



Urban property taxation, revenue generation and redistribution in a frontier oil city

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ABSTRACT

Calls for the institution of fiscal regulations in Africa abound. At the urban level, they hinge on well-known contentions that taxes generate substantial local government revenue for infrastructural development and tend to curtail the problem of 'unearned income'. Based on empirical evidence from Sekondi-Takoradi, an oil city in Ghana, this paper shows that the nature of regulation, especially the exceptions, broader economic systems of how land is held, and social institutions can constrain successful implementation of taxation. Thus, the argument of advocates of land taxation ought to be revised: the efficacy of taxation is obvious, but contingent rather than assured.

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Introduction

This study examines trends in urban property development in an oil city in Africa and investigates whether the authorities in this city are using their local taxation powers to take advantage of increasing urban development, while examining the reasons for the *status quo*. The taxation of urban land is one of the least used public policy tools in Africa. This is surprising given that it has long been established that taxation of urban land is one of the effective strategies to develop harmonious cities (UN-HABITAT, 2008). Most urban scholars, particularly followers of the social reformer, Henry George, argue that the cost of providing urban infrastructure can be met by taxing resulting increases in land values (George, 2006; Stilwell, 2011; Stilwell & Jordan, 2004). Further, they contend that increases in private land values attributed to public investments and other factors unrelated to landowners' exertion ought to be taxed away because such increases are unearned and the resulting revenue used for social investment (Ingram & Hong, 2012). Thus, equitable urban development requires the establishment of a land taxation regime. This view has become highly influential in recent times even outside the West where Georgism started (Cui, 2011), with Israeli planning scholar Alterman (2011, 2012), suggesting that cities in Africa have missed out on a key resource for harmonious urban development mainly because of

the unavailability of regulations dealing with windfalls and wipeouts.

Ghana is one of the few countries in Africa where the regulatory framework on landed property taxation is relatively well developed. According to A.E.W. Park, an expert in African fiscal laws, '[t]here can be few countries in the world which impose a wide range of taxes than Ghana' (Park, 1965, p.162). So, its cities provide a useful case study to appraise the argument for instituting land taxation. Such a study is particularly timely because Ghana has become a commercial oil producer since 2010 and, according to the analyses of planning theorists and practitioners such as Alterman (2012) and Fainstein (2012), its oil can be harnessed for local economic development through land taxation.

Yet, research has focused mainly on macro-economic aspects of oil and issues about governance (e.g., Gyimah-Boadi and Prempeh, 2012). Studies looking at local institutions have been few, focusing mainly on eminent domain (Obeng-Odoom, 2012) livelihoods (Boohene & Peprah, 2011) community (e.g., Agyei, Gordon, Erasmus, & Yakubu, 2012) and youth (Darkwah, 2013) perceptions about the oil industry. There are a few papers (Owusu, 2012) on gendered informal labour, environmental and historical aspects of the oil industry (e.g., Marful-Sau, 2010; McCaskie, 2008).

While a relatively small number of studies have considered fiscal issues relating to the oil industry, to date, there has not been any study of the *urban* and *local* fiscal aspects of oil, relating to the generation of revenue through land taxation. Given its enormous posited benefits, the present paper tries to fill this gap. It draws on a variety of evidence collected in the city. It argues that, while

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the existence of the regulatory regime on property taxation would suggest that it can, indeed, be used to generate more revenue and bring about more equitable urban development, the *exceptions* to the framework, the calibre of the *institutions* mandated to oversee the implementation of the law, and the *social context* within which land taxation operates are key impediments to success. Thus, the efficacy of land taxation is obvious, but contingent. The rest of the article respectively considers the literature on taxation and oil, ending in two important research questions. The context for the study is next presented, followed by the methodology, opportunities, and problems of property taxation in Sekondi-Takoradi.

Literature review

A comprehensive review of the literature on the taxation of oil rent has recently been undertaken (Daniel et al., 2010), so what follows is only a brief overview of the nature of that literature to provide a context for the present study. The themes in that literature have evolved. In the 1970s and 1980s, most of the work on taxation and oil looked at how to share oil rents equitably between governments and companies. The 1990s to date witnessed a major neoliberal change in policy, so the emphasis in scholarly studies have shifted to ways of creating the needed 'investment climate' for the activities of mining companies without compromising community development (Andrews-Speed & Rogers, 1999). For instance, some scholars have examined tax design, looking at which models work most efficiently, while others have investigated which models best help economic development. Others have considered the relationship between the nature of taxes and their impact on investors' decision to invest in the oil industry (Daniel et al., 2010).

