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# Assessment of the effect of waiving interest accrued on land rates arrears in Nairobi County

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**ASSESSMENT OF THE EFFECT OF WAIVING INTEREST ACCRUED ON LAND RATES ARREARS IN NAIROBI COUNTY**

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## DECLARATION

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

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Date July 7, 2020

This Research Project has been submitted for examination with my approval as the Supervisor.

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## ABSTRACT

The problem of poor property tax collection and enforcement leading to low property rates collection is rampant in developing countries including Kenya. This is evidenced by the following: poor contribution of property rates to local/devolved governments ‘revenue; insignificant contribution of property tax to GDP; increasing rate of defaulting in payment of property rates; low collection ratios; and high level of intergovernmental transfers. The poor collection and enforcement of property rates is worrying, thus needing the need to evaluate policies and practice of property rates collection and enforcement in devolved systems of governance in Kenya.

The study sought to determine whether giving waiver to on accrued property rates contributes to high revenue collection in Nairobi county. The study identified property rates collection and enforcement tools in Nairobi City County; establish effectiveness of the property rates enforcement tools in ensuring fully compliance; and establish challenges facing property rates collection and enforcement in Nairobi City County. The study focused on property rates collection and enforcement in Nairobi City County which hosts Kenya’s capital. The study focused on Westlands, Njiru, Starehe, Makadara,Dagoretti, Embakasi, Kasarani, Langata and Kamukunjisub-counties which are divided into 20 zones. Rateable properties were sampled using stratified random sampling. All rateable properties within the city boundaries were placed into groups (strata) depending on the zones. Stratification was important because of non-homogeneity of rateable properties by zones. Each zone was considered as a stratum.

The researcher considered a sample of six (6) zones consisting of Two (2) commercial industrial (Central Business District (CBD) and Upper Hill), Two (2) industrial and Two( Mlolongo & Indutrial area) (2) residential (Makadara & Buruburu;) user to be good enough. The researcher numbered all the industrial, commercial and residential zones. A total of 60 samples were randomly selected from each of the six (6) zones resulting into a total of 360 samples which was considered to be good enough. Other respondents included chief accountant in charge of rates and land rates collection, employees of at the rates department and revenue county manager.

The study involved the use of a semi-structured questionnaire which had open and close-ended questions for collection of primary data. Secondary data was obtained from the county's budget policy statements and income statements published textbooks, unpublished scholarly works and papers from real estate journals. The study focused on a 12 years period of land rates revenue collection in Nairobi county focusing on the periods when waiver on interest on accrued revenue of property rates were and not issued.

Data analysis was done using Statistical Package for Social Sciences (SPSS) and MS Excel. Descriptive statistics was performed on the data to summarize the variable data thus enhancing its understanding. The descriptive statistics selected for this study included the comparison of means value of effectiveness of enforcement tools, standard deviation, frequencies, bar chats, bar graphs.

Recommendation of the study were for the Nairobi county government to strongly focus on revenue collection and investigate their policy on giving waiver to accrued property rates to aid in smoothly running the affairs of the county. This research contributes to existing knowledge by establishing factors for increasing property rates collection in Nairobi county.

**ACKNOWLEDGEMENT**

I wish to thank God for His unending provision over my life and giving me the strength to complete this dissertation in the midst of a very demanding schedule, my family for being my source of inspiration and my Supervisor Dr. Thomas Kibua for his tireless effort in guiding me.

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**TABLE OF CONTENTS**

Table of Contents

## LIST OF FIGURES

## LIST OF TABLES

# LIST OF APPENDICES

Questionnaires

## LIST OF ABBREVIATION

CoK Constitution of Kenya

CRA Commission of Revenue Allocation

CEC County Executive Committee

GDP Gross Domestic Product

GoK Government of Kenya

IGFs Internally Generated Funds

MLPP Ministry of Land and Physical Planning

NCC Nairobi City County

NLC National Land Commission

NTK National Treasury Kenya

UN-HABITAT United Nations -HABITAT

USV Unimproved Site Value

OSR Own Source Revenue

## CHAPTER ONE

### 1.0 Introduction

This chapter gives a brief background of the subject under study, the statement of the problem, the research objectives and research questions, the delimitations of the study and the significance of the study.

### 1.1 Background of the Study

Land rates as a form of revenue provides a sustainable source of revenue for county governments in Kenya. Typically, it is one of the main sources of revenue for county government funding (NTK 2017). Equally, it is one of the best methods in which a county government can raise its revenue and ensure it achieves revenue autonomy (Bird and Slack, 2002). Success of devolution programs requires a strong local revenue base. Revenue collected locally forms a primary income of creating an independent and accountable local governance system (GoK, 2010). County governments which have a robust local revenue collection partake greater scope for self-sufficiency. Thus, they are swift in addressing the needs and priorities of their citizens.

Payment of land rates also guarantees that a county government can offer good governance and public service delivery at devolved government level (Karanja, 2004). The devolved government system requires the county governments to fund themselves for purposes of developing the county and to facilitate service delivery. Correspondingly, the amount collected determines the level of independence of the county government because a county with minimal funds must rely on the national government for funding (Naburi, 2017). A county government that relies on the national government usually loses its autonomy and becomes inefficient in public service delivery.

Lall and Deichmann (2006) acknowledges the key role of property tax in GDP of developed countries, while noting that its potential is not fully utilized in developing nations as evidenced by poor collection. Globally, property taxes account for 0.5 to 3.0 percent of GDP (Kelly, 2000a). Property tax accounts for more than 2% of GDP in developed countries (Braid, 2005;

Bahl, 2009; Hefferan and Boyd, 2010). Kaiser (2005) and Bahl (2009) estimated that property tax averages at 0.42%of GDP in developing and 0.54% in transitional countries. In developing countries, property taxes account for less than 0.6 percent of GDP (Barako and Shibia 2015). Poor contribution of property tax to GDP in developing countries is partially attributed to ineffective and inefficient rates collection and enforcement. Karanja (2004) acknowledges that there is increasing trend of defaulting in payment of property rates leading to low revenue collection. Globally, property tax contribution to Gross Domestic Product (GDP) for sub-national governments is shrinking (Kelly, 2000a; Barako and Shibia 2015). The importance of property tax in Kenya has been declining from 0.37 percent of GDP in 1990-1991, to 0.22 percent in 2002/2003 then to 0.16 percent in 2009/2010 then to 0.09 percent in 2018/2019.

In Kenya, however, there is an issue of lack of payment of land rates due to different factors emanating from both the government and the property owners. As a result, the lack of payment compels the county governments to devise ways of ensuring compliance (Naburi, 2017). One of the tools used for enforcing land rates payments and compliance is issuance of waivers on land rates penalties and interests (National Treasury of Kenya, 2017). In such a way, the waiver acts as an incentive for the rateable landowners to comply with the law.

Article 210 of the Constitution of Kenya prohibits waiver of fees or tax unless it is provided for by legislation. To ensure the provision of waiver is constitutional, the county governments include clauses for waivers in their Rating Act (NTK, 2017). This action demonstrates that issuance of waivers is a critical component in the land rates system because it safeguards compliance by the rateable landowners. Equally, the county governments' efforts to issue waivers propones that without the waivers the devolved governments will not be able to maximize their revenue collection which in turn will affect their service delivery.

### 1.1.1 History of Land Rates

Taxations have existed long since the civilizations of Greece and Rome. Taxes on properties were temporarily introduced during war to raise additional revenue. In the United State of America property taxes were introduced during the colonial period and by 1796, 14 of the 15 state were already taxing land. (Ely, 1888). In the USA, land taxation is significantly influenced by the works of Henry George 1879, ‘Progresses and Poverty’ where he advocates for a single tax on land that eliminates the need for all other taxes.

In England, a uniform land tax was introduced towards the end of the $17^{th}$ century and formed a major part of the government revenue in the $18^{th}$ and $19^{th}$ centuries (Stephen Dowell, 2013). The parliament of England in 1692 announced a land tax which was charged on both rural urban regions which remained in force up to the $18^{th}$ century (Turner and Mills, 1986).

In India, land revenue collection begun early during the reign of kings and emperors. In British India, during the closing decades of the $18^{th}$ and during the $19^{th}$ century, two land revenue systems were used- the Zamindari and Ryotwari systems. In the Zamindari system, the Zamindars, landowners, were given mandate to collect revenue from peasants and they received 1/11 of the proceeds with the rest going to the East India Company. The Ryotwari System was introduced in 1820 by Thomas Muro. Contrary to the Zamindari System, the British directly collected taxes from the peasants. Land taxes were common in Western Canada during the $20^{th}$ century. In Vancouver, under the leadership of Mayor Louis Taylor, land taxes became the only form of municipal taxation in 1910 (Francis and Daniel, 2004).

Taxation of land in Kenya was introduced during the British Colonial period. The colonial government created and tasked the local authorities to collect property taxes that went into facilitating local authorities’ service delivery (Naburi, 2017). The Crown Land Bill presented in 1908 was the first to propose levying of graduated land tax on individual holdings. According to the land bill, any crown land lease rated at over Kshs. 180 rent would be charged a land tax at the rate of 6 cents for every 75 cents additionally to such rent payable by the lessee. The Bill provided that whenever any individual or corporation owned more than 50,000 acres; the land tax would be increased by four times the amount than the ordinary payable tax (Waris, 2007). This bill was rejected because it was exploitative and gave way for 1915 Crown Land Ordinance. This ordinance met settlers’ demands and deleted the section that were exploitative. The 1915 Land Ordinance influenced the current land policy and has stimulated urbanization and commercial agriculture.

Kenya's rating system greatly borrowed from colonies which had operational rating ordinances. In 1901, the annual value rating was introduced in Nairobi with the ratification of the Nairobi Municipality Regulation Ordinance (Karanja, 2004). A few years later, in 1920 the method was scrapped because just a few properties were eligible for the annual rating system (NCC, 1950). In 1921, the annual rating system was then replaced by the Unimproved Site Value (USV) rating system. (Karanja, 2004). In 1928, the USV Ordinance was of 1921 was revoked by the Local Government Rating Ordinance. This enactment introduced a uniform rating system to be used countrywide that gave the local councils freedom of choice. This Ordinance introduced a uniform rating system applicable to the whole country in general but the local city governments had the discretion to use their own choice of rating system (Karanja, 2004). In 1956, the Valuation for Rating Act was ratified and is still in use today (Syagga, 2015). The Valuation for Rating Act is currently active and is also used by some county governments who do not have their Value for Rating Act. Later in 1964, the Rating Act Cap 267 was established to authorize local authorities to charge rates on property to generate local revenue.

### 1.1.2 Issuing Waiver as a Way of Raising Revenue

Issuing waivers has no legal basis unless it is stipulated by legislation and the county governments include clauses for waivers in their Rating Act (National Treasury Kenya, 2017). Waivers not provided for by Acts of Parliament or County Assembly Acts do not correspond to Article 210 of the Constitution of Kenya which provides that no tax or licensing fee may be imposed, waived or varied except as provided by legislation.

All rateable owners are required to pay land rates to the local governments depending on the market value of their property. Many owners, however, default these payments. For landowners who fail to make their payments in time, the county government imposes interest and penalties. Many county governments provide waivers on interest on land rates as a way of raising revenue. Every year, the county governments issue a waiver on interest so that a property owner that pays during the stipulated period will only pay the property taxes without the accumulated interest (Naburi, 2017). Sometimes, county governments give waivers as high as 100%.

The county governments are convinced that issuing waivers for land rates fines and interests helps in raising revenue for the County government (Naburi, 2017). Annually, the County Governments usually offers a waiver on interest such that a landowner who pays during this period will pay the land rates without the attached interest rates (Naburi, 2017).
Nairobi County often issues waivers on interest of 3%. In 2013, the County Assembly passed the Nairobi City County Tax Waivers Administration Act, 2013 which provides the legal basis for regulation and issuing of tax waivers. It gives effect to Act 210 of the Kenyan constitution which tackles the imposition of taxes. In 2014, Nairobi County was among the first counties to introduce waivers on interest to encourage defaulters to pay their dues (Mwitari, 2017).In 2019, data by the County Revenue Department reveals that 2.04 billion was collected from land rates (Mutua, 2019).

In 2018, the County Government of Kiambu raised the land rates by 300% which triggered a negative reaction from its residents. In addition, via a Gazette Notice Vol. CXVIII No. 87, the County Government started levying agricultural landowners. The residents complained the raise in land rates was too much as they cannot afford the new applied rates. As a result, they formed a lobby group which its main objective is to push for the removal of the new land rates by asking the property owners not to pay the property tax until the rates were reduced (Maichuhie, 2019). This protest means that the rateable landowners will not pay the land rates even if a waiver is issued since the large increase land rates in themselves is perceived as exorbitant. Are counties being reasonable in matching rate increases with service delivery?

In 2019, there was a public outcry from Nakuru residents who claimed that the County Government applied illegal land rates which had not undergone careful valuation. The Assembly's Committee on Lands, Housing and Physical Planning released a report which notified the public that the County Government had been issuing land rates using an old and obsolete valuation roll. The committee revealed that the use of an outdated valuation roll led to the application of rates demonstrating poor methods not consistent with the authorizing laws. The committee noted that even with the annual issuance of waivers, rateable landowners could not afford to pay since the land rates were extremely high (Gachuhi, 2019)

## 1.2 Problem statement

The problem of poor property tax collection is rampant in developing countries. Kelly (2000a) estimates that property rates account for between 40 and 80 percent of local revenues for sub-national governments globally. Contribution of property rates to local revenue in developed economies is above the global average. Available evidence indicates that property taxes account for 99%, 100%, 93% and 72 of locally generated tax revenue in the United Kingdom; Australia and Ireland; Canada; and USA respectively (Braid, 2005; Bahl, 2009; Hefferan and Boyd, 2010). In developing countries, the contribution of property taxes to local revenues for devolved governments is less than 40 percent of (Barako and Shibia 2015).Fjeldstad and Heggstad (2012) highlighted that property rates accounts for about 10% to 30% of local government taxes in Tanzania, 14% in Ghana, 6.1% in Sierra Leone and less than 10% in Gambia. Political interference in property rates collection, lack of political support in enforcement and insufficient administrative capacity are cited as contributors to poor performance of property rates in developing countries (Fjeldstad and Heggstad, 2012).

Nairobi county has posted the slowest growth in revenue among Kenya's most urbanized counties over the last six years of devolution, an analysis shows, pointing at an under performance of Kshs.67.66 billion or 87 percent of the capital's potential. An assessment by the CRA indicates City Hall collections, which amounted to nearly Shs.10.25 billion in the year June 2019, have improved by a measly 0.37 percent since the onset of devolution in 2013 (Gachuhi,2019)

In Nairobi county major problem exist in the administration of property tax. Konyimbih (2000) notes that collection rates are extremely low and enforcement against non-compliance is virtually nonexistent. Fiscal cadastre information is incomplete and out of date. There is an over-reliance on individual parcel valuation with no use of simpler mass valuation techniques. The county struggles with low property tax administrative capacity and a lack of political will for property tax enforcement. The result is low revenue yields, vertical and horizontal inequities, and economic inefficiencies.

