighbourhoods is a major contributor to the high morbidity and mortality among the urban poor.

4.3.3 Flooding Phenomenon in Ibadan

Due to ever increasing population of Ibadan and inadequate drainage system, the various land use practices over the unbuilt areas of the city and disposal of wastes on various parts of the landscape, almost all the major rivers draining the city had overflown their banks causing flood disasters of various magnitudes. In 1902, Ibadan witnessed its first flooding when Oranyan swamp was flooded. Other flooding occurred in 1924, 1956, 1963, 1978, 1980 and 2011.

The major rivers that had been causing flood in the city are Ona river, Ogunpa stream, Kudeti srtream, Ogbere stream and many tributaries to these major rivers and streams.

Another river on the eastern end of the city is Omi river which runs through Egbeda, Ona-Ara and Oluyole Local Governments.

Experts have revealed that flood can occur through various causes but it is apparent that there are four main factors significant in the case of Ibadan as follow:

1. The characteristics of rainfall storms which exhibits various flood intensifying characteristics as measured by various metrological stations at Moore plantation, Apata, I.I.T.A. and the University of Ibadan.
2. Ineffective use of land resources and low infiltration rates of rainstorms in many locations such as road, sport fields, foot path etc.
3. Deforestation of hills in Ibadan located at Sapati, Oke-Aremo, Mokola and forest reserve of Alesinloye, Alalubosa for market and housing development respectively, thus, increasing human activities and reducing infiltration rate of rain storms.
4. The clogging of the river channels with solid wastes.

The goal of the urban renewal is to renew the inner areas of Nigerian Cities such that the standards of housing and urban infrastructural services are brought to an acceptable level. It is aimed to pursue programmes of upgrading shanky towns and squatter settlements and also to integrate the activities of settlements upgrading with the overall development strategy of individual cities through inclusive programmes. This will enhance employment opportunities and the income of the urban poor.

4.3.4 The State of Infrastructure in Nigeria

The physical condition of Nigeria's urban infrastructure such as water supply, sewerage, sanitation, urban roads, electricity, drainage, waste disposal, is generally poor. For example, only about half of the people in Nigeria's urban areas have access to piped water in or around their homes, in some cases, it is less than 10 percent according to 206 Housing and Population census data released by the National

Population Commission. Oyo State is a case in pint. All types of infrastructure suffer from a massive backlog of neglected rehabilitation and maintenance, not to speak of the investments needed to serve future growth.

It is incredible to watch the infrastructural decay in South Western States of Nigerian. The Lagos-Sokoto highway which should pass through Abeokuta and Oke-Ogun area contained in the master plan in road development had long abandoned. The Lagos-Ibadan expressway built about 30 years ago (1983) has collapsed because ab-mitio, this road was not built to carry the kind of loads it is carrying. Since 1999, this road has not been touched by the federal government likewise the Shagamu-Ore-Benin road which has claimed many lives in the last decades. Only in recent time was the road given out to Julius Berger and RCCC on concessionary contract for rehabilitation and expansion with TOLL GATES. Also the state of dilapidation of the National Stadium at Surulere and deterioration of Obafemi Awolowo Staduim in Ibadan is a testimony to the abandoned and lack of maintenance culture of the national Sports Commission.

The 150km Ibadan-Ilorin expressway was awarded for construction by President Obasanjo in 1999 or thereabout and has not been completed as at December 2012. The state of Lagos-Abeokuta highway awarded about the same time leaves much to be desired, while Abeokuta-Ibadan road remained a single lane since 1950s without adequate maintenance.

Also, the Ibadan-Ife expressway that was scheduled to continue to Akure stopped at Ilesa. Whereas, the building of 10 lanes express road between Abuja-Airport and Abuja city is being pursued vigorously with money freely allocated and disbursed while totally neglecting the road in South Western States of the country.

