HARNESSING LAND VALUES TO FINANCE URBAN INFRASTRUCTURE IN SUB-SAHARAN AFRICA

PROJECT SUMMARY FINDINGS

31 July 2015

Background

The African Centre for Cities at the University of Cape Town was appointed by the UK Government to carry 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 study's key findings.

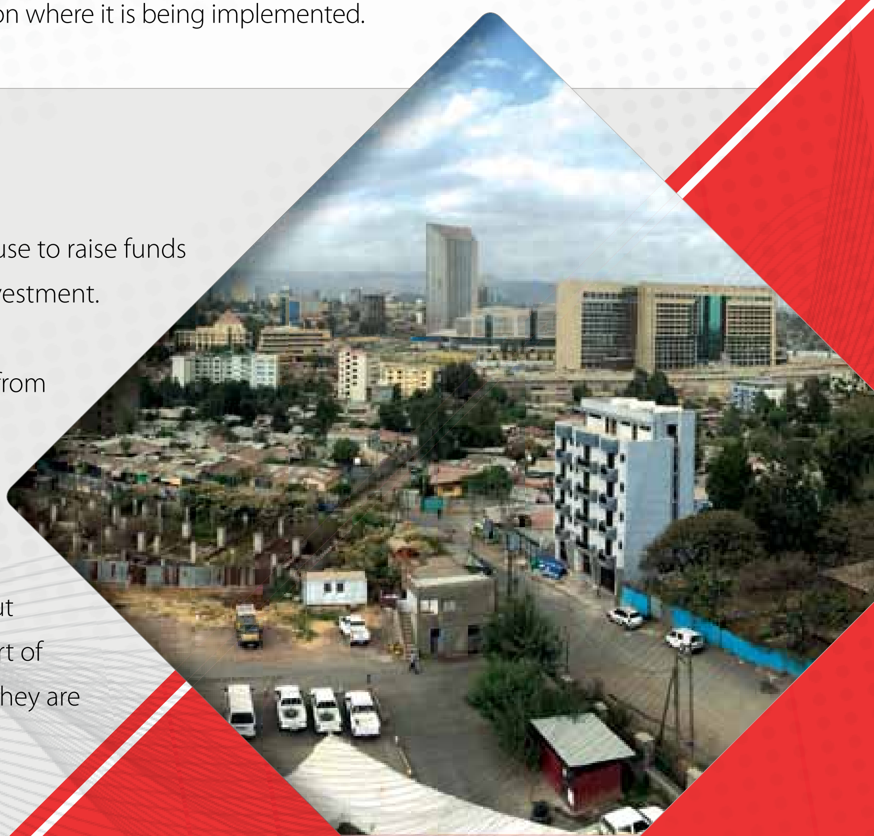
Urban infrastructure in sub-Saharan Africa

Africa's cities have massive infrastructure needs. Urban infrastructure is but one component of the overall infrastructure spend needed for the region's countries, which the World Bank estimates at US$92 billion annually.

African cities are poorly positioned to finance their infrastructure needs through typical infrastructure finance, such as central government grants or transfers, city own revenues or borrowing. Another possible source of finance for infrastructure is land-based financing, whereby regulatory instruments require property developers and land owners to contribute towards financing the infrastructure that services and significantly enhances the value of their property. Land-based financing cannot cover a city's entire infrastructure costs but can make a significant contribution, thereby lessening 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 being implemented.

What is land-based financing?

Land-based financing refers to instruments that cities can use to raise funds from developers and property owners for infrastructure investment. Instruments range from the city recovering the full cost of providing infrastructure that services a new development from the developers, to sharing some of the land value increment that results from the provision of new infrastructure or expanded property rights. Across the world, and across sub-Saharan Africa, these instruments are described differently, as fees, levies, charges or taxes, but often have the same meaning. While property taxes are part of the broad spectrum of land-based financing instruments, they are not included here and are the subject of other studies.