There is a major challenge in raising revenue as most property owners' default in the payments. The poor collection and enforcement tools of land rates payment aggravate the issue of default (UN-HABITAT, 2016). To combat this issue, it appears the Nairobi County Government needs to update its evaluation rolls, collection methods and implementation tools. In addition, landowners who are eligible to pay the rates ought to fully comply with this requirement in order to ensure the county's budget for public service delivery is satisfied. In such a way, by issuing a waiver on fines and interests in land rates, the county government will benefit since landowners will be to pay the amount owing to the county government.

Karanja (2004) acknowledges that there is increasing trend of defaulting in payment of property rates leading to low revenue collection. Globally, property tax contribution to Gross Domestic Product (GDP) for sub-national governments is shrinking (Kelly, 2000a; Barako and Shibia 2015).The importance of property tax in Nairobi county has been declining from 0.37 percent of GDP in 1990-1991, to 0.22 percent in 2002/2003 then to 0.16 percent in 2009/2010. On the other hand, contribution to own-source revenues has declined from 28 per cent in 2002/2003 to 24 percent in 2009/2010 (Barako and Shibia,2015). The performance of rates administration depends on effectiveness of billing and collection.

In all the forty-seven counties in Kenya, the assumption is that issuing waivers for land rates fines and interests helps in raising revenue for the County government (Naburi, 2017). Annually, the County Governments usually offers a waiver on interest such that a landowner who pays during this period will pay the land rates without the attached interest rates (Naburi, 2017).

With all these limitations in land rates administration, Nairobi County still issues waiver on interest rates and penalties in hope of increasing its Own Source Revenues (OSR).

### 1.3 Objectives of the study

The main objective of this study is to establish whether issuance of waiver on land rates interest and penalties culminates to increase in revenue collection.

The specific objectives of the study are to:

i. Establish the effectiveness of issuing waivers on land rates interests and penalties on property tax revenue collection.
ii. Identify the effectiveness of enforcement tools on property rates collection in Nairobi county.
iii. Establish challenges facing property rates collection and enforcement in Nairobi county.

## 1.4 Research Questions

During the study, the following questions will be addressed.

i. How effective is issuance of waiver in rates revenue collection by the Nairobi county government?
ii. To what extent are property rates collection and enforcement tools effective?
iii. What challenges does Nairobi county face in property rates collection and enforcement?

## 1.5 Significance of the study

The study is relevant at this time when devolved system of governance is taking shape. All the 47 counties will find this report useful in identifying enforcement tools which are effective in ensuring timely and full compliance in payment of property rates especially issuance of waiver on accrued rates. This comes at a time when most of the counties are struggling with shortage in revenue due to poor tax mobilization. The recommendations will help counties in improving property rates collection and enforcement to boost their domestic revenue base. The national government of Kenya is making attempts to encourage counties to raise their domestic revenue to improve fiscal autonomy. The study will help the national government support counties in improving property rates collection and enforcement. This will reduce the high level of funds transfer from national to county governments. The study is expected to contribute to the existing body of knowledge in relation to property rates collection and evaluating whether issuance of waiver is important to different counties in Kenya. Stakeholders will understand why property rates fluctuates by establishing the effectiveness of collection and enforcement tools.

## 1.6 The Scope of Study

The study was focused on analysis of relationship between issuance of waiver rates collected and total revenue billed from the financial year 2007/2008 to 2019/2020. The study also found the property rates collection and enforcement tools. Effectiveness of the enforcement tools in ensuring fully compliance in payment of property rates was proven. The challenges facing property rates collection and enforcement were established in order in to recommend an appropriate strategy of addressing them.

The study targeted Nairobi City County which hosts Kenya's capital. The study focused on the rates officials and property owners which were found in different property 20 zones. Nairobi City County has the biggest annual budget among the 47 counties in Kenya. Property rates have a great potential in funding this ever-increasing budget. The ability of property rates in financing the activities of devolved systems of governance depends on whether the rateable property owners are complying fully and promptly in payment. In addition, the county has the biggest portfolio of rateable property and highest number of rateable property owners. Therefore, Nairobi City County served as a suitable case study.

## CHAPTER TWO

## LITERATURE REVIEW

### 2.0 Introduction

This chapter presents the literature review. A literature review is provided based on two theories namely ability to pay theory and benefits received theory. Secondly, an empirical review of the studies that have been done on the land rates system and the impact of issuing land rate waivers as a means of increasing revenue.

### 2.1 Overview of Property Tax

Property taxation has been in existence since ancient times and has served as key source of public finances. Property tax plays a significant role in development of an urban strategy which is the basis of sustainable growth (Ahmad, Brosioand Pöschl, 2014).

#### 2.1.1 Definition Property Tax

Property tax entails obligatory levies relating to the ownership, improvement or occupation of property (McCluskey, 1991). Syagga and Olima (1996) defines property tax as a local charge levied on landed property with or without improvements for revenue collecting purpose. It is an attractive tool for financing local and central governments. Property tax therefore entails regular levies payable annually at specific rate by owners of improved or unimproved private, communal or public property to decentralized government. Property taxation aims at mobilization of domestic revenue of the local government.

### 2.1.2 History of Property Rating

The most ancient tax records were in clay tablets form in the Lagash city-state which is currently known as Iraq. They date from about six thousand years B.C. The king used a rotational tax system in which appraisers would concentrate on one area per month (Carlson, 2004).Property taxation was applied in Egypt, Babylon, Persia, Athens and China. Carlson (2004) notes that the primary emphasis of early property tax was on land and its productivity. Between 2700BC and 2200BC, Chinese dynasties of Hwang Ti and Hsai levied land tax to finance public services offered by the government (Karanja, 2004). Konyimbih (1998) notes that during the Roman Empire and in the ancient Egypt, land tax was levied on agricultural land. Modern rating can be traced to feudal England. Konyimih (1998) records that The Poor Relief Act (1601) during the reign of Queen Elizabeth I laid foundation of modern rating especially in most of the commonwealth countries. Inhabitants and occupiers of land were required to pay land rate on real and personal property. Personal property was exempted from rates with the introduction of the Poor Rate Exemption Act of 1840 (Karanja, 2004).

Henry George was a great supporter of land tax. He proposed that the community takes the value which is not produced by an individual. This value results from the growth and improvement of the whole community (Konyimih, 1998). Ricardo proposed taxation of economic rent on land (Karanja, 2004). He argues that increase in land rent is created by society and not from an individual owner’s effort. Ricardo insisted that taxing unearned income was justified since this would have no effect on productivity.

These discussions led to development of rating systems such as unimproved site value, capital value rating, annual rental value rating and area rating (Karanja, 2004).In Kenya, rates are levied by local/county government on landed property for mobilization of local revenue. Taxation of landed property in Kenya was introduced during the British colonial rule. Rating in Kenya coincided with the introduction of other policies on land tenure and government structures. Colonial administration created local authorities which were given responsibilities of providing and maintaining public services (Karanja, 2004). Property rates were introduced to finance the activities of local authorities.

Kenya's rating law was based on rating ordinances operational in other colonies especially South Africa. The annual value rating was introduced in Nairobi in 1901 with the enactment of Nairobi Municipality Regulation Ordinance of 1901 (Karanja, 2004). Rating was based on annual property value in Nairobi. This method was abolished in 1920 since only few properties had been developed to warrant taxation on annual value basis (NCC, 1950). The approach was replaced with Unimproved Site Value (USV) rating after enactment of Nairobi (Rating of Unimproved Site Value) Ordinance in 1921 (Karanja, 2004). In 1928, Local Government Rating Ordinance repealed the Nairobi (Rating of Unimproved Site Value) Ordinance of 1921 (Karanja, 2004). It introduced a uniform rating system countrywide with a free choice of system for local councils. Mombasa introduced Improved Value Rating (IRV) which was discontinued in 1948 after the introduction of Unimproved Site Value (USV) rating. The first single rating law relating to forms and administration of rating valuation for the whole country was enacted in 1956 (Valuation for Rating Act) which still applies today (Syagga, 2015). In 1964, Rating Act Cap 267 of the Laws of Kenya was enacted to empower local authorities to levy rates on landed property in order to raise local revenue.

### 2.1.3 Principles of Property Taxation

Taxation policy  is designed and implemented in dynamic environments in which institutional, economic, political and cultural variables interact to establish economic consequences of tax instruments and their viability as policy tools(Sepulveda and Vazquez, 2012).There is need to establish accepted criteria for deciding on appropriate tax instruments. Taxation principles are set of accepted criteria used to describe appropriate tax and assess the suitability of alternative tax instruments. The common property taxation principles include following:

a) Principle of Uniformity

Property taxation ought to be proportional in accordance to the ability to pay. In market value-based property taxation system, uniformity may have fiscal benefits (Kamba, 2007). When the tax administration system is efficient, the local economy achieves an optimal combination of the factors of production.

b) Principle of Equity

Equitable property taxation affords fairness in business related to taxable properties. Undertaxed properties are competitive than overtaxed ones which are disadvantaged. Nonetheless, Kamba (2007) notes that property tax incentives characterized with clear difference from the uniformity principle can utilized in subsidizing a certain industry or attract investment. Principle of equity can be considered in two dimensions: horizontal equity and vertical equity. Horizontal equity entails equal treatment of taxpayers in identical conditions while vertical equity allows for a regressive, proportional or progressive taxation arrangement to ensure that tax payment depends on the ability (Sepulveda and Vazquez, 2012).

c) Principle of Accountability and Transparency

The local governments should be able to account for both for the amount of property taxes paid and the use of government revenues. Taxpayers acceptance is the accumulation of many factors, including benefits received and openness in tax property administration.

d) Principle of Simplicity and Cost Efficiency

Property taxation system ought to be simple. The system should be easy and cost effective to administer. Property taxation system should be easily understood by taxpayers. According to Almy (2001), cost-effective property tax administration system entails: fully discovery of all taxable property; valuation and minimization of assessments errors; 100 per cent tax collections;

and minimized administration costs. Administration and compliance costs reduce finances available for funding public goods and services (Sepulveda and Vazquez, 2012).

e) Principle of Reliability

Property tax revenue should be consistent. The principle of reliability ensures that a tax system provides for current spending and future revenue needs of the local or county government. Since inception, property tax revenue in developed countries such as USA has been growing significantly. This can be attributed to increasing property values over time.

f) Principle of Revenue Adequacy

Sepulveda and Vazquez (2012) notes that taxation system should be aimed at raising a substantial amount of revenues relative to the local government expenditure needs of a government. Stability of property tax base helps to ensure availability of adequate revenue for the local authorities.

g) Principle of Political Acceptability

The success of a tax administration is influenced by political acceptability. It is impossible to implement a system that is not acceptable to the taxpayers or political class (Sepulveda and Vazquez, 2012). The success of an implemented administration relies on the degree of cooperation of all stakeholders. Lack of cooperation leads to inadequate laws, low voluntary compliance and deficient enforcement.

h) Principle of Minimum Tax Avoidance and Tax Evasion

Property tax administration should aim at minimizing tax avoidance and evasion. It should not induce key, illegal, or legal efforts to evade the tax burden (Sepulveda and Vazquez, 2012). Tax instruments rarely meet all the requirements of these principles. The taxation principles provide guidance on proper tax instruments. Sepulveda and Vazquez (2012) insist that the principles must be evaluated in relation to taxation system to be implemented. An evaluation of property taxation system in relation to the principles lead to different conclusions.

## 2.3 Empirical Review

### 2.3.1 Overview of Land Rates Payment

Land rates payment has been in existence since medieval times and has been a key factor in raising revenue for governments. Land rates have a major role in the development of counties especially their urban strategy which is vital for sustainable growth (Ahmad, Brosio and Posschl, 2014). The National Treasury of Kenya drafted a policy which sought to address the issue of enhancing county government own source revenue. In the policy, the government agency attribute that one way which a county government can enhance their own source revenue is through property tax. The policy further explains that the right for county government to issue property tax is enshrined in Article 209 (3) (a) of the CoK 2010. Thus, the mandate for county governments to collect land rates as a form of revenue is a constitutional right which ought to be observed by both the county government and the rateable landowners.

### 2.3.2 Issuing Waiver as a Way of Raising Revenue

Article 210 of the constitution directs that no tax or fee may be imposed, waived or varied except as stipulated by legislation (National Treasury Kenya, 2017). As issuing of waivers has no legal basis unless provided for by legislation, county governments have included clauses for waivers in their Valuation and Rating acts (NTK, 2017).

All rateable owners are required to pay land rates to the local governments depending on the market value of their property. Many owners, however, default these payments. For landowners who fail to make their payments in time, the county government imposes interest and penalties. Many county governments provide waivers on interest on land rates as a way of raising revenue. Every year, the county governments issue a waiver on interest so that a property owner that pays during the stipulated period will only pay the property taxes without the accumulated interest (Naburi, 2017). Sometimes, county governments give waivers as high as 100%.

In all the forty-seven counties in Kenya, the assumption is that issuing waivers for land rates fines and interests helps in raising revenue for the County government (Naburi, 2017). Annually, the County Governments usually offers a waiver on interest such that a landowner who pays during this period will pay the land rates without the attached interest rates (Naburi, 2017).

In 2018, the County Government of Kiambu raised the land rates by 300% which triggered a negative reaction from its residents. In addition, via a Gazette Notice Vol. CXVIII No. 87, the County Government of started levying agricultural landowners. The residents complained the raise in land rates was too much as they cannot afford the new applied rates. As a result, they formed a lobby group which its main objective is to push for the removal of the new land rates by asking the property owners not to pay the property tax until the rates were reduced (Maichuhie, 2019). This protest means that the rateable landowners will not pay the land rates even if a waiver is issued since the large increase land rates in themselves is perceived as exorbitant. Are counties being reasonable in matching rate increases with service delivery?

In 2019, there was public outcry from Nakuru residents who claimed that the County Government applied illegal land rates which had not undergone careful valuation. The Assembly's Committee on Lands, Housing and Physical Planning released a report which notified the public that the County Government had been issuing land rates using an old and obsolete valuation roll. The committee revealed that the use of an outdated valuation roll led to the application of rates demonstrating poor methods not consistent with the authorizing laws. Additionally, the committee noted that even with the annual issuance of waivers, rateable landowners could not afford to pay since the land rates were very high (Gachuhi, 2019). Nairobi County often issues waivers on interest. In 2013, the County Assembly passed the Nairobi City County Tax Waivers Administration Act, 2013 which provides the legal basis for regulation and issuing of tax waivers. It gives effect to Act 210 of the Kenyan constitution which tackles the imposition of taxes. In 2014, Nairobi County was among the first counties to introduce waivers on interest to encourage defaulters to pay their dues (Mwitari, 2017).In 2019, data by the County Revenue Department reveals that 2.04 billion was collected from land rates (Mutua, 2019).