The lack of maintenance can also seriously impair people’s lives in school terms when roads became impassable and communities can no longer access markets and public services, particularly emergency health care. While such social losses have not yet been measured empirically; they are likely to be considerable and affect a large population of the poor population like traders, students and even prominent people in the society.

Severe under-investment is plainly visible in Nigeria's roads, water systems, drains, and other infrastructure. Because of fragmental accounting, it is difficult to know how much is being spent by the Federal Government, States, and Local Governments on urban infrastructure. Large amounts of urban infrastructure and services are provided directly by households, private firms and community groups.

Lack of funds. Therefore, is not a root cause of poor infrastructure and services. It is a symptom of more fundamental problems. These include instability, lack of confidence, distorted economic policies, and difficulties of governance. The mobilization of public and private funds for urban infrastructure depends, in the long run, on the alleviation of these problems. Also, reduction of wasteful public expenditures is essential to free resources for high-priority social needs, including basic infrastructure.

4.4 THE RELATIONSHIP BETWEEN URBAN ECONOMIC GROWTH AND URBAN RENEWAL

The extraordinary expansion of the urban settlements in developing countries will have profound implications regarding population relocation as well (Michael M. Cernia, 1989). Increasing industrialization will demand space for new industrial estate, for services, commercial estates, communication and road networks, and for transportation corridors. However, urban growth will not only absorb additional physical territory, but will require reorganization and redevelopment of much of the space already inhabited. The intra-urban population movements entailed by such redeployments will be paths voluntary, partly compulsory.

When urban economic growth intensifies the competition for scarce land in inner city areas, the private and public sectors become interested in forcing out the existing inhabitants and prompting alternative uses of those areas. Such alternative uses of land turn out to serve commercial, banking or industrial interests, sometimes, high income residential dwellings are built in thee former slum area.

In the 1940s and 1950s, slum/squatter areas were described as illegal settlements and an eyesore to the larger community and this was used to justify and rationalize eviction. In fact, governments often did not hesitate to resort to brutal means to evict inhabitants, in which case, settlements were cleared with bulldozers, often without any right for compensation. In most cases, governments did not even offer an alternative place for resettlements to the evictees.

In voluntary resettlement that occured under World Bank-financed urban, transport and infrastructure project is subject to the Bank's overall policy for guiding involuntary resettlement operations that was adopted in 1980, together with specific operational guidelines (World Bank 1980). Under these guidelines, both Bank staff and borrowers were first required to explore alternative solutions to avoid involuntary resettlements.

When relocations is unavoidable, efforts should be made to minimize it and to ensure that those relocated are assisted to at least restore their farmer living standards and earning capacity, and if possible to improve them. Displaced persons should be:

(a) Compensated for their looses at replacement;
(b) given opportunities to share in project created benefits; and
(c) assisted with the move and during the transition period at the relocation site

Similar policy principles regarding population displacement and relocation were adopted by the World Bank between 1995 and 1997 for the urban renewal and slum upgrading at Yemetu and Ogbere in Ibadan in collaboration with Oyo State government. Mokola projects were essentially infrastructure upgrading

The key characteristic of the World Bank's policy is a shift from a welfare- like approach, limited mainly to cash compensation, to a development-oriented, integrated approach that can help settlers rebuild a self-sustaining production based and habitat.

4.4.1 How Urban Economic Growth May Generate New Slum

There were evidences which suggest that urban economic growth may itself cause a new generation of slums to appear as random and unregulated settlements on public or private lands, compounding the environmental and relocation problems already on the cities agenda

The case of Egypt's capital city (Cairo) tells a relevant story about the unanticipated ways in which urban growth generated unplanned settlements (Michael M. Cernea 1993).

When Cairo was going through accelerated economic and population expansion, accompanied by overflowing road traffic and resulting in grave transportation problems, the decision was made to construct a major traffic divesting highway ring around the city.

However, an unanticipated process described as a **"settlement catastrophe"** occurred during construction: about 80 **"random communities"** have sprung up on state owned lands adjacent to the highway ring, "most of which are built of trinplate cloth, cement and alluvium" (Manal Abdul Aziz 1992). The construction occurred through encroachment.