A key concept used in most of these existing studies is 'resource rent', that is, the extra gain obtained after cost is deducted from total revenues from oil (Hogan, 2008; International Council on Mining and Metals (ICMM), 2009). 'Rent research' per se has also taken on a life of its own. Garnaut's (2010) review of that literature shows that there have been a number of studies on how best to manage oil rents. In addition, there are those studies that examine different criteria of judging the effectiveness of various petroleum rental tax regimes. For example, The International Council on Mining and Metals (2009) has recently published a review on *Mineral Taxation Regimes*. A major theme is the merits and demerits of production and profit based taxes. For the IHS CERA (2010), however, it is factors that lead to the variation of taxation design over time that obtain the most attention in its review. Issues of political ideology, major increases in oil prices, and major reduction in risk factors are considered the most interesting and pressing in the literature. This emphasis differs from the themes in Lund's (2009) work, namely the role of uncertainty in designing tax regimes for natural resources and how risk sharing between governments and oil companies can be accounted for, tax competition, and the nexus between discounts and tax rates.

Methodologically, three categories are common, namely those that are theoretical, empirical (Bradley, 2007), single and comparative (e.g., Hogan, 2008) in orientation. Geographically, most of these studies concentrate on Europe and the Americas (Söderholm, 2011).

The few studies on Africa reveal outcomes synonymous with research elsewhere, for instance in terms of the emphasis on 'oil rent'. Here, the stimulating research by Nwoke (1984), looking at different types of oil rent and which types African governments have the capacity to capture through taxation, bearing in mind the dynamics of the world system deserves special mention. More recent papers (e.g., Bougrine, 2006) have followed a similar line of

analysis. The more liberal research on oil rents has dominated the literature, but its focus has mainly been on examining the connection between oil rents and democracy; oil rents and conflict; and oil rents and economic development generally (Sala-i-Martin & Subramanian, 2013).

In Ghana, research on taxation generally abounds (e.g., Ohemeng & Owusu, 2013; Osei & Quartey, 2005; Prichard & Bentum, 2009), but work on taxation of oil rent has been few. An early study by Hackman (2009) looked at Ghana's royalty tax system and compared it with other mechanisms available to the state in taking its share of the benefits of oil production. Amoako-Tuffour and Owusu-Ayim (2010) examined the existing fiscal laws in the petroleum sector and tried to compare its effectiveness with other such regimes in Africa. Like Amoako-Tuffour, Pamford (2010) analysed the fiscal laws about taxation of petroleum albeit restricted to the model petroleum agreement. A more recent study (Mohammed, 2013) also takes a legal route but compares Ghana's fiscal regime with Norway's – using the criteria of neutrality, revenue raising potential, progressivity, and risk, while Sasraku (2013) looks at Ghana's petroleum tax regime and its ramifications for the long-term development of its petroleum resources.

Much like the parent literature, however, the taxation of oil-induced rent in urban real estate market has not been investigated. The questions raised and claims made by proponents about how urban land accumulates value and why capital gains and rental values ought to be taxed have not, as yet, received any attention. Myers (2010) made some attempt to do so, but restricted his analysis to the taxation of capital gains on pre oil production equipment. And, while Yalley, Atanga, Cobbinah, and Kwaw (2012) have tried to look at the effect of oil production on land and real estate prices, they do not examine fiscal questions. It is this gap that this study tries to fill by drawing on the experiences of Sekondi-Takoradi in West Africa.

Sekondi-Takoradi: The context of the study

Sekondi-Takoradi is Ghana's oil city located near Cape Three Points off whose shores oil is drilled. The Sekondi-Takoradi Metropolitan Assembly (STMA) is the metropolis in which Takoradi is located. Fig. 1 is a map of STMA.

Takoradi is famous for its harbour and the proposed expansion (highlighted in Fig. 1) is likely to make it maintain its status as more economically prosperous than its twin, Sekondi.

The year 2007 was a watershed in the life of Sekondi-Takoradi. It was in that year that oil was discovered off the shores of Cape Three Points, near Sekondi-Takoradi. Oil production began in 2010, as planned and, since then, there has been important transformation in the nature of the urban land economy. While these changes have important *urban* fiscal implications, the nature of the changes and their resulting issues for revenue generation have, as yet, not been studied. So, this study was conducted in Sekondi-Takoradi to fill that gap.

Methodology

The fieldwork for this study started from December 2012 and ended in mid-March 2013.

I collected primary data related to changes in the property market in the metropolis after the discovery of oil and their fiscal implications. Some of the data were documented, or recorded, but not published, publicised, or analysed, so they are considered 'primary' for the purposes of this paper. These primary, documented data had to be mined and pieced together from different and scattered files.

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