In 2019, it was reported the County Government had been charging irregular and inflated land rates. A report released by the Nakuru Assembly Committee on Lands, Housing and Physical Planning, informed the residents that the local government had been charging land rates established on an outdated valuation roll. Under the circumstances, the rates issued were illegal. The committee also noted that there is no clear legislation on rating and valuation in place to guide them. The Valuation Roll currently in use was last updated in 2005 yet by law it is to be revised every 10 years. In such cases where land rates are hiked many landowners are not capable of paying despite issuing waivers on interest (Gachuhi, 2019).

### 2.3.3 Importance of Property Tax Administration

Richard M. Bird and Enid Slack state that taxing land as a form of raising revenue are the best minor revenue sources in all countries. They note that property land rates in developing countries formed 0.4% of GDP and about 2% of total tax. In their findings, they discovered that property rates formed a vital source of local government revenue in numerous countries especially developing countries or countries in transition. They found that property taxes amounted to 40% of all local government property taxes in developing countries, 35% in developed countries, and 12% in transition countries.

Bird and Slack (2002) also noted that reliance on property taxes as a source of local government revenue varied in the different governments based on different factors existing in their jurisdiction. The factors affecting the amount required included different responsibilities assigned to local governments. For example, the responsibilities of Mombasa County Government and Nairobi County Government vary due to the disparity in the geographical nature of the counties. Mombasa County is a coastal county which means the local government's duty and needs will vary to those of Nairobi County which is the Capital of Kenya. Subsequently, the other factors causing the variation include revenues available to the county government and the level of freedom local governments possess in relation to property taxation, the scope and progress of the tax base available to them, and their willingness and ability to enforce such taxes (Bird & Slack, 2002).

### 2.3.4 Property tax administrative structures

In Kenya, the individuals concerned with the property tax administration include county government officials namely the governor and deputy governor, the county executive committee (CEC), the county assembly, and the county public service board (Wanjiru, Maina, Onsumu & Stewart-Wilson, 2019). The Members of the county assemblies usually enact legislation for the county and oversee the county executive committee. On the other hand, the county public service boards advance and implements human resource policies which apply to all employees of the county including those dealing with property tax administration.

The county executive committee member for finance plays the role of overseeing the spending and revenue collection in the county which include land rates. In such a way, the CEC finance department has to work closely with the county department of land for purposes of administrating land rates in the county (Wanjiru, Maina, Onsumu & Stewart-Wilson, 2019). Therefore, the county land department mandate is to create the policies while the finance department is to collect the revenue.

### 2.3.5 Property Rates Administration

Property rates administration involves identifying the land to be taxed, valuating it, applying a suitable tax rate, and collecting the revenue. The value of the land must first be determined before a rate is fixed (Harris & McLure, 2019). Harris 7 McLure (2019) states that valuation of property is mostly a matter of judgment rather than fact. In addition, they point out that unlike sales of goods which is a matter of fact, determination of land rates does not culminate from a transaction formed for purposes of payment. Thus, land rates are mostly based on reported sales values which can be altered for purposes of reducing tax (UN-HABITAT, 2016).

There are essential factors which determine the success of property tax administration. They include overt and constant political commitment; a competent team of proficient and skilled individuals who are invested in having a successful property tax administration; well-defined and suitable collection mechanisms; pertinent training for officials; adequate resources for property tax administration; and creating incentives for both taxpayers and tax administrators (UN-HABITAT, 2016). Similarly, there are guiding principles which ensure an effective property tax system and they include equity, fairness, efficiency and effectiveness. Conversely, the expectancy of improved and proficient services from the county governments also ensure a successful system of land rate payment (Wanjiru, Maina, Onsumu & Stewart – Wilson, 2019).

### 2.3.6 Land Rating Systems

There are various tax bases system for rating land, and they include the Unimproved Site Value (USV), Capital Improved Value, Improvements' Value, and Annual Rental Value. Similarly, a government may decide to use a combination of two tax bases for maximum collection of revenue (UN-HABITAT, 2016). Naburi (2017) argues that for a country to have an efficient and effective land taxation system, a government has to determine the most suitable land tax base system for their country or county.

In Kenya, the tax base used for land rates payment is the Unimproved Land Value also known as the Unimproved Site Value (Naburi, 2017). The system is an ad valorem tax on the unimproved value of land. Unlike other tax basis, it does not take into consideration the value of buildings and personal possessions on the land or any other improvement on the property (Web, 2013). This type of tax basis is preferred by some economists as it eradicates financial ineffectiveness and diminishes discrimination of the rateable landowners (Web, 2013). However, it omits taxing buildings and other improvements, giving encouragement to landowners to add to the non-land value and argue the land value should be lowered.
expectancy of improved and proficient services from the county governments also ensure a successful system of land rate payment (Wanjiru, Maina, Onsumu & Stewart-Wilson, 2019)

### 2.3.7 Enforcement Tools Used to Administer Land Rates

To ensure compliance to property rates regulations and optimum collection ratio, the administration system should focus on encouraging voluntary compliance (Kelly, 2013b). This can be done by providing rates payment incentives. To ensure optimum tax collection ratio, maximum and timely property tax payment is paramount. This can be achieved through the following tools or strategies:

#### 2.3.7.1 Training on Property Rating System

Taxpayers' education programs can help in ensuring compliance and improving the tax collection ratio as it provides information on the property rates system. Such education programs should include certain facets of rating administration structure (Kelly, 2013b). These programs can assist in reducing compliance costs and encourage tax compliance.

#### 2.3.7.2 Lowering Compliance Costs

Lower compliance costs can be achieved by providing a simplified and easily accessible payment system (Kelly, 2013b). Reduction in administrative and compliance costs can be achieved by providing multiple and convenient options for rates payment (Kelly, 2013b). Countries such as Greece, El Salvador, South Africa have linked the property rates to the payment of utilities such as electricity and water to ensure collection and enforcement.

#### 2.3.7.3 Discounts and Waivers on Property Rates Interest

Providing discounts helps in realizing voluntary tax compliance. Discounts can be given to landowners who pay their rates in good time. Countries for example Barbados, Ecuador and the Philippines give discounts for timely and complete payments to foster compliance (Kelly, 2013b). Provision of waivers on outstanding payments can be useful in ensuring compliance. Waivers are applied in many counties in Kenya; with some offering as high as 100% waivers on accumulated interests for landowners that clear their arrears within the provided time frame.



#### 2.3.7.4 Improved Services Provided by the Local/ Municipal Government

The importance of linking property rates revenue collection to provision of public services does not need to be over-emphasized. Ahmad, Brosio and Pöschl (2014) highlighted that the establishing a link between property rates and public service provision works more effectively for devolved government than for central governments. Property rating can easily be linked to a specific local government's service (Kelly, 2013b). Rateable property owners ought to get a clear understanding of the property rating role as a benefit tax directly related to infrastructure and services provision.

#### 2.3.7.5 Social Pressure

Social pressure can be used to encourage compliance to payment. Some countries like the Philippines and Indonesia publicly recognize excellent compliant landowners by publishing their names. Other countries such as Kenya and Tanzania, however, publish the names of delinquent taxpayers (Kelly, 2013b).

#### 2.3.7.6 Sanctions and Penalties

Sanctions and penalties are a form of stringent enforcement measure of ensuring prompt property rates payment. Sanctions and penalties take various forms including imposition of penalties for late payment, interest payments for outstanding property rates and censorship of public services (such building permits, title registration, business licensing and suspension of utilities) (Kelly, 2013b). Voluntary compliance to avoid sanctions and penalties can be achieved through strict enforcement against non-compliance. Countries such as Kenya, Bahamas and Indonesia impose payment penalties for late payment to boost compliance by amassing the non-compliance costs. Kelly (2013b) proposes that government policies should make property tax interest payments to be done together with the key taxes including income taxes.

#### 2.3.7.7 Operational Tax Debt Recovery

Recovery Operational tax debt recovery helps in enforcement of late payment and interest penalties. Countries such as Philippines, Indonesia, US, Canada and Chile secure legal debt recovery through civil proceedings, garnering rents from the rateable property, seizure and sale of properties (Kelly, 2013b).

This tool is the last resort employed by local authorities. The extent of enforcement greatly affects property collection ratio. For instance in North America, collection ratio of close to 100 percent is achieved through property seizure and auctions to enforce compliance (Kelly, 2013b). On contrary, developing countries rarely employ seizure and auctions as tools for enforcement leading to poor collection. Implementation of enforcement measures requires strong political will and technical capacity.

### 2.3.8 Factors Affecting Collection of Land Rates

There are several factors which affect the collection of land rates in Kenya such that it becomes difficult to attain the counties' goals and objectives. The low percentage of revenue collected from land rates portray the extent to which rateable landowners and property tax administrators comply with the property tax law (Naburi, 2017). The level of compliance to land rating laws and regulations varies due to the manipulation and incompetence arising from the actions of property tax administrators and rateable landowners (Sepulveda and Vazquez, 2012). In particular, the manipulation and incompetence on the government's side is as a result of outdated valuation rolls and unregulated valuation system, ineffective enforcement of the rating law, intermediary bodies in collection of land payments for public land, and corruption while the rateable land owners' role in the problem includes tax evasion and lack of morale to pay land rates.

#### 2.3.8.1 Outdated Valuation Rolls and Unregulated Valuation System

The National Treasury of Kenya in their own source revenue policy bill provided that the current system used in property rating is undermined by the incomprehensible database of real properties which exist outside the paper-based valuation rolls. The policy suggests that valuation rolls used by the county government are outdated. Thus, the question arising is whether the outdated valuation form a major reason why the counties fail to arrive to the correct rating of properties in the counties part of the (NTK, 2017).

Primarily, since each County Government has the mandate to determine their property tax rates, many county governments engage valuation services from the private sector or the Ministry of Land and Physical Planning (MLPP) (National Treasury of Kenya, 2017). The challenge in acquiring the correct figures for the land rates is that this process of valuation is unregulated. Thus, the lack of regulation leads to disparate valuation outcomes. Additionally, since no standard contracts or guidelines exist for procuring valuation services from the private sector, valuations outcomes are irregular (NTK, 2017). As a result, they create a need for revaluation which is difficult and costly for the counties to undertake due to the limited resources.

#### 2.3.8.2 Ineffective Enforcement of The Rating law

Ineffective enforcement of the rating law in Kenya particularly The Rating Act and The Valuation Rating Act hinders maximum collection of potential revenue. Effective enforcement of the law results in a higher percentage of collected revenue (Sepulveda and Vazquez, 2012). Therefore, enforcement of rating law should be important for county officials to maximize on the collection of potential income.

#### 2.3.8.3 Intermediary Bodies Collecting Land Payments for Public Land

In Kenya, there is concern about which agency is responsible to collect land rents for public land (NTK, 2017). The National Land Commission is mandated by Article 67(2(a)) of the COK to manage public land on behalf of the National and the County Governments. Similarly, the Land Act 2012 (Section 28(1)), stipulates that the NLC should collect rent, royalties and all payments under public land leases or licenses on behalf of the National and the County Governments. Consequently, the NLC is required to the account the funds collected to the respective government and deposit the amount in the Revenue Fund for each County as per Article 2017(1) of the COK. Previous papers suggest the county governments' need to collect the land rent and taxes due to them directly without an intermediary body (National Treasury of Kenya, 2017).

#### 2.3.8.4 Corruption

Many believe that corruption is a menace in Kenya as it affects almost every sector in the country. Yet it retains endurance in our culture. One might say it is an impurity which impacts a government's revenue system - it interferes and decreases the actual income collected and eventually breaks public trust in many ways, including that the public does not enjoy the services which the government ought to provide (UN- HABITAT, 2011). Corruption affects service delivery as the income that is supposed to facilitate offering of services is pocketed by few individuals in the county government. Corruption comes into play as the money that was supposed to be used to effect services in the county is embezzled by some of the officials instead of using it for its rightful purpose. Consequently, landowners refuse to pay the land rates due to the embezzlement and lack of service delivery. In turn, this action results in low collection of revenue for the county government.

#### 2.3.8.5 Tax Evasion

Failing to comply with rating law by paying the required amount is a form of tax evasion since land rates is a form of tax. There are several factors which are catalysts for tax evasion, and they include corruption, ineffective enforcement of rating law and high penalty rates (Sepulveda and Vazquez, 2012). In the instance these factors are eradicated the level of tax evasion may diminish thus allowing a chance for increasing the percentage of land rate revenue collected.

#### 2.3.8.6. Lack of Morale to Pay Land Rates

Payment of land rates is designed to operate voluntarily without the interference of the authorities or issuance of penalties as an incentive to force people into paying property tax. Similarly, tax compliance has a link to morale in paying land rates (Naburi, 2017). This means that a rateable owner with morale to pay the property tax is compliant to the law. Therefore, the county government should ensure that its citizens have morale to pay land rates by offering quality services and eradicating corruption which is a chief factor in decreasing the morale to comply with the law.

However, it is paramount for rateable landowners to pay the rates regardless of whether they are receiving the public services (MMAN, 2019). The imposition of the land rates is provided under the Rating Act. Therefore, a rateable landowner cannot purport to refuse to pay the land rates on the basis that the service delivered is substandard – that would be a self-perpetuating failure of the system. It is worth noting existing policies allow that some properties. such as government institutions, education centers, public religious worship centers, are exempted from paying land rates (Valuation for Rating Act, s. 27).

### 2.4 Summary of Literature Review and Literature Gap

Several studies have been conducted on the relationship between land rates payment systems and collection of revenue. Konyimbih (2000) denoted that collection rates are extremely low and enforcement against non-compliance is virtually nonexistent. Fiscal cadastre information is incomplete and out of date. There is an over-reliance on individual parcel valuation with no use of simpler mass valuation techniques. The county struggles with low property tax administrative capacity and a lack of political will for property tax enforcement. The result is low revenue yields, vertical and horizontal inequities and economic inefficiencies.

The procedure for collection and recovery of late payments and arrears are generally poor. Enforcement is both time-consuming and cumbersome as follow-up measures are not clearly defined. In some cases, lawyers hired to collect outstanding arrears have been known to hold the monies collected before remitting the same to the councils. The use of hired lawyers from the private sector also makes recovery of rate arrears expensive, and hence raises the administrative costs of rate revenue collection (Konyimbih, 2000). Effective administration of property taxation is also hindered by the lack of incentives to pay tax, inappropriate property tax policy and the lack of property administrative systems, trained personnel and synchronization of improved local service delivery with enhanced revenue mobilization.