It was estimated that over 500,000 people lived in these recent random communities within which economic growth also is occurring: these communities include some 550 small and medium industrial enterprises, exploiting access to the new roads but depending on rudimentary services and causing very heavy pollution, slope erosion and overall environmental deterioration.

In the 1980s, the Lagos/Ibadan and Ibadan/Ife expressway, perhaps generated the greatest urban sprawl in the southeastern sectors of Ibadan city where the traditional sector of the city has been spreading further and further into the countryside, especially along Akanran/Ijebu-Igbo in Ona-Ara Local Government area and Old Ife roads in Egbeda Local Government area.

Another major road, with more or less similar impact, is the Eleyele expressway which engendered a rapid spate of building construction to the south and east of the Eleyele reservoir.

There is a difference between the present spatial growth of Ibadan city and that of the pre-1980 era. Whereas the previous growth of the core city area entailed a lot of filling in of the city by the build up of enclosed vacant land, farmlands and flood plains. The present growth is virtually wholly an outward expansion of the urban fringe on all sides.

The new generation of urban slum on the southeastern side of Lagos/Ibadan expressway around Ogbere Agugu attracted the World Bank financed slum-upgrading in the 1990s and a Resettlement Scheme at Abonde, a portion of Local Government Ogbere Housing Estate which is now a model of planned settlements with all the modern facilities.

Similarly, the building of National Theatre in 1973 generated a new slum area at Ijora-Badia in Lagos, a parcel of land purportedly acquired by the Federal Government for Railway Corporation in 1929. The inhabitants of the site of National Theatre were resettled at Ijora-Badia by the federal government part of which, measuring 14 hectares, was re-entered by the Lagos state in April 2013 for urban regeneration programme. The land will also be used for the development that will also involve the Blue Line Project for the Badagry Expressway Rail Project in Lagos State.

Therfore, the challenges facing Nigeria in the field of urban development are: first to make cities and towns good places for economic development and second, to provide basic services for urban dwellers, especially the urban poor. The essential ingredients for achieving these goals are urban infrastructure, a supportive urban policy framework, and institutional capacity.

Complete redevelopment of town and city centres is necessary in some towns, particularly where extensive growth is anticipated. Redevelopment is needed to overcome present deficiencies, such as bad traffic congestion, lack of parking space, inadequate loading and loading of facilities, restrictive traffic regulations, excessive fumes and noise, danger to pedestrians, and in some places there is definite conflict arising from the use of particular roads by different kinds of traffic.

The provision of new transportation facilities also affects the subsequent growth and pattern of the city. Trading activities, journey to work, to school and other various cross-currents of movement for economic and social motives demand adequate inter-urban transportation system.

The question is whether the community can afford to allow the wholesale demolition of the houses, most of which could still have years of life. Property owners may also be very dissatisfied with the method of delineating unfit properties in a slum clearance area whose compensation is restricted to site value. **However, urban renewal offers the opportunity to restore integrity and character to a depressed neigbourhood**.

4.4.2 The Impoverishing Effects of Urban renewal and Forced Displacement Cities

There has been sentiments expressed about the demolition exercise in South Western States of Nigeria. Some believe that the state governments will not pay compensation for their demolished shops, buildings, schools, worship centres, petrol stations, eateries, though commendations have also trailed the action of the state governments in their common resolves to give transform the cities in their domain. However, the general believe was that government ought to have provided alternative places for displaced traders, property owners and other before demolishing their shops and other buildings.

The loss of dwellings and assets caused by forced displacement and the uprooting from an existing pattern of making a living, carry high, impoverishing risks for those affected directly.

The displacement of households and economic units (workshops, commercial shops, small producers units, food stalls and others) deprives those affected either of dwellings or of employment or of access to their customers, of a combination of these losses.

