



Urban infrastructure in Sub-Saharan Africa – harnessing land values, housing and transport

Project summary findings

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Background

The African Centre for Cities at the University of Cape Town carried out a study to explore the extent to which cities in Sub-Saharan Africa are harnessing urban land values to finance city infrastructure. This pamphlet summarises the key findings of that study.

Urban infrastructure in Sub-Saharan Africa

Africa's cities have massive infrastructure needs. Urban infrastructure needs are but one component of the overall infrastructure spend needed for the region's countries, which World Bank figures set at USD 92 billion annually.

African cities are poorly positioned to finance their infrastructure needs through any of the typical forms of infrastructure finance such as grants or transfers from central governments, using their own revenues or from borrowing. A further possible source of finance for infrastructure is land-based financing, the use of regulatory instruments to require that property developers and land owners contribute towards the financing of infrastructure that both provides services to their projects and significantly enhances the value of their property. Land-based financing is seldom, anywhere in the world, able to cover a city's entire infrastructure costs, but it can make a significant contribution and this lessens the city's dependence on other sources of finance. This study examined the different forms of land-based financing and sought out places in the region where it is implemented.

What is land-based financing?

In this context we have looked at the instruments used by governments, normally city governments, to raise funds for infrastructure investment from developers. These instruments range from those that aim to recover from a developer the full cost to the city authorities of providing infrastructure to provide services to the new development to those which aim to share in a portion of the land value increment that results from the new development. Across the world, and across Sub-Saharan Africa, this range of fees, levies, charges and taxes are described differently, with the same terms often having the same meaning. This study does not look at property taxes, which are clearly an important type of land-based financing but are the subject of another study.

Land-based financing in Sub-Saharan Africa: what did we see?

We found very few examples of land-based financing being used at scale in any city or country in the region. Two striking exceptions to this finding are Ethiopia, where the urban land lease system is implemented comprehensively in most major cities, and South Africa, which has a long history of requiring developers to make a capital contribution towards infrastructure costs. In both these cases though there are contextual factors that make it difficult to advocate simply introducing the approaches

to other countries. In Ethiopia the public ownership of land, together with city control over infrastructure provision and a tradition of firm land use regulation together provide the ideal mix of conditions to make an urban land lease system work. The South African cities' technical capacity, financial strength and robust constitutional status are also factors are difficult to reproduce in other countries, at least in the short term.

What we did find was extensive installation by developers of infrastructure themselves, to serve their developments. Where they installed bulk or connector infrastructure this sometimes had the effect of contributing to the city's overall infrastructure networks. We saw this as being almost equivalent to land-based financing; instead of paying money the developer pays for the installation of infrastructure. This practice however runs the very real risk of perpetuating infrastructure islands around middle and high income developments and of installing infrastructure that may not easily be connected to city networks in the longer term.

We also so many cases of 'reverse value capture', cases where the city or other public authority subsidises some or all of the infrastructure for middle and higher income developments ostensibly in the interests of promoting investment. This use of public money to make private developments more profitable for the developers flies in the face of the policy imperative to use public money to finance infrastructure for poor households.

Any form of land-based financing depends for its success on contextual factors such as a clear regulatory environment, good city and country governance, access to finance and a private sector that is able to undertake property development at scale. We found very few examples in the region of places where these factors all occur.

Recommended approach

The starting point for a new approach is the principle that middle and higher income developments (residential, commercial and industrial) must pay their own way. This seems like a modest beginning, but in the current context it represents an important step. We propose that the initial instrument that should be promoted in as many countries as possible is that of a development charge, a one-off payment by a developer that is calculated to cover the costs of at least the connector infrastructure needed to serve a development. Where there is insufficient administrative capacity to manage a charge like this and/or where there is private sector capacity to install connector infrastructure then the practice of the developer installing that infrastructure should be supported, but it should be brought under the umbrella of a regulatory framework that empowers the city to determine the standards and capacity of that infrastructure.

Over time we propose that this approach is scaled up to include mechanisms targeting land value capture or sharing. These are instruments that calculate the increased value of a property as a result of

regulatory or financing decisions and determines a share of that increase that the developer or landowner must pay. Where the capacity exists currently to do that it should be supported but most countries are some way off that point.

Across the board there is an on-going need to build and strengthen the conditions to implement land-based financing. This will include initiatives to strengthen governance structures, regulatory reform, capacity development and the supply of long term finance for property development. Country governments should be supported to develop national infrastructure frameworks and cities to compile infrastructure investment plans. These are all interventions that will lead to more effective cities, greater efficiency and stronger economic growth. They also demonstrate how closely intertwined land-based financing instruments are with the quality and strength of city governments.