Due to the outdated evaluation rolls, corruption, lack of enforcement tools and non-compliant rateable landowners, payment of land rates has decreased over the years. The increasing trend of defaulting in payment of property rates has led to low revenue collection (Karanja 2004). Since the performance of rates administration is dependent on the effectiveness of billing and collection of rates, the diminishing payment of rates is attributed to poor collection methods used by the county government. Additionally, the increasing rates liabilities placed on undeveloped land also contributes to the decreasing trend of land rates payment.

The reviewed literature identified areas which if not addressed affect the collection of revenue for county governments. From the review it is evident that a strong and effective tax administration is vital in collection of revenue subsequently, a weak tax administration structure leads to low collection of revenue.

The constant limitation identified while reviewing these literature papers is that the studies mostly focused on the reasons why county governments experience low revenue collection and not on the issuance of waivers as a tool of raising revenue. Moreover, the studies did not focus on whether issuance of waivers as a single tool to increasing revenue is a major factor in boosting revenue collection in county governments is or whether there was a need for additional tools to ensure an increase in revenue. As a result, the data collected on issuing waivers as a way of increasing revenue was limited.

## 2.5 Conceptual Framework

The proposed study will be based on a conceptual framework that will attempt to explain factors that affects effectiveness of land rates revenue collection. The independent variable in this study will be waiver on land rates interest and penalties, under this the study seeks to find out the level of penalties and interest quantities, period of arrears of most rateable owners and performance of waiver since its inception hence discover challenges this policy is facing. Enforcement tools is the second independent variable under study. The study will probe into the valuation roll; properties registered by the county as a result of waiver (Omission), amount of revenue collected by the county, improved public service and  compliance cost of rates remittance .The third independent variable is property rates revenue leakages, under this the study probes into civic education on importance of land rates, public's attitude toward rates payment, efficiency of public goods and property owners' compliance cost . The study will establish the extent to which these independent variables affect land rates revenue collection.

*Figure 2. 1 Conceptual framework*

*Independent Variables*

Waiver on land rates interests and penalties.

- Properties registered by the county because of waiver (Omission)
- Deficits realized each financial year.

Enforcement tools

- Reduction of compliance cost
- Stringent enforcement legal framework

Property rates revenue Leakages (Challenges)

- Civic education on importance of land rates
- public’s attitude toward rates payment
- efficiency of public goods
- Compliance cost

*Dependent Variable*

Land rates revenue

## 2.6 Operationalization of the Variables

*Figure 2. 2 Operationalization of the variable*

| Objectives | Variable | Indicators | How it is measured |
|---|---|---|---|
| Establish challenges facing property rates collection and enforcement in Nairobi county. | • Civic education on importance of land rates.<br>This is education available to the public to inform them on why they ought to pay rates. The study sampled the public's ideas on what they think of paying rates. The study then established whether waiver is an important aspect of increasing revenue collection or not.<br>• Public's attitude toward rates payment.<br>This is the public's perception of paying rates. The study sampled the public's ideas on what they think of paying rates. This was to aid the study deduce the relationship between public's attitude towards rates payment and the property rates revenue collected.<br>• Efficiency of public goods<br>These are common goods provided by the county council to the citizens. The study sampled on what the rate payers | Revenue difference in the Projected budget statement visa vis the actual collected revenue. | • 4 – point Likert scale to be used.<br>(1=Not effective; 2= Less effective; 3= Effective; 4=Very effective<br>• Open ended question<br>• Binary questions |

| | | | |
|---|---|---|---|
| | say about public goods and whether it is a reason enough to boycott paying land rates.<br>• Compliance cost<br>Amount of time ratepayers take to pay their rates. The study sampled on how rate payers feel on the amount of time taken to pay their rates. | | |
| | | | |
| Identify the effectiveness of enforcement tools on property rates collection in Nairobi county. | • Improved public services<br>These are common goods provided by the county council to the citizens. The study sampled on what the ratepayers say about public goods and whether it is a reason enough to boycott paying land rates. The study sought to find out whether this is a great motivation for ratepayers to comply with the statutory obligation or not.<br><br>• Compliance cost<br>Amount of time taxpayers take to pay their rates. The study sampled on how rate payers feel on the amount of time taken to pay their rates. The study sought to find out whether compliance cost is a strong proponent of property rates payment by the property owners | • Revenue difference in the Projected budget statement visa vis the actual collected revenue. | • 4 – point Likert scale to be used.<br>(1=Not effective; 2= Less effective; 3= Effective; 4=Very effective<br>• Open ended question<br>• Binary questions<br>• Choices |

| | | | |
|---|---|---|---|
| Establish the effectiveness of issuing waivers on land rates interests and penalties on property tax revenue collection. | • Properties registered by the county because of waiver (Omission).<br><br>The study probed into the valuation roll to see additional properties registered because of waiver. This informed the study whether waiver is increasing revenue collection due to registration of omitted properties.<br><br>• Amount of revenue collected by the county<br><br>This is the total amount of money that is collected by the county government under properties. The study established whether it is more or less when waiver is issued or not. | • Check on the valuation roll.<br>• Revenue difference in the Projected budget statement visa vis the actual collected revenue.<br>• Increase or decrease in the revenue collected | Data analysis for twelve years during which waiver was issued and not issued during this period. Comparing period when there was waiver and when there was none. |

## CHAPTER THREE

## RESEARCH METHODOLOGY

### 3.1 Introduction

This chapter comprises the research methodology employed in this research. It outlines the methods and procedures used to collect and compile the data. This chapter also contains the research design, sampling techniques, data collection methods, description of the population and the data analytical models used by the researcher.

### 3.2 Research design

Research design is a fact-finding plan or set of methods used in collecting and analyzing measures of the variables to answer the research questions (Creswell, 2014).

Research design is the approach of planning and conducting the study, procedures and research techniques engaged to address the research question (McMillan & Schumacher, 1984). Mugenda and Mugenda (2012) noted that research design entails is an investigation plan and strategy to answer research questions. It provides a framework for planning and conducting a study.
The descriptive research methodology was adopted in this study. Heiman (2001) argues that descriptive research involves the observation and description of a behaviour, situation it occurs in or the individuals exhibiting it. It examines the relationship between two or more variables.
The study involves two main section to achieve its objectives : (1) an analysis of a period of twelve years from 2007 to2019 during which there were years when waiver were issued and some had no waiver administered by the county government. Non-parametric analysis tools such as comparison of means value of effectiveness of enforcement tools, standard deviation, frequencies, bar chats, bar graphs, variances and linear regression were used to analyse the existing data. (2) the answers of respondents from rateable owners and administering officers in Nairobi county.

The output of the study includes: a record of property tax collection in the budget statement as well as the actual rate revenue ratio from 2007 to 2019,identification of the tools of property rates collection and enforcement and establishing effectiveness of issuance of waiver on accrued property rates in increase in revenue collection and identifying challenges facing property rates collection and enforcement in Nairobi City County.

Mugenda and Mugenda (2012) consider the unit of analysis to be the element whose data is aggregated and analysed in the study to make conclusions, decisions or inferences. Unit of analysis entails what or whom is being studied (Babbie, 2001). The units constitute measured variables that form the analysed data (Rukwaro, 2016).

The primary units of analysis of this study include owners of rateable properties and rates administration officers who deal with rates collection and enforcement in Nairobi City County. Rateable property owners comply in payment of rates based on tools of enforcement employed by collection and rates enforcement officials. To adequately answer the research questions, it was important to obtain information of annual rates collection vis-à-vis the total billed. In addition, it was also necessary to engage the enforcement officers. The researcher considered different categories of rates administration officers: Chief accountant in charge of rates, revenue director, director of planning and valuation manager. The chief accountant in charge of rates supervises collections of property rates in Nairobi county and so does the revenue director only that he deals with a wider spectrum of revenues in the county, director of planning formulate projected budget policy statement in the county and valuation manager deals with registration of properties in the county in the valuation roll.

The secondary units of analysis include comparison between the actual rates collected and projected rates at the beginning of each financial year. Registered properties in the valuation roll due to omission was also obtained.

### 3.3 Population, Sample and Sampling Techniques

Naburi (2017) defines population as the specified aggregation of elements in the study. This study is supposed to assess the effect of waiving interest accrued on land rates arrears in Nairobi county. The target population was rateable property owners and property rates officials in Nairobi County. Population frame entails a comprehensive list of the elements of the target population used to select the sample (Mugenda and Mugenda, 2012). Rukwaro (2016) suggests that listing the elements of the population enables one to determine the sample size and appropriate sampling method. A Guide of Nairobi City Development Ordinances and Zones (2005) indicate that Nairobi City County has 20 zones. The rateable properties in Nairobi are spread in these zones.

Mbeche (2004) describes sampling as the selection of portion of a population of items to represent the whole. It estimates the population values from the samples. Sampling has massive merits, including saving on costs and time, allowing for more accurate results and ensuring better supervision. Stratified random sampling method was adopted. The population consist of rateable properties within the geographical boundaries of Nairobi. The choice of Nairobi City County is since it is the capital city of Kenya. Nairobi City County has the biggest number of rateable properties compared to other counties. It therefore forms a good representative of other counties. Rateable properties were sampled using stratified random sampling. All rateable properties within the city boundaries were placed into groups (strata) depending on the zones. Stratification was important because of non-homogeneity of rateable properties by zones. Each zone was considered as a stratum. The researcher categorized the zones or strata into industrial, residential and commercially users to ensure that all industrial, residential and commercial properties are equally represented. Nairobi City County plans and a Guide of Nairobi City Development Ordinances and Zones (2005) was used to facilitate sampling. In determining the sample size required, the rule of the thump should be to obtain as a big sample as possible (Mugenda and Mugenda, 1999). The major challenge in deciding the sample size is resources and time constraints. Gay (1981) notes that the sample size is influenced by number of study variables, research design and data analysis method. For a correlational study, a minimum of 30 cases are essential for descriptive studies while experimental studies require10% of the accessible population (Gay, 1981).

In stratified sampling, a minimum of 30 cases are required per strata(Roscoe, 1975, in Kieti, 2015).If there are no estimates available of the target population assumed to have the characteristics of interest, 50% should be used (Mugenda and Mugenda, 1999). Alreck and Settle (1985) in Murigu (2005) proposed that a sample size of 100 cases is adequate. Roscoe (1975) in Kieti (2015) suggests that a minimum of 30 samples and a maximum of 500 samples are appropriate for most researches. Mugenda and Mugenda (1999), recommend use of the following formula to determine sample size:

If target population is 10,000 or more then:$s=z*z*p*qd*d$ Where s is the desired sample; z is standard normal deviate, p=% target population, q=1-p, d is the level of statistical significance test.Taking z to be 1.96, p=50%, q=1-p(ie 1.0-0.5), d = 0.05, the desired sample will be;

$$s=1.96*1.96*0.5*0.50.05*0.05=384$$

From the foregoing, in view of the opinions of the above scholars regarding the determination of sample size, considering that personal and property rates information is very secretive and difficult to access, the researcher considered a sample of six (6) zones consisting of Two (2) industrial ,Two (2) commercials and Two (2) residential user to be good enough. The researcher numbered all the industrial, commercial and residential zones. The fishbowl draw method was then used to randomly select twoindustrial, two commercial and two residential zones. Given that a minimum of 60 samples is required per strata in stratified random sampling, the researcher gave an allowance of extra 10 samples to cater for questions which would not be returned by rateable property owners. Consequently, a total of 60 samples were randomly selected from each of the Four (6) zones resulting into a total of 360 samples. The industrial zones included Mlolongo, industrial area, commercial zones sampled included Central Business District (CBD) and Upper Hill. On the other hand, the residential zones entailed Makadara & Buruburu; and South B, South C & Lang'ata.Other respondents included chief accountant in charge ofrates and land rates collection and enforcement officers (debt collection unit).

The property rates officials in the rates department who deal with rates collection and enforcement in Nairobi county were also issued with questionnaires. In the rates department there were 40 officials who were given questionnaires. Chief accountant in charge of rates and revenue director provided information on collection of property rates in conjunction with Nairobi county's treasury provided financial statements showing revenue collected on property rates for twelve years from 2007 – 2019. Director of planning provided information on projected revenue budget statement for five years form 2013 – 2019. The valuation manager provided data the properties registered in the valuation roll due to omission during waiver period for four years from 2013 – 2019.

### 3.4 Data Collection

The study involved the use of a semi-structured questionnaires having open and close-ended questions for data collection. The data was collected through personal administration. Questionnaires were dropped and then later picked depending on the convenience of the respondents.

Before administering questionnaires, prior consent was sought from the respondents. Respondents in this study were rateable property owners and rating administrators in Nairobi.

Bogen (1997) noted that interview length affects response rate by influencing the respondents' behavior and attitudes. The number of items in a questionnaire should be as few as possible to ensure high response rate.

Three questionnaires with 6 to 10 items were prepared and administered to the respondents who included rateable property owners and land rates collection and chief accountant and chief revenue -land rates. The questionnaire had different types of questions including multiple choice and single response questions. Also, the multiple choice / multiple responses for independent responses were included. Besides, the questionnaire had questions on likert scale having different extents of opinions.

Secondary data was obtained from published financial statements, textbooks and  unpublished scholarly works and papers from real estate journals and financial publications. This served as a benchmark for the research the researcher sought consent from the participants before administering the questionnaires. This was done through a letter issued by the university requesting the respondents to assist in the research by answering the questionnaires, ethics approval certificate and NACOSTI. Secondary data was collected from county land rates reports.

### 3.5 Data Analysis Technique

Data analysis was done using Statistical Package for Social Sciences (SPSS) and MS Excel. Descriptive statistics was performed on the data to summarize the variable data thus enhancing its understanding. The descriptive statistics selected for this study included the comparison of means value of effectiveness of enforcement tools, standard deviation, frequencies, bar chats, bar graphs. Data collected represents two categories i.e. quantitative and qualitative data. Quantitative data was represented by use of tables and percentages, while qualitative data was presented in form of charts used to describe events and occurrences.

### 3.6 Research Reliability

Reliability is a measure of the degree to which a research instrument yields same data after repeated trials (Mugenda and Mugenda, 1999). Yin (2) defines reliability as demonstrating that operations of study such as data collection procedures can be repeated with the same results. To achieve the reliability of research instrument, a pre-visit of the area of the study was carried out to establish the reliability of the study. A test-retest method was adopted to measure the reliability of the study.