In recent time, bulldozers from the Lagos state government railed over 14 hectares land at Ijora-Badia, a community housing thousands of Lagos residents, and demolished their shops and houses. The residents claimed that they were being treated as criminals, while also adding that apart from losing their property they had also lost some of their important paperwork and documents to the demolition exercise.

While speaking about the development according to the Sunday Tribune of 7th April, 2013 the Executive Director of SERAC (Social and Economic Rights Action Centre), Mr. Felix Morka said, "**A megacity is not about its physical size or its a beauty, but its people; the poor also live in a megacity."**

The officers of Lagos State claimed that, **nations would rather prefer to showcase the best part of their communities on the frontline, saying the demolished part of Ijora-Badia was giving Lagos a bad look.**

However, those who lacked legal title to their shelters and house plots (i.e. Conveyance or Statutory Right of Occupancy Certificate and other relevant documents) are often regarded as ineligible for compensation. Tenants are also ineligible for compensation, even though they may be unable to find elsewhere equally affordable tenancy arrangements. For many, the standard of life deteriorates if policies and programmes do not provide for adequate re-establishment.

The social and cultural disruptions in neighbourhood ties and kingship networks also have deep effects, which are additional to the tangible economic losses. Such non-equitable but real social and economic costs are loss of access to mutual help, to child care arrangements, exchange and borrowing opportunities, and other informal support systems. The heterogeneous composition of those compulsory displaced multiplies risk and virtually guarantees individual tragedies.

The politicization of displacement is increasing as well. The coercive nature of involuntary relocation, particularly when carried out with cultural insensitivity, and the prospects of job loss and further improvement, make urban displacement a politically tense and potentially explosive situation. Such politicization occurs especially where the affected people are not consulted at all by authorities, remain uninvolved in planning for alternatives, and have no chance to negotiate a trend forwards stronger population resistance to relocation.

If participatory approaches are not widely introduced, and if legal channels and democratic grievance procedures will remain practically closed to those affected, the political reverberation of involuntary relocation are likely to increase. This is not good in a country or state where 70persent are living below poverty level.

4.4.3 The Social and Economic Benefits of Urban Renewal

Urban renewal projects and infrastructure upgrading is not new in Oyo State and other states in the country. The World Bank assisted urban development projects in the 1980s and 1990s were aimed at restoring infrastructure decay in cities and making the cites livable. Oyo State urban development projects IDF II involved the urban renewal at Yemetu and Agugu-Ogbere and Mokola infrastructure improvement, al in Ibadan in the 1990s. There had been cases of slum clearance in the Lagos Island to give way to Jakande Housing scheme and Hausa Community slum clearance at Ati Kankan in Ado-Ekiti to enable the state execute replanning of these communities. About 334 buildings along the popular Oyemekun and Oba-Adesida roads in Akure, Ondo State, were demolished to pave the way for urban renewal project and they have been compensated.

In Oyo state lands are being acquired at Scout Camp, Challenge in Ibadan S.E. LGA; NITEL sites at Molete and Old Ife Road to build neighborhood shops for displaced street traders. Some other locations in the metropolis have also been identified for the same purpose after thousands of shops have been demolished to keep the environment clean. It will take months before permanent structures with all the conveniences and infrastructure could be completed to make the new markets an ideal modern ones. However, the possibility of original displaced traders having access to new open shops is remote due to high rentals and political considerations.

The new motors parks at Temidire along the new Ibadan – Ife expressway and at Idi-Iroko at Orita-challenge, the clearing of Iwo Road Round-about and the planned beautification in partnership with the Nigerian Brewery Plc, the construction of the fly – over bridge at Mokola roundabout will reduce the traffic gridlocks in the city and restore the state capital to its old status and attractive to would – be investors and people passing through the city to various parts of the country.

There is need to open up physical space in our cities to make them conducive for development by investor, and make the roads accessible to motorists. Apart from opening up the cities for future investments, some places where construction and rehabilitation have taken place are now wearing new look and traffic congestion reduced.

