



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

Recommendations to DFID on proposed interventions in Sub-Saharan Africa relating to Land-Based Financing for urban infrastructure

Report 1.3

Draft report – for discussion purposes

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1 Purpose of this document

The Department for International Development (DfID) has concluded a project on 'Urban infrastructure in Sub-Saharan Africa – harnessing land values, housing and transport', with research work undertaken by the African Centre for Cities at the University of Cape Town.

This document has been prepared as part of this project. It reflects the research team's recommendations to DfID on possible interventions in the field of land-based financing in Sub-Saharan Africa. The team's view is that the potential exists for African cities to reap high returns on the investment of money and time by DFID in strengthening fiscal, legal and institutional frameworks for urban management. Cities in the region face rapid urban growth with an associated rapidly expanding property market. This is an important source of funding for urban infrastructure. The cities however are unlikely to realize these benefits without a degree of outside support and knowledge-sharing.

The recommendations made in this document are the opinions of the team members working with ACC on the harnessing land values project and do not currently reflect DFID views.

2 Structure for interventions

The proposed interventions are structured as follows:

- Aligning with other international initiatives
- Literature and advocacy
- Data management
- Support to national governments
 - National urban infrastructure investment framework
 - Land value capture policy
 - State support to local government
- Direct support to Cities
- Piloting

3 Aligning with other initiatives

The project team has not done a comprehensive review of international initiatives in the sector, in Sub-Saharan Africa. There are however two key initiatives that are currently evolving and which provide opportunities for direct alignment. These are UN-Habitat's programme of support for land-based financing and the Cities Alliance (funded by DfID) Future Cities Africa programme.

3.1 UN-Habitat land based financing programme

UN Habitat, through the Global Land Tool Network, has an international initiative to support land based financing. As part of this initiative they have a draft Reader (UN Habitat, 2015) and training materials specifically geared towards land-based financing. ACC team members have been engaged in reviewing this initiative. There is little direct overlap between the ACC/DFID and the UN Habitat initiatives

so far, but the potential for mutually beneficial alignment is significant. The way they fit together is illustrated in the diagram below.

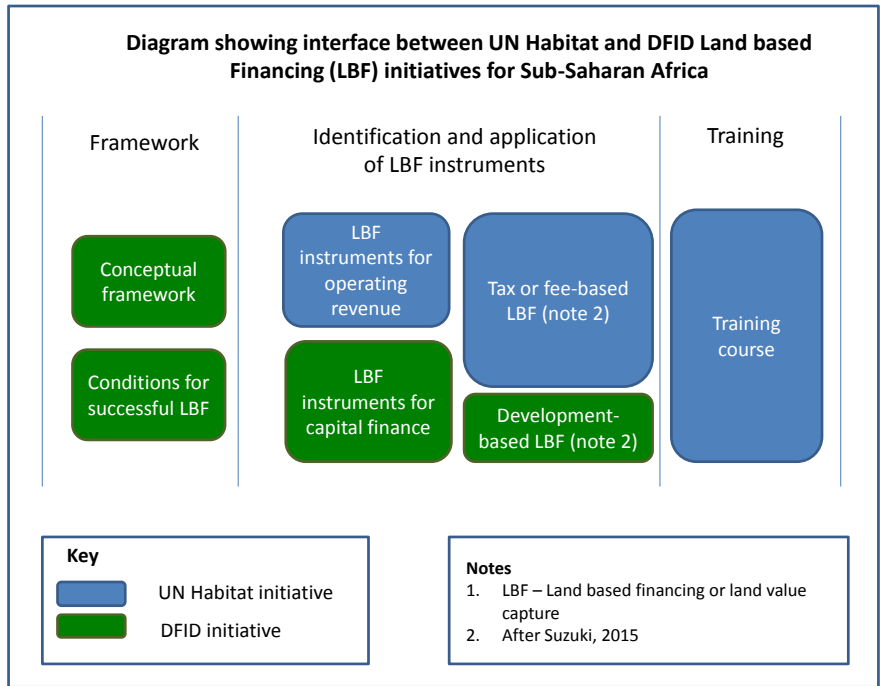


Figure 1: Structure of relationship between DFID and UN Habitat initiatives

The ACC/DfID initiative has the advantage that it is based on a conceptual framework for land-based financing, deals with the underlying context for land-based financing and has a focus on cities in low income countries and their specific economic, political, institutional and financial situation. It emphasises the instruments which are most likely to be applicable in this context, particularly those which raise capital finance or provide infrastructure directly rather than those which are associated with recurrent contributions by property owners (property taxes and related betterment taxes and tax increment financing for example).

An advantage of the UN Habitat initiative is that it deals in some detail with a full range of instruments¹ and includes training material on these instruments.

The immediate priority of the UN-Habitat initiative is to commence training programmes on land-based financing, using the Reader and other material currently being finalised. The agency is seeking partners to support this training. DfID, now equipped with a substantial knowledge resource in the form of the ACC/DfID reports and materials is well placed to support this UN-Habitat initiative, and it is recommended that DfID engage with the relevant personnel at UN-Habitat.

3.2 Future Cities Africa

Supported directly by DfID and managed by the Cities Alliance the FCA programme aims to identify the tools and instruments to make African cities more resilient in the face of the pressures of demographic change, economic growth and climate change. The programme’s emphasis on long-term urban management reforms as well as the identification of tools and instruments that can be used across the region singles it out as a programme that could benefit from the materials and resources developed by the ACC/DfID team. FCA operates in Ethiopia, Ghana, Mozambique and Uganda, all DfID priority countries.

¹ Of the nine instruments they deal with only one, developer exactions, has the potential for widespread use in Sub-Saharan Africa.

4 Literature and international advocacy

An obvious early step