### 3.7 Validity of the Research Instrument

Validity refers to our ability to generalize the results of our study to other settings. According to Bogen (1997) validity is the extent to which the study investigates what it claims to investigate and report what occurred in the field. According to Mugenda and Mugenda (1999) validity aims at ascertaining the extent to which the research instruments collect the necessary information. This measure aims to assess whether issuance of waiver on accrued rates is greatly contributing to increase of the land rates revenue collected by the Nairobi County Government. In this research, the validity of the instruments was guaranteed through pretesting to be conducted prior to the study. The feedback was used to revise the tools to ensure the objective of the study was realized. The instruments validity was acceptable because it had produced consistent data that was generalized on the entire population. In addition to validate the questionnaires, the researcher studied the instruments to ensure they meet the objectives of the research, Seek the opinion of the research supervisor.

### 3.8 Summary

The chapter gave an outline of how the researcher conducted the study. The study opted to adopt the descriptive approach in the research design. The target population included rateable properties in Nairobi County. The sample is to be derived from respondents of different use of the property in the different 20 zones in the county after a random selection has been conducted. Equally, this chapter used questionnaires to collect data together with secondary sources and then use the regression model to analyze the data.

### 3.9 Ethical consideration

Prior to every filling of the questionnaire, the respondent was assured that participation in the study was voluntary and all information collected would be handled with utmost confidentiality and used for intended of the researcher and the respondent. The respondent was also made aware and appreciate the benefits from the study. The participants also had the freedom to quit the interview process at any stage with no terms and condition.

Some questionnaires were translated into Swahili when a respondent was not well conversant with English language.

The researcher was generally expected to conduct research morally and responsibly. In so doing, many ethical issues need to be considered to ensure the rights of respondents are not infringed. The study requested approval from the Ethics and Review Board of Strathmore university to conduct the study. Informed consent of the intended participants was sought, and the nature and timing of survey scheduled to ensure that the respondents are treated in fair and just manner without causing any harm to them. This ensured that during data collection, the right to confidentiality, anonymity of participants was maintained. Voluntary participation was emphasized, and refusal to respond to any question respected.

The data collected was securely stored where access was limited to the researcher. Data was analyzed objectively with confidentiality and anonymity in mind not linking data directly to the respondents.

# CHAPTER FOUR

# DATA ANALYSIS AND PRESENTATION

## 4.0 Introduction

This chapter presents the results from the analysis of the data collected during the study. The study collected both primary and secondary data. Primary data was of two categories: on responses from land rates officials in the county government and from reteable property owners. Both the two sets of primary data were collected using questionnaires. Secondary data collected contained information on the amount of revenue collected by the Nairobi County offices before and after introduction of waivers on land rates arrears.

## 4.1 Descriptive statistics

### 4.1.1 Rates officials

Out of 40 questionnaires administered to the rates officials, a total of fifteen (15) land rates officials participated in the study by returning fully filled questionnaires. Some of the questionnaires were not returned while others were not fully answered hence were not used for the study.  They answered questionnaires which was aimed at collecting their views on the effect of issuing waivers on land rates interest on revenue collection.

Majority of the land rates officials 73.3% (n=11) said that residential property owners are the most rampant defaulters as shown in table 1 below.

*Table 4. 1 Type of rateable owners that are rampant defaulters*

| Property Type | Frequency | Percentage |
|---|---|---|
| Residential | 11 | 73.33 |
| Commercial | 3 | 20 |
| Industrial | 1 | 6.67 |
| Total | 15 | 100 |

### 4.1.2 Property owners

Out of 360 questionnaires administered, a total of 46 property owners around Nairobi returned their filled questionnaires, 5 of which had some questions unanswered. More than half of them were commercial property owners as shown in table 4.2. Some of the industrial property owners filled the questionnaire as commercial property owners.

*Table 4. 2 Type of property*

| Property type | Frequency (Missing =5) | Percentage |
|---|---|---|
| Commercial | 23 | 56.1 |
| Residential | 18 | 43.9 |
| Total | 41 | 100 |

Results from table 4.2 indicate that almost half 45.65% of the property owners had arrears of land rates. 13.05% of the respondents did not answer and were indicated as missing in the analysis as shown in table 4.3. The property owners who were in arrears on average reported to have defaulted for a period of 2.32 years (Standard deviation = 1.11).

*Table 4. 3 Whether the property owner is in arrears*

| Are you in arrears? | Frequency | Percentage |
|---|---|---|
| Yes | 21 | 45.65 |
| No | 19 | 41.3 |
| Missing | 6 | 13.05 |
| Total | 46 | 100 |

In figure 4.1 Most of the respondents who have arrears, 24% (n=11) reported that their default amount is between KSh 10,00 to 100,000. This was the range in which most defaulters fall in terms on what they own the county government.


*Figure 4. 1 Amount of arrears*

**4.2 Effects of issuing waivers on land rates interests and penalties on property tax revenue collection.**

As shown in figure 4.5, majority of the land rates officials, 86.67% (n=13) agreed that issuing waivers on land rates interest increases the amount of the revenue collected at the county government. Land rates officials said that rate payers feel motivated to pay when there is waiver also, penalties are usually exceedingly high us hence giving waiver lessen the burden of taxpayers.

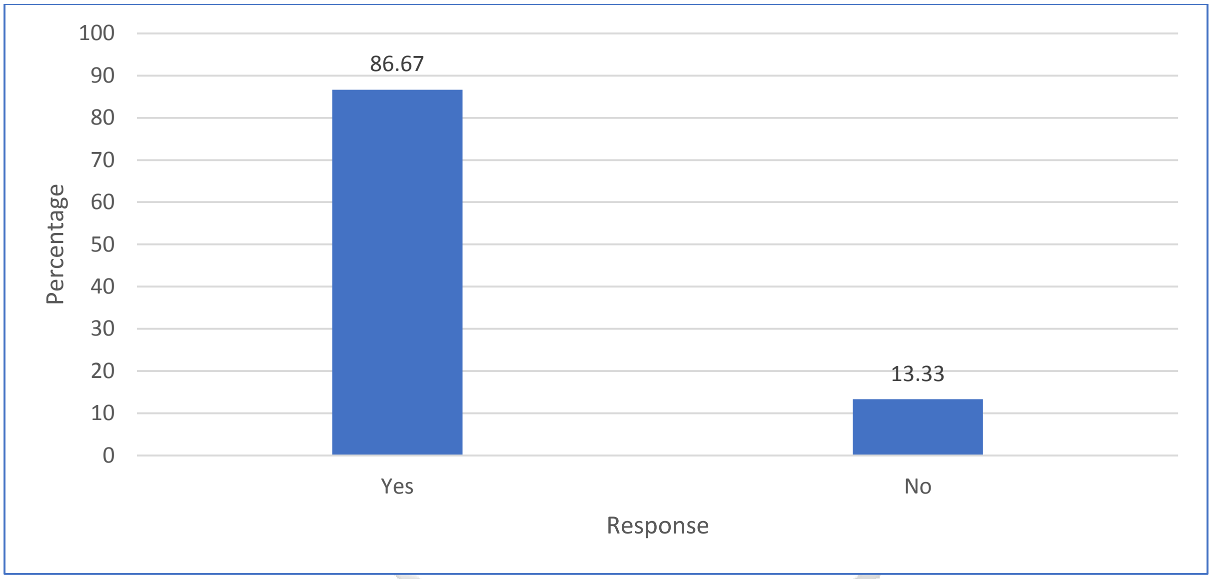



*Figure 4. 2 Does issuing waivers on land rates interest increase the percentage of revenue collected?*

In addition, as shown in figure 4.3, majority of the land rates officials, 60% (n=9) agree that issuing waivers on land rates interest is necessary to ensure that the landlords pay the outstanding land rates while 33.3% (n=5) say otherwise. Land rates officials believe that waiver relieve rate payers of their huge burden to pay hence acts as a motivation and an encouragement to oblige to the statutory requirement. The 33.3% who thought otherwise were strongly convinced that a strong legal framework will see to it that taxpayers pay their dues hence waiver is not a necessity.

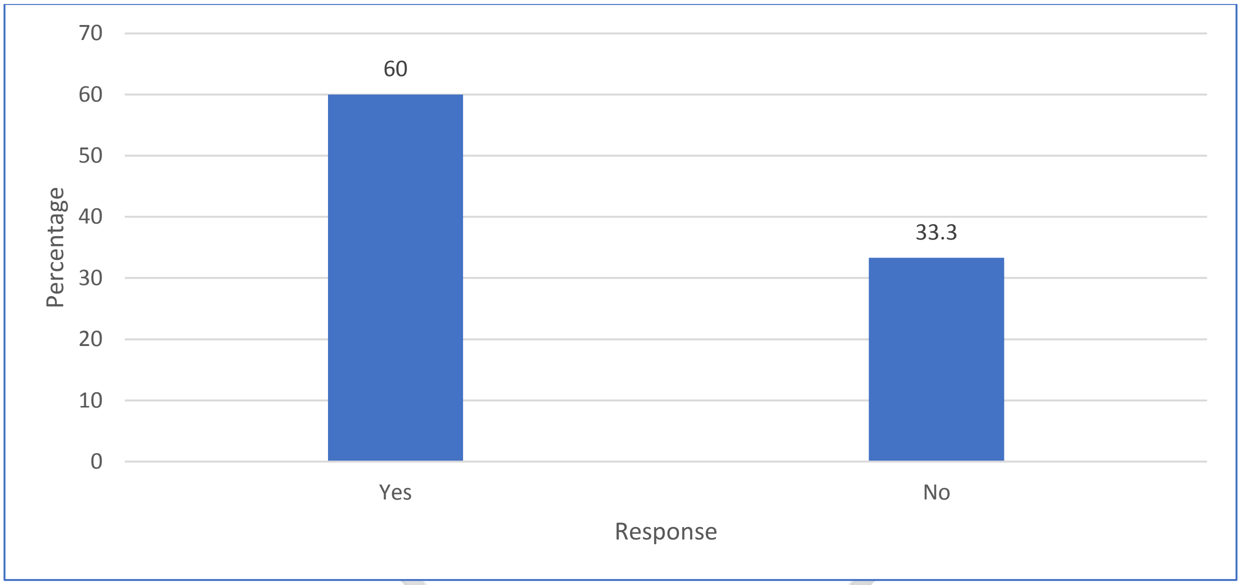



*Figure 4. 3 Do you think issuing waivers on land rates interests is necessary to ensure payment of land rates?*

Figure 4.4 indicates that majority 90% (n=36) of the property owners are encouraged to pay their land rates if the county government issues a waiver on the interest.

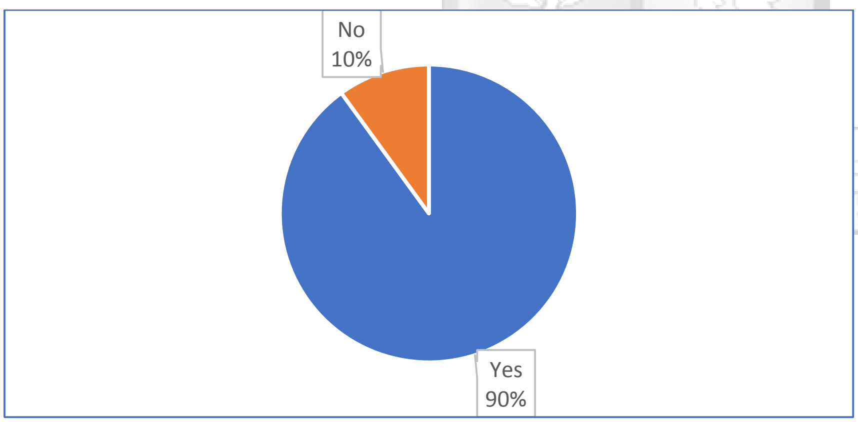



*Figure 4. 2 Does issuance of waiver by the county government on land rates encourage you to pay?*

Due to waiver some properties were recorded in the valuation roll. This was due to Omission. Registration of Omission of a property in the valuation roll happen when a new property is not new, the property's tittle deed is old and when a property is missed on the valuation roll when it was being prepared. During waiver most of property owners come forth to report such cases when paying off their rates as well as taking advantage of paying less amount from what they are required to. Provision is the opposite of omission. This is continuous registration of new properties into the valuation roll by the valuation department. It is due to new titles, sub-division and amalgamation. Provision is not affected by waiver.

*Table 4. 4 Number of properties which were due to omission from the valuation roll*

| Year | Number of omissions |
|---|---|
| 2015-2016 | 25 |
| 2016-2017 | 23 |
| 2017-2018 | 9 |
| 2018- 2019 | 2 |

*Table 4. 5 period and presence or absence of waiver*

| Year/Period | Had a waiver period? |
|---|---|
| 2007/2008 | Yes |
| 2008/2009 | No |
| 2009/2010 | No |
| 2010/2011 | Yes |
| 2011/2012 | No |
| 2012/2013 | Yes |
| 2013/2014 | Yes |
| 2014/2015 | Yes |
| 2015/2016 | Yes |
| 2016/2017 | Yes |
| 2017/2018 | No |
| 2018/2019 | No |
| 2019/2020 | N/A |

Table 4.5 above shows years that had waiver and those that did not have waiver. During the waiver period, the amount was higher compared to non-waiver period.