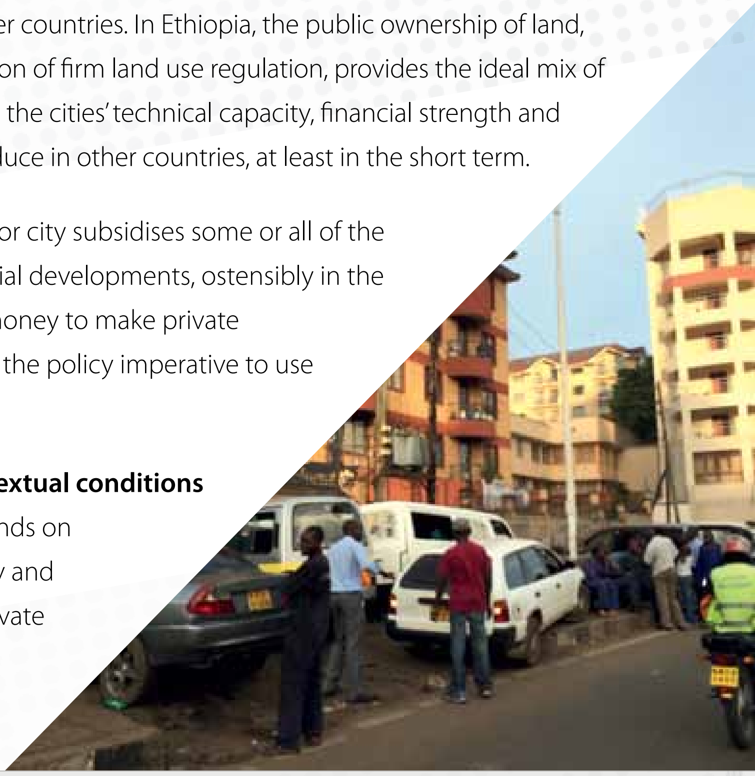
Land-based financing in sub-Saharan Africa: what did we find?

We found that developers often install extensive infrastructure to serve their own developments. In some cases, the bulk or connector infrastructure contributed to the city's overall infrastructure networks, and is the equivalent to land-based financing: instead of paying money, the developer pays for installing the infrastructure. The very real risk of this practice is perpetuating infrastructure islands around middle- and high-income developments and installing infrastructure that may not easily be connected to city networks in the longer term.

With the above exception we found very few examples of land-based financing being used at scale in any city or country in the region. The two striking exceptions 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 contribute towards infrastructure costs. However, in both cases, contextual factors make it difficult to advocate simply introducing the approaches in other countries. In Ethiopia, the public ownership of land, combined with city control over infrastructure provision and a tradition of firm land use regulation, provides the ideal mix of conditions to make an urban land lease system work. In South Africa, the cities' technical capacity, financial strength and robust constitutional status are factors that are also difficult to reproduce in other countries, at least in the short term.

We found many cases of 'reverse value capture', where the state or city subsidises some or all of the infrastructure for middle and higher income residential or commercial developments, ostensibly in the interests of promoting economic development. 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.

We found very few examples of places with the necessary contextual conditions are in place. The success of any form of land-based financing depends on contextual factors, such as a clear regulatory environment, good city and country governance, access to finance for property buyers and a private sector that is able to undertake property development at scale.



Recommended approach

1. **Build and strengthen the conditions needed to implement land-based financing**, including 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. All these interventions 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 capacity of city governments.
2. **Promote development charges in as many countries as possible**, based on the principle that middle to higher income residential, commercial and industrial developments must pay their own way. Development charges require that the developer makes a one-off payment that is calculated to cover the costs of at least the connector infrastructure needed to serve a development. If the administrative capacity is insufficient to manage development changes and/or the private sector is able to install connector infrastructure, the practice of the developer installing this infrastructure should be supported. However, the installation should be under the umbrella of a city's regulatory framework that determines the standards and capacity of that infrastructure.
3. **Over time, scale up to include other instruments that target land value capture or sharing**. These instruments are based on calculations of 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. This should be supported in any country with the necessary capacity, recognising that most countries in sub-Saharan Africa are some way off that point.