The opening up of rural roads at Ajibode/Akinbile axis behind I.I.T.A in Akinyele Local Government Area and many others in the state will afford the government the opportunity to initiate integrated rural development that will emphasize the provision of infrastructure that will improve the living condition of the rural communities.

The proposed 110 kilometer Ibadan Circular Road would provide opportunity for Ibadan city to have a railway for a light train round the city. The roads, when completed, will reduce traffic congestion within the metropolis. Trailers and Lorries going up North or Lagos will not have to pass through the city. The Circular Road will allow for development and curtail the sprawling and planlessness of Ibadan city. This will enable the new areas to be planned and controlled ahead of physical development.

4.5 THE WAY FORWARD

Governmental at different levels must continue the upgrading and extension of city infrastructure and services to support economic development, particularly in the sectors of water supply, waste collection and disposal and management.

State government must promote and encourage the development of **"Strategic Plans"** for urban renewal in every urban Local Government area, particularly for their inner city slums not only to structure them and provide them with needed infrastructural facilities but also to preserve within them buildings of architectural or historical significance, while ensuring that all stakeholders are actively involved in the process.

Governments embarking urban renewal must have considered whether the compensation package for those to be displace would be adequate in kind rather than in cash (e.g. building plots, housing units, materials for house construction, and so forth), so as to lead to improved physical housing or shopping centres standard for the displace.

The authorities in power should also consider whether the economic unit (e.g. workshop, commercial shop, small producers unit, food stalls, and other), displaced are relocated with a concern for ensuring that they will gain access to a new customer base sufficient to at least enable them to achieve previous income levels.

There is a wrong notion in government circle that the government did not recognize any structure in Lagos State that were not dully registered and whose records were not contained in the ministry's database.

The officials of Lagos State cannot be completely correct. How many buildings were demolished at Yemetu and Ogbere Agugu in Ibadan for Urban Renewal financed by the World Bank had titled documents, yet, they were paid compensation and allocated plots at the well serviced Resettlement Schemes

Lagos and Oyo State Governments in recent time are demolishing properties on Federal Government acquired land for their urban renewal projects contrary to the provision of section 49 of the land use Acts, 1978. This action would be detrimental to the efficient and effective land management in Nigeria.

In the second Republic (1979-1983), Governor Bola Ige's administration encroached on federal Government's land in Oyo town of Oyo State to build housing estate. Chief Richard Akinjide who was the Attorney General and Ministered supported the demolition of all the structures found on the land, that the State Government has no constitutional right to take over federal Government land in view of the provision of section 49 of Land Use Act.

Apart from few states in Nigeria including Abuja FCT, there is no attempt anywhere to have a detailed cadastration or mapping of land ownership whether in urban and rural areas. Individuals survey their properties and take it to Lands Office of State or Federal government to be charted into a master map or intelligence sheets.

Government should consider whether current urban growth strategies which is causing compulsory displacement also deliberately ensure the socio-economic re-establishment of those affected, and whether those specific urban projects which do not should be financed. Resettlement as a development effort can succeed only if adequate resources are mobilized to prevent impoverishment and if it has institutional backing.

Whether current technical standards and methodologies for urban master planning and metropolitan growth can be improved to ensure a better professional assessment of the displacement/opportunity costs of urban renewal.

CONCLUSION

The upgrading of old squatter areas will continue in Nigeria during this decade and beyond, and will entail a significant share of total urban population relocation. Yet it is predictable that the main factors accounting for planned urban displacements will be the process of urban environmental improvements.

If urban renewal project is properly planned, carried out with government’s commitment to equity and adequate resources allocation, and with the informed involvement of those affected in bargaining and in considering options, relocation may ultimately generate certain benefits, not only losses or political turmoil.

Such improvements may result, primarily, from gaining security of ownership title over new house plots, from better housing standards for the relocates (this may take sometime, but it will stimulate resettlers to mobilize personal resources as well),, and from better environmental an social services sewage systems, water supply, electricity etc).

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