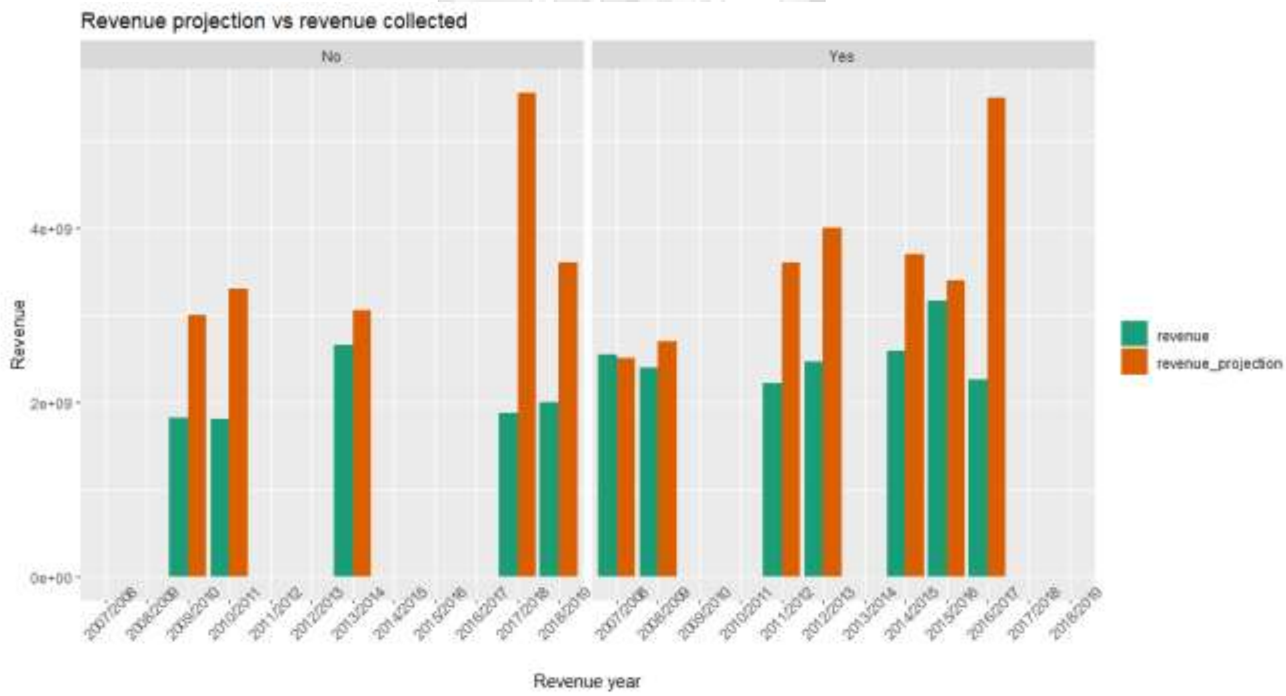
*Table 4. 6 Projected vs Actual rates revenue collected with revenue collection rate*

| Year | Revenue | Revenue projection | Deficit | Revenue collection Rate | Waiver |
|---|---|---|---|---|---|
| 2007/2008 | 2,549,400,000 | 2,500,000,000 | - 49,400,000 | 101.98% | Yes |
| 2008/2009 | 2,396,100,000 | 2,700,000,000 | 303,900,000 | 88.74% | No |
| 2009/2010 | 1,824,900,000 | 3,000,000,000 | 1,175,100,000 | 60.83% | No |
| 2010/2011 | 1,799,600,000 | 3,300,000,000 | 1,500,400,000 | 54.53% | Yes |
| 2011/2012 | 2,223,200,000 | 3,600,000,000 | 1,376,800,000 | 61.76% | No |
| 2012/2013 | 2,469,700,000 | 4,000,000,000 | 1,530,300,000 | 61.74% | Yes |
| 2013/2014 | 2,661,100,000 | 3,050,000,000 | 388,900,000 | 87.25% | Yes |
| 2014/2015 | 2,593,325,528 | 3,700,000,000 | 1,106,674,472 | 70.09% | Yes |
| 2015/2016 | 3,160,300,000 | 3,400,000,000 | 239,700,000 | 92.95% | Yes |
| 2016/2017 | 2,253,289,998 | 5,500,000,000 | 3,246,710,002 | 40.97% | Yes |
| 2017/2018 | 1,869,300,000 | 5,560,000,000 | 3,685,700,000 | 33.62% | No |
| 2018/2019 | 1,993,900,000 | 3,600,000,000 | 1,606,100,000 | 55.39% | No |
| 2019/2020 | NA | 3,930,000,000 | NA | | |

Table 4.6 shows revenue collection rate expressed by revenue collected as a % of revenue projection, as a measure of success of revenue collection subject to waiver or no waiver. The general trend shows success stories of waiver collection in the years when waiver was in effect, for instance in the 2007/2008, the collection success rate was 101.98% i.e. revenue collected surpassed the projected revenue for that year. However, in the revenue year 2016/2017 saw a short of over 59% in revenue collection even though waiver was issued during the period.
On the side, there was low performance on average for periods when waiver was not in effect. For example, 2017/2018 period fall short by over 66% in revenue collection and recorded the lowest revenue collection of the all the periods. The highest collection success reached for no waiver period was in the period 2009/2010 with 60.83% collection rate.

Comparing across the collection rate spectrum, there is quite a fluctuation both for waiver and no waiver periods which renders the increased revenue collection during waiver period minimal, but positive.

*Figure 4. 5* Revenue Projected vs revenue collected




Comparing the two panel graphs (left panel represents no waiver period), we can see better revenue collection performance in years when there was waiver, even though this difference does not stand out significantly. For instance, in the revenue year 2007/2008, the revenue collection surpassed the projected revenue for the same year period.

There was a high shortfall in the revenue collection for the year 2017/2018 with only 30% of the projected revenue having been achieved (table…). These two panels further illustrate a not clear cut between periods when waiver was issued and those when waiver was not in place in terms of revenue collection to further support the results of the simple linear model.

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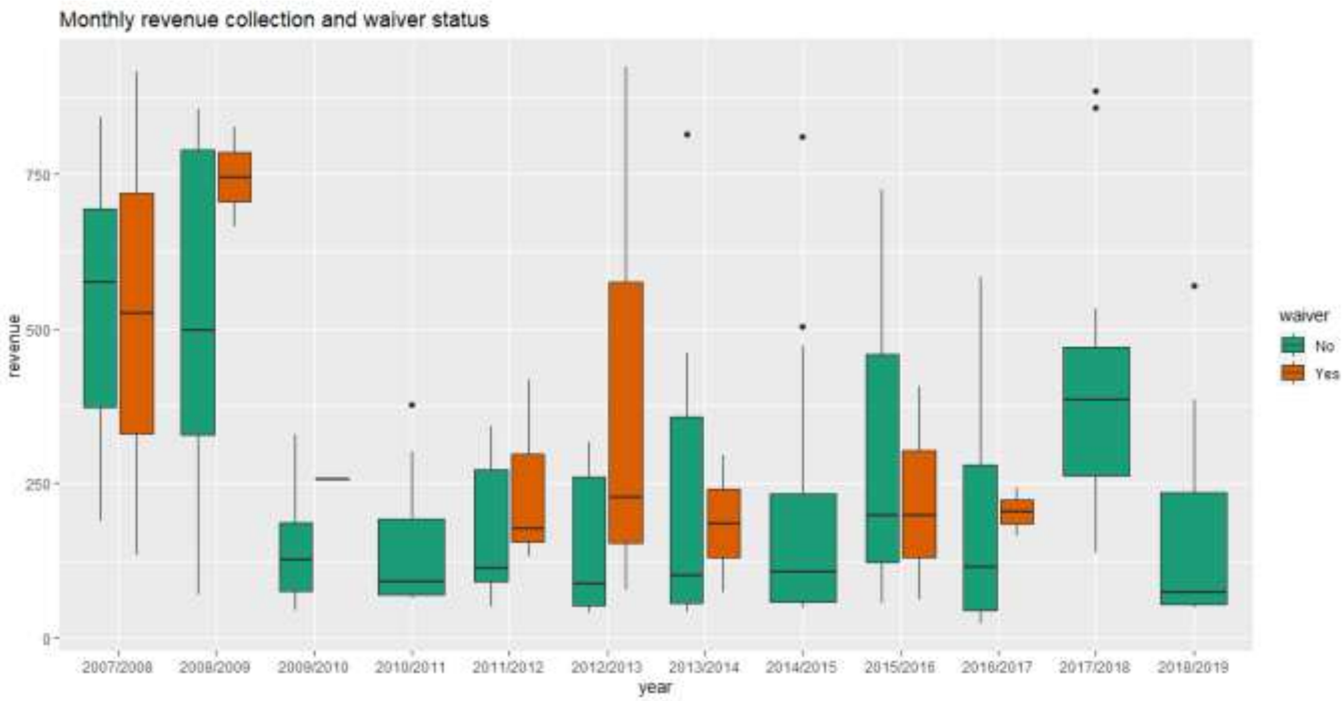
*Figure 4. 6* Monthly revenue collection and waiver status




The boxplot above shows the monthly distribution of revenue collection for instances with waiver (orange box plots) vs no waiver period (green boxplots). On average, periods where there was waiver have high revenue collection as compared to periods without waiver. However, this behavior is not depicted in all waiver periods, for instance in the revenue collection period 2007/2008, no waiver months saw higher revenue collection compared to waiver period months, this is probably because there were only 2 months in this period that waiver was in effect.

For other revenue collection period that had both waiver effect months and months without waiver in effect, it's clear from the median line of the boxplot that periods with waiver had higher revenue collection in general, however the difference is not that significant in some revenue periods, such as revenue collection year 2015/2016 which seem to almost having equal collection amount.

### 4.2.1 Model fitting and description

We fit a simple linear regression model (SLR). It is simple in the sense that we only have one predictor/independent variable which is the waiver status and linear in the parameters (model coefficients do not constitute any higher powers such as the square root) as shown in the description equation below.

$$Y = \beta_0 + \beta_1 X + \epsilon$$

where:-

Y = Outcome variable (monthly revenue collection)

$\beta_0$ = Intercept, value of Y when X is zero(no waiver)

$$\text{Covariate (Waiver)} = \begin{cases} X = 1, & \text{if there was waiver} \\ X = 0, & \text{if there was no waiver} \end{cases}$$

$\beta_1$ = Coefficient of Waiver i.e. magnitude of waiver effect on revenue collection Y

$\epsilon$ = Random noise i.e. $\epsilon \sim N(0, \sigma^2)$

Table below shows summary of model output and parameter estimates for monthly revenue million

*Table 4. 7 Model summaries*

| Model item | Estimate (95% CI) | Std. Error | t value | p-value |
|---|---|---|---|---|
| Intercept | 263.29 (220.35- 306.22) | 21.72 | 12.12 | <0.001 |
| Waiver (Yes) | 80.89 (-40.55- 202.32) | 61.43 | 1.31 | 0.19 |

$R^2$ = 0.0121 and Adjusted $R^2$ = 0.0051

Significance test for model parameters/co-efficient and interpretation:

#### 4.2.1.1The intercept (B0)

The estimate of the intercept represents the expected monthly revenue collection in the absence of waiver. The p-value for testing the significance of this coefficient i.e. to test whether this parameter is significantly different from zero in which case a model without an intercept would be appropriate is < 0.001 and thus we conclude that at 95% significance level, the model intercept is significantly different from zero. Studying the confidence interval (the range of plausible values of this estimate) 263.29 [220.35- 306.22] also suggests that the intercept is significantly different from zero since the range [220.35- 306.22] does not contain the value zero. This implies therefore that the average monthly revenue collection in the absence of waiver is estimated at millions 263.29 Ksh

#### 4.2.1.2 Waiver status (B1)

The estimate of the coefficient of waiver status ($B_1$) indicates the net effect of issuing waiver (waiver = 1) on monthly revenue collection as compared to absence of waiver (waiver = 0). The significance test for this co-efficient i.e. testing the null hypothesis whether the coefficient is any different from zero has a p-value = 0.19, which is greater than 0.05 and hence this net effect due to waiver is not statistically significant. The 95% confidence interval for waiver coefficient is 80.89 [-40.55- 202.32] and the range of plausible values contains the null value (zero) further supporting the previous results that this coefficient of waiver is not significantly different from zero.

This co-efficient is 80.89, hence the net effect of issuing waiver on monthly revenue collection is a slight increase of million 80.89 Ksh as compared to a revenue collection of millions 263.29 Ksh in the absence of waiver (waiver co-efficient is zero) and therefore, we fail reject the null hypothesis in favor of the alternative hypothesis and conclude that there is no effect of waiver on revenue collection.

The standard errors which quantify how accurate the estimates of the study model parameters were made are relatively low (21.72 for intercept) and (61.43 for waiver) giving a confidence on the performance of the model in estimating the expected monthly revenue in the absence of waiver status and whenever waiver is issued.

#### 4.2.1.3 The coefficient of determination (R2)

The coefficient of determination ($R^2$) is the proportion of variance in the outcome variable that is explained or predicted by the dependent/predictor variable i.e. the proportion of variation in revenue collection that is explained or predicted by waiver status (Yes). This coefficient ranges from between 0 and 1, values closer to 1 indicates high variance explained or stronger correlation between outcome and predictor variables and values close to 0 indicate low variance explained or weaker correlation between outcome and predictor variables.

The co-efficient of determination for our model is 0.0121 with an adjusted value of 0.0051. This means that only 1.21% of variation (change behavior) in monthly revenue collection is attributed to issuing waiver, which leaves over 98% un-explained variation in monthly revenue collection. In other words, only 1.21% variation in the expected monthly revenue collection is explained waiver status (Yes). This proportion is very low and hence further supporting the conclusion that issuing waiver has no effect on revenue collection.

Fitted model to estimate the effect of waiver on revenue collection



The below model (with coefficient estimates) was fitted using the revenue dataset as shown below

$$Y = 263.29 + 80.89X$$

As defined above, X represents waiver and thus the fitted model show a monthly increase in revenue of Ksh 80.9 million when waiver was issued from a base estimated collection of Ksh 263.29 million when there is no waiver in effect.

The data obtained from the Nairobi County government offices on land rates payments indicate an increase in revenue collected in months when property owners are given waivers on land rates interest. Between July 2007 and June 2019, an average monthly revenue of approximately millions 263.29 ksh was collected in no waiver periods with an increment of 80.89 million KSh when there is a waiver.

### 4.3 Effectiveness of enforcement tools on Property rates collection in Nairobi County.

Results shown in figure 4.7 indicate that 87% (n=13) of the land rates officials believe that issuing waivers on property rates is not the only effective tool for revenue collection in Nairobi county. Most of property rates officials suggested tools like:

1. Strong legal enforcement on defaulters. There is no strong legal framework that punishes defaulters.
2. Periodic civic education. Officials expressed their concerns on the fact that most property owners have no knowledge why they pay land rates hence the huge number of defaulters. Thorough civic education through the media to sensitize property owners on the importance of paying land rates and building the debt collection unit's capacity to obtain delinquent taxes.
3. Issuing systematic discounts to regular rate payers. This acts as an incentive to the faithful payers to continue paying rates, hence avoid noncompliance.
4. Automation of the rate payment system since the existing system known as Jambo pay is no longer working.
5. Cramping of the property in debt.
6. Sending constant reminders to the property owners to pay their due rates using demand notices failure to which they are liable to imprisonment.

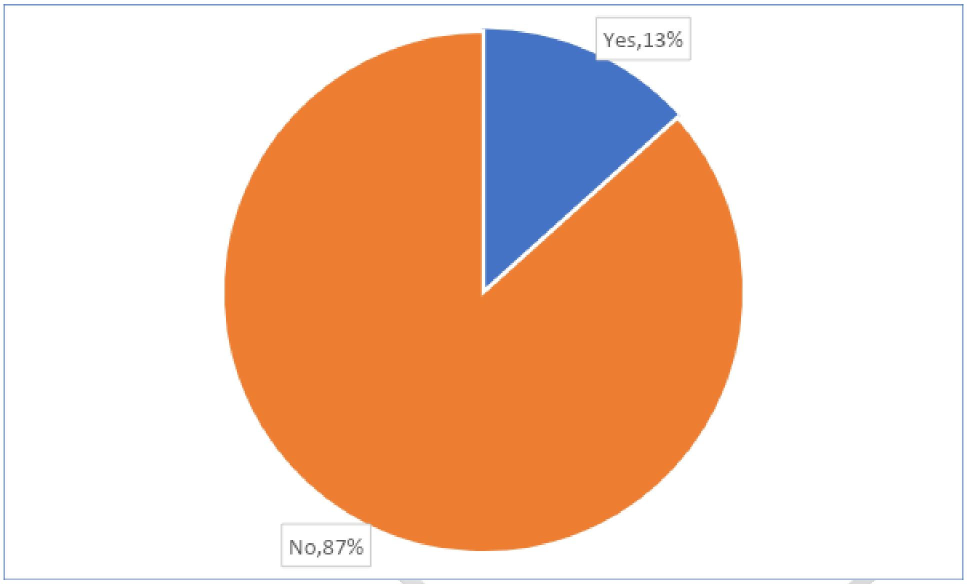



*Figure 4. 7* Officials surveyed: “Do you think issuing waivers on land rates interests and penalties as the only tool is sufficiently effective to collect all unpaid revenue by county governments?”

When the property owners were asked which enforcement tool would be most effective their responses were:

1. Improved public services.
2. Issuing waivers on land rates interest were.
3. Reduction of compliance cost



Issuing of waiver on land rates interest and penalties was supported by property owners who expressed their griefs and concern on high property rates being levied on them by the county government, hence waiver would lessen their burden in the event of accrued payment. Rate payers also feel that poor delivery of public services by the County are reason enough for them not to pay land rates.

The results are shown in table 6 below.

*Table 4. 8* Which enforcement tool would be most effective?

| Enforcement tool | Frequency |
|---|---|
| Improved Public Services | 24 |
| Issuing of waivers on Land Rates Interests | 24 |
| Reduction of Compliance Costs | 17 |
| Stringent enforcement legal framework | 5 |

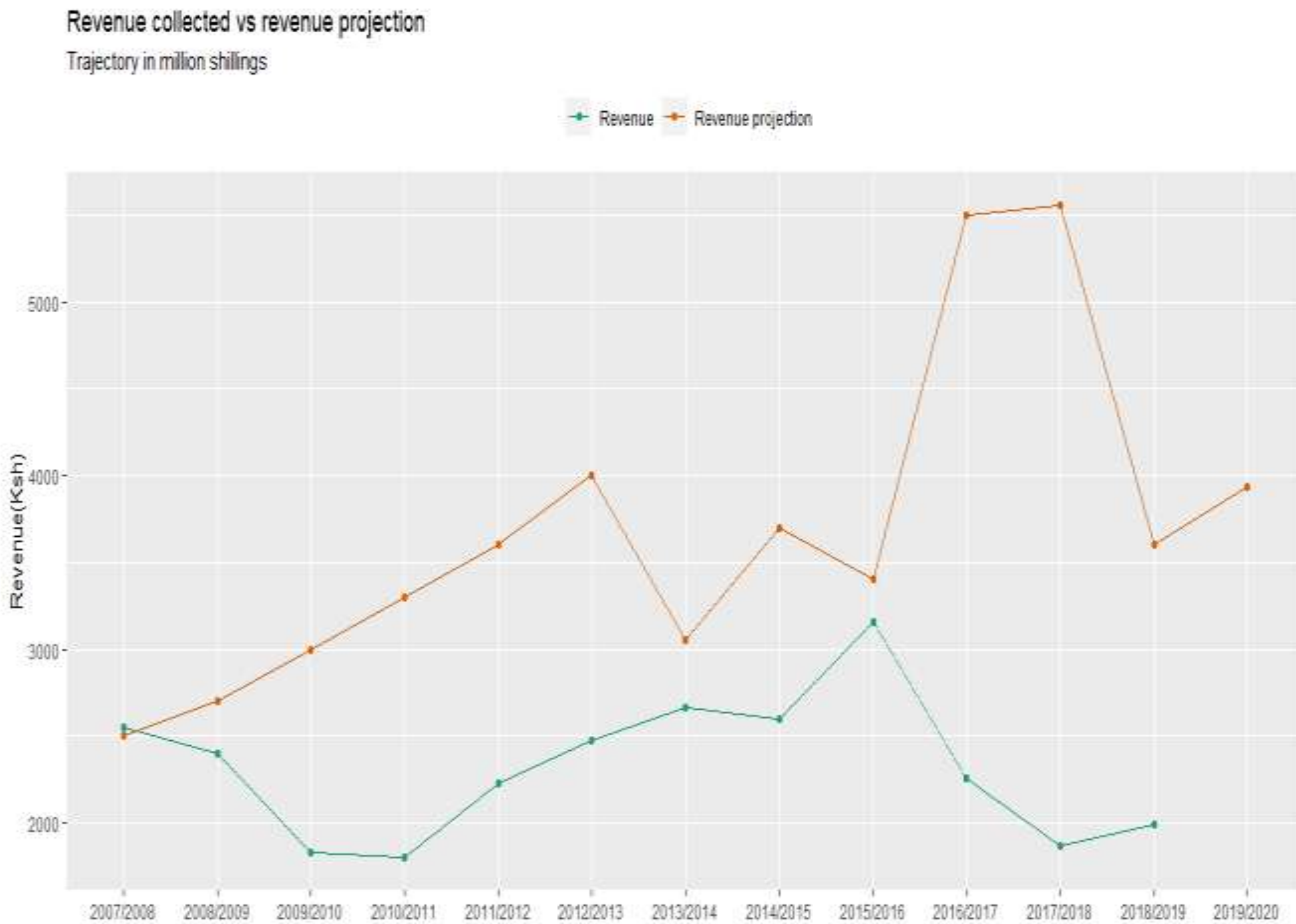
From table 4.8 which was a Likert scale, improved public service and issuing of waiver on land rates interest were considered by 24 property owner's respondents as very important tools motivating them to pay rates. 17 property owner's respondent considered reduction in compliance cost and 5 respondents considered stringent enforcement of legal framework will make them comply to land rates payment on their properties.

### 4.4 Challenges facing property rates collection and enforcement in Nairobi county

The Nairobi county revenue offices projected the rates revenue expected between 2007 to 2019. The data on figure 4.8 below indicates that the county government fell short of its projections in all the 12-year periods.

Figure 4.8 indicates the annual projected rates revenue and the actual rates collected amount in Nairobi county from 2007 to 2019.The annual projected property rates revenue in the policy budget statement has been fluctuating over the years and so has the actual revenue collected. We cannot deduce that the projected and actual rates revenue has been on an increasing or reducing trend, it is very wavering a lot. Even so, the result indicate that the annual budget deficit is huge each financial year except for 2007/2008 financial year. This means the county government is not collecting as much revenue as it should. This indicates that the county government experience challenges when collecting rates hence the actual revenue collected is not the same as the projected revenue during each financial year.

*Figure 4. 8 Projected vs Actual rates revenue collected*




From the graph, green represent revenue collected vs the revenue projection in orange. In the year 2007/2008, the Nairobi county government's revenue collected was slightly higher than the projected revenue while in the year 2017/2018, the margin i.e. gaps between revenue projected and revenue collected was huge. A possible explanation for this huge margin is the absence of waiver during the 2017/2018 financial year.

In 2009/2010 recorded one of the lowest revenue collection periods since during this financial year, waiver was not issued. The preceding financial year saw a steady increase in revenue collection with a substantial stable deficit margin until 2015/2016.From 2017/2018 waiver was not issued and that saw a drastic decreasing trend in revenue collection. This recorded a huge deficit in revenue as well.

Results in figure 4.9 indicate that 82% of the property owners believe that there are challenges that obstruct the payment of land rates in the county.

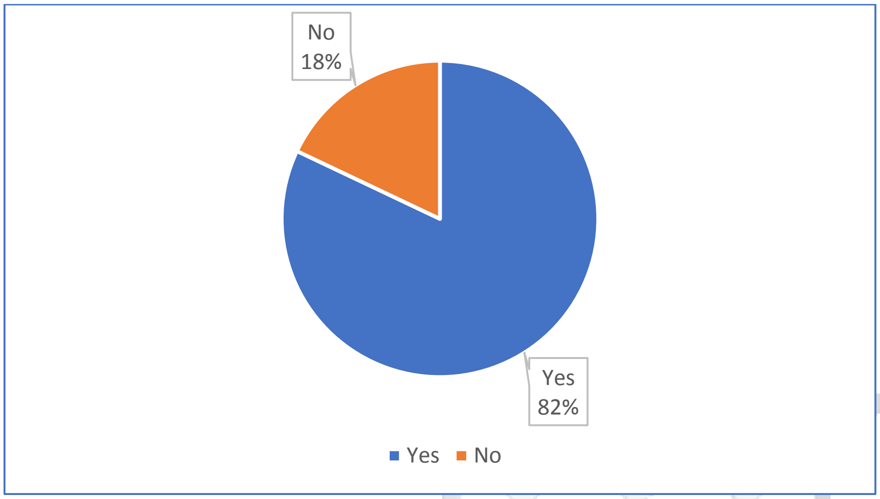



*Figure 4. 9 Have you noted any challenges that obstruct the payment of land rates in the county?*

The challenge that stood out most was lack of public services as shown in table 6 below.

*Table 4. 9 which factor affects the payment of land rates to the County Government?*

| Challenge | Frequency |
|---|---|
| Lack of public services | 25 |
| Lack of understanding how the land rates system works | 18 |
| Negative attitude by the public towards paying land rates | 17 |
| Cumbersome payment process | 15 |

Rates officials identified the following challenges affecting rates collection and enforcement in Nairobi county.

1. Lack of public services.
2. Lack of understanding of why paying rates is important.
3. Negative attitude by the public towards paying rates.
4. Cumbersome legal process.

Lack of public services was cited by 25 respondents as a hindrance to  compliance in rates payment.18 respondents cited lack of understanding how the land rates system works, 17 cited Negative attitude by the public towards paying land rates and 15 cited Cumbersome payment process that hinder them from paying rates.

Other Challenges cited by rate payers were:

1. Huge percentage of defaulters said they ignorant about paying rates. The study revealed that some property owners you did not fill the questionnaire said they have no idea they need to pay rates, yet their properties are doing business as usual.
2. Lack of title deeds from lands to enable them register as a rate payer. The study revealed nearly all resident property owners in Eastland's who did not fill the questionnaire don't pay rates because they lack title deeds.
3. Cumbersome payment process very long ques and procedures when paying for rates at the city hall
4. Political influence. The study revealed that several rate payers feel oppressed by the system because they don't support the incumbent political party in power. The rate payers expressed their concern with the current harassment they are receiving in their properties even after paying their rates dutifully. This current regime threatens to take their properties away.

Land rates collection officials cited the following challenges which hinder compliance and collection of outstanding property rates in Nairobi County:

1. Consistent System breakdown which greatly contribute to inefficiency of service to rate payers due to laiforms not working hence delay in printing of bills to clients and receiving payments.
2. Hostility from rateable property owners. This is due to some property owners have a negative attitude towards paying of rates and others do not want to listen to instructions; these customers rate payers constantly want officials to do as they want and violate the rate payment rules
3. Outdated or incomplete fiscal cadastre in valuation roll. Some of the property numbers have changed yet the information is not updated in the valuation roll. This results into two different accounts for the same property leading to difficulty in enforcement of rates.

Other properties are missed in the valuation roll due to omission error. Some of the new property owners lack ownership documents so as be eligible to pay rates.

4. Non-compliance by some of the property payers. The enforcement tools that being utilized such as provision of waiver, clamping of properties, institution a legal action against defaulters have proved to be inefficient in ensuring fully and timely compliance.
5. Lack of political good will. The study revealed that considerable number of property owners in prime location such as Nairobi CBD are owned by prominent and influential politicians who often interfere with enforcement of property rates thus hindering compliance. Whenever the rates officials seek redress in the court of law regarding the outstanding property rates, these characters use their influence to interfere with the process leading to delay and premature termination of the legal proceeding.
6. Weak law enforcement on defaulters
7. High interest rates charged by the county. Defaulters are charged 3% on accrued amount per month. This amount in most cases become so huge for rate payers who default payments to pay hence interfere with their compliance.

# CHAPTER FIVE

# CONCLUSIONS AND RECOMMENDATIONS

## 5.0 Introduction

This chapter presents the summary of findings, discussions, conclusions and recommendations based from the responses from the field study. This research aimed to establish whether issuance of waiver on land rates interest and penalties culminates to increase in revenue collection. The objectives of the study are to:

i. Establish the effectiveness of issuing waivers on land rates interests and penalties on property tax revenue collection.
ii. Identify the effectiveness of enforcement tools on property rates collection in Nairobi county.
iii. Establish challenges facing property rates collection and enforcement in Nairobi county.

## 5.1 Summary of Major Findings

From the data analyzed, the study concludes that compliance rate in payment of property rates is very low in Nairobi City County hence low collection of land rates. Each financial year, there was a huge deviation between the projected property rates in the budget policy statement and the actual collected property rates.

The average compliance rate for the period under review is very low at 12.13 percent. This agrees with findings from land rates collection and enforcement officers (debt collection unit) who estimated that the compliance rate is below 20 percent rated as ‘poor’. The study identified various tools that are applicable in property rates’ collection and enforcement in Nairobi City County. They include:

1. Strong legal enforcement on defaulters. There is no strong legal framework that punishes defaulters.

2. Periodic civic education. Officials expressed their concerns on the fact that most property owners have no knowledge why they pay land rates hence the huge number of defaulters. Thorough civic education through the media to sensitize property owners on the importance of paying land rates and building the debt collection unit's capacity to obtain delinquent taxes.
3. Issuing systematic discounts to regular rate payers. This acts as an incentive to the faithful payers to continue paying rates, hence avoid noncompliance.
4. Automation of the rate payment system since the existing system known as Jambo pay is no longer working.
5. Cramping of the property in debt.
6. Sending constant reminders to the property owners to pay their due rates using demand notices failure to which they are liable to imprisonment.

The study also sought to establish the effectiveness of the seven enforcement tools in ensuing fully compliance in payment of rates. The study found out that six enforcement tools are effective in ensuring compliance in rates payment. These include improved public services; operational debt recovery; sanctions and penalties; provision of discounts and waivers on interests & penalties; social pressure eg publishing names of defaulters; and reducing compliance cost. Provision of improved public services was rated to be most effective in encouraging rateable property owners to pay the rates. The study established that training on property rating structure as tool of ensuring enforcement is ineffective in ensuring payment of rates.

The study further established the challenges hindering compliance in property rates payment in Nairobi City County. On one hand, owners of rateable properties identified the following challenges that hinder compliance in property rates payment: negative attitude of the public towards property rates and rates officials; unfair administration; discontentment with property rates administration; complexities in understanding tax system and payment procedures; and lack of public participation in the process of drafting policy and regulations on property rates. On the other hand land rates collection and enforcement officers (debt collection unit) cited the following challenges which hinder compliance and collection of outstanding property rates in Nairobi City County: outdated or incomplete fiscal cadastre; inadequate capacity; the incentives given to investors by county and national governments which exempts them from paying property rates end up discouraging rateable property owners from complying; poor enforcement measures; lack of political goodwill; and hostility from rateable property owners.

The study also established that issuing waiver as a tool to increasing compliance alone is not effective.Data obtained from the Nairobi County government offices on land rates payments indicate minimal increase in revenue collected in months when property owners are given waivers on land rates interest, and without those collections are significantly reduced. On average, periods where there was waiver have minimally high revenue collection as compared to periods without waiver. The revenue increase during waiver increase was statistically insignificant.

## 5.2 Conclusion

The study revealed that the level of compliance in payment of property rates is very low. The rate of compliance has been declining over the last couple of years with or without waivers. It is evident that the enforcement tools being applied in ensuring that property rates are paid promptly and fully continue to perform poorly. Over reliance of devolved systems of governance on transfers from the national government is evidenced by poor property rates collection and enforcement.

The level of compliance in rates payment is worrying therefore necessitating the need to consider more effective tools of property rates collection and enforcement. The research established that the most dominant tools of property rates' collection and enforcement in Nairobi City County include improved public services; operational debt recovery; sanctions and penalties; provision of discounts and waivers on interests & penalties; social pressure eg publishing names of defaulters; and reducing compliance cost. Even though the enforcement tools currently being utilized by Nairobi City County are effective, the findings indicate that they are not the best in ensuring enforcement of rates payment hence contributing to the increment of rates revenue collection each year.

The study established that provision of improved public services and operational debt recovery are the most effective in ensuring compliance in rates payment. The property rates administration officers should focus the collection and enforcement efforts to the most effective tools. It is clear that Nairobi City County government is partly to be blamed for poor rate of compliance. It is vital to encourage the use of most effective enforcement tools in order to improve the property rates collection ratio. High compliance ensures that resources required for provision of public services are readily available. Provision of public services improves demand and value for properties thus benefiting the rateable property owners.

The study established that the level of compliance of property rates payment is much lower in the period when there was no waiver and in waiver period, there was a very minimal increase. On average, periods where there was waiver have high revenue collection as compared to periods without waiver. However, this behavior is not depicted in all waiver periods, for instance in the revenue collection period 2007/2008, no waiver months saw higher revenue collection compared to waiver period months, this is probably because there were only two months in this period that waiver was in effect. The study therefore concludes that issuance of waiver only increases land rates revenue in the period (months) when it issued. In general, waiver doesn't have a major impact on property rates revenue in the county in any financial year.

### 5.3 Recommendations

Low revenue collection due to poor compliance by rateable property owners is not attributed to the legal constraints to improved collection and enforcement of property rates. The primary cause of poor collection is weak administrative policies. Based on findings of the study, it is necessary to make recommendations that will help in improving rates compliance which culminates to increase in revenue collection.

#### 5.3.1 Provision of Improved Public services

The study established that the provision of improved public service is the most effective tool of ensuring compliance in payment of property rates. Poor public service discourages them from complying in payment of rates. Provision of improved public services boosts rateable property owners' morale leading to improved compliance.

Property rates is classified as a benefit tax and thus need to ensure that the revenues collected provide visible local public services (Petio, 2013).The study therefore recommends that the reforms on property rates should focus on administration changes to improve local public service in order to encourage compliance in rates payment. The rates administrators should ensure that all the stakeholders are satisfied with the administration process and use of revenue from rates.

### 5.3.2 Fully automate the Property Rates Administration system

The current land rates billing system in Nairobi county entails obtaining rating data in hard copies from valuation department followed by manual entry into rating system. Rate payers also have experience a cumbersome procedure of paying rates, they have to go to the billing department, get their bills, go to the bank, come back to the cash office a get a receipt of payment then take it back to the rates accountant who clear their balances in the system. The process is labor intensive, costly, slow and time consuming. It is prone to many errors and anomalies thus ineffective and inefficient. Customers may be giving up or feel frustrated enough to not pay what they otherwise would. The study established that the rates administration system in Nairobi county is characterized by outdated or incomplete cadaster.

The study leads to the recommendation of an Integrated Computer Assisted Rates Administration system to allow for data linkage between tax rates and cadasters for all parcels of land in the county. All rate payers should have an online account with the rates department where they can follow up their outstanding bills, pay and reconcile their accounts without coming to the city hall to get information and pay, a process that take up to a whole day. This online system will ensure efficiency and effectiveness in payment. By linking it to the deed records and cadaster system, all rateable properties can be captured. With updated market data, trending and computer-assisted valuations, consistency and accuracy in the property ratings can occur. An automated payment system will ensure prompt updates of values and taxes, leading to billing, more accurate rates data, and easier enforcement of outstanding property rates by officials.

Development of administrative procedures, taxation systems and application of computer technologies aided Indonesia’s 1986 property tax transformation. It greatly improved institutional capacity, and the tax reforms are among the most successful globally.

We recommend that the new system be developed with awareness of the institutional and administrative capacity of Nairobi County, and designed to facilitate easy implementation. It should be flexible and expandable, with the intention that the rating and property records administration systems will evolve over time and continue to develop capacity, and features that assist both officials and rate payers. This will ensure effective implementation, affinity by all "users," and the long-term sustainability of the system.

### 5.3.3 Abolish Issuance of waiver

The study established that on average, periods where there was waiver have high revenue collection as compared to periods without waiver. However, this behavior was not depicted in all waiver periods, for instance in the revenue collection period 2007/2008, no waiver months saw higher revenue collection compared to waiver period months, this is probably because there were only 2 months in this period that waiver was in effect.

The study therefore recommends abolition of waiver policy and instead strengthen the weak administrative policies which leads to poor collection of land rates revenue. The study established that giving waiver does not guarantee compliance of rate payment by property owners for many still defaults. Strong administrative infrastructure in place would ensure total compliance by all property owners.



### 5.3.4 Capacity Building

The study established that inadequate capacity is one of the challenges hindering enforcement of property rates. The land rates collection and enforcement office (debt collection unit) in Nairobi City County is not only understaffed but also lacks adequate logistical capacity. The study therefore recommends that the county government should provide adequate and well-trained staff to enforcement rates payment. There is urgent need to train the existing enforcement officers to improve their ability to deliver the required results. It is also recommended that county government should provide the logistical support required in enforcement of rates.

### 5.3.5 Mobilize Political support

The success of rates administration is greatly influenced by political acceptability. It is impossible to implement a system that is not acceptable to the taxpayers or political class. The study established that one of the challenges hindering property rates enforcement is political interference in the legal proceedings instituted against non-compliance. This is common in other developing countries. Indonesia’s 1986 property tax transformation entailed organization of a strong political, management and operational support. The robust political leadership behind the larger tax reform aided in supporting, commencing, and sustaining the necessary administrative reforms. Nairobi City County should encourage politicians to allow land rates administrators to levy and collect property rates without hindering them. Delinking property rates from politics, will improve collections thus enhancing their role in funding the devolved systems of governance. The politicians ought to assist in informing the rateable property owners that it is impractical for national government to fully fund the operations of county governments. There is need to for Nairobi City County to organize a strong political, management and operational support to facilitate rating reforms. The robust political leadership should be mobilized to commence, support, and sustain the necessary administrative reforms.

## 5.4 Limitation of the study

Several challenges were met while understating the research. These limitations encountered include:

a. Some questionnaires were not returned by the respondents

b. Some questionnaires which were returned were not fully answered

c. Some respondents declined some questions, which were honoured

d. Limitation of time available to conduct the survey, and difficulties in obtaining data required for the study’s analysis

e. The study was carried out with limited financial resources

f. Limited access to property owners, who were essential respondents

g. Due to COVID-19 pandemic outbreaks, there was limited access to the county government offices and some respondents were not available.

## 5.5 Areas of Further Research

During the field study and literature review, the researcher identified the following areas that call for further research:

- Examination of the Role of property Rates in providing Local Public Services
- Assessment of the effect of property rate waivers on arrears collection in other counties
- Ideas suggested by other counties officials or consultants for system improvements
- Political strategies for dealing with protest groups
- Strategies for education that creates understanding by rate payers, and further their compliance

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## APPENDIX

## QUESTIONNAIRE FOR RATEABLE PROPERTIES OWNERS

Dear Respondent,

Thank you for taking this survey. My name is Emily Bakhita Akoth a student at Strathmore University undertaking a Master of Science in Public Policy and Management. I would like to kindly request your assistance in filling this survey for purposes of collecting data for my Researched Tilted: Assessment of the effect of waiving interest accrued on land rates arrears in Nairobi County. The data collected is for academic purposes and all of the answers you provide in this survey will be kept confidential. No identifying information will be provided to the public. The survey data will be conveyed in a summarized manner only and will not identify any individual person.

Kindly answer the questions by ticking on the appropriate option or by writing the answer for the open-ended questions. This survey will take about 10 minutes to complete.

If you have more than one property, please copy this questionnaire and provide an answer for each one.

Your assistance will be highly appreciated.

PART 1: GENERAL INFORMATION

1. Property Location……………………………………
2. Type of Property: |_| Commercial |_| Residential |_| Industrial (mark X)
3. Which location is your property situated …………………………………?
4. Are you in arrears? |__| Yes |__| No

   4a. If yes, how many years in arrears? _____

5. Has your interest on arrears been exempted? |__| Yes |__| No

6. How many years have you been exempted ………………………………?

7. Please tick the arrears in the bracket that you belong to

a) Below KSH,10,000 b) 10,001 - 100,000 c)100,001 - 1,000,000 d) Above 1,000,001 KSH

8. Please explain why you are in arrears.

…………………………………………………………………………………………………………
…………………………………………………………………………………………………………
…………………………………………………………………………………………………………
………………………………………………………………………………………………………..

PART 2: LAND RATES ENFORCEMENT TOOLS

1) Does issuance of waiver by the County Government on land rates encourage you to pay land rates?

|__| Yes |__| No

1 a) If No in number 1 above, kindly explain your reasons why:

…………………………………………………………………………………………………………
…………………………………………………………………………………………………………
…………………………………………………………………………………………………………
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…………………………………………

2) Will issuing a waiver motivate you enough to pay land rates so they are up-to-date?

Yes No

2a) If no, kindly give your reasons why.

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…………………………………………………………………………………………………………
…………………………………………………………………………………………………………
…………………………………………………………………………………………………………

3) Which of these enforcement tools will be effective in land rates collection and enforcement in the county? *(tick all that apply)*

a. Issuing of waivers on Land Rates Interests

b. Improved Public Services

c. Stringent enforcement legal framework

d. Reduction of Compliance Costs

4) Please mention other tools not included in the list above that you think will be effective in land rates collection and enforcement in the county.

……………………………………………………………………………………………………………………

……………………………………………………………………………………………………………………

…………………………………………………………………………………………………………

4) From the listed enforcement tools in no. 3, which tool do you think is effective in ensuring that rateable property owners pay land rates. Rank in a scale of 1 to 4 by ticking where applicable

KEY 1= Not effective; 2= Less Effective; 3=Effective; 4= Very Effective

| Enforcement tools | Not effective | Less effective | Effective | Very effective |
|---|---|---|---|---|
| Land Rates Interests | | | | |
| Improved Public Services | | | | |
| Stringent enforcement legal framework | | | | |
| Reduction of Compliance Costs | | | | |

PART 3: CHALLENGES TO COMPLYING WITH LAND RATES PAYMENT

1) Have you noted any challenges that obstruct the payment of land rates in the county?

|__| Yes |__| No

2) In the choices below, which factor affects the payment of land rates to the County Government?

a. Lack of public services

b. Negative attitude by the public towards paying land rates

c. Lack of understanding how the land rates system works

d. Cumbersome legal process

2a) If there is any other challenge, please specify

…………………………………………………………………………………………………………
…………………………………………………………………………………………………………
…………………………………………………………………………………………………………
…………………………………………………………

3) What recommendations would you give to increase the payment of land rates in the county?

.................................................................................................................................
.................................................................................................................................
..............................................................................................................

The End.

Thank you for your assistance

## QUESTIONNAIRE FOR LAND RATES OFFICIALS IN THE COUNTY GOVERNMENT

Dear Respondent,

Thank you for taking this survey. My name is Emily Bakhitah Akoth a student at Strathmore University undertaking a Master of Science in Public Policy and Management. I would like to kindly request your assistance filling this survey for purposes of collecting data for my Researched Tilted: Assessment of the effect of waiving interest accrued on land rates arrears in Nairobi County. The data collected is for academic purposes and all of the answers you provide in this survey will be kept confidential. No identifying information will be provided to the public. The survey data will be conveyed in a summarized manner only and will not identify any individual person.

Kindly answer the questions by ticking on the appropriate option or by writing the answer for the open-ended questions. This survey will take about 10 minutes to complete.

Your assistance will be highly appreciated.

1.What is the estimated percentage of rateable property owners that pay land rates?

(a) 80% to 100% (b) 50% to 80% (c) 25% to 50% (d) Below 25%

2.What are the factors that cause poor performance in payment of land rates? *(tick all that apply)*

a. Outdated Valuation Rolls

b. Corruption

c. Non-compliance by property owners

d. Ineffective Enforcement of The Rating law

e. Tax Evasion

2a) Please explain any other challenges that cause incomplete payment of land rates:

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………

3) In your own view which type of relatable owners are rampant defaulters

9. Type of Property: |_| Commercial |_| Residential |_| Industrial (mark X)

4) Does issuing waivers on land rates interest increase the percentage of revenue collected in form of land rates payments

|__| Yes |__| No

4a) Please explain why:

……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

5) Do you think issuing waivers on land rates interests and penalties is necessary to ensure payment of land rates?

|__| Yes |__| No

5a) Please explain why:

……………………………………………………………………………………………………
……………………………………………………………………………………………………
…………………………………………………………………………………………

6) Do you think issuing waivers on land rates interests and penalties as the only tool is sufficiently effective to collect all unpaid revenue by county governments?

|__| Yes |__| No

Please explain:

………………………………………………………………………………………………………………
………………………………………………………………………………………………………
…………………………………………………………………………

7) Please indicate any other tool(s) that is used by the county government to enhance payment of land rates – and why that tool would be effective:

…………………………………………………………………………………………………………
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…………………………………………………………………………………………………………
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…………………………………

8) Please explain all of the challenges experienced in collecting land rates?

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…………………………………………………………………………………………………………
………………………………………………………………………………………

9) What measures has the County Government taken to address those challenges and help in improving the level of land rates collection?

…………………………………………………………………………………………………………
…………………………………………………………………………………………

10) What other tools or measures do you recommend for county government use to increase revenue through land rates payment?

…………………………………………………………………………………………………………

The End.

Thank you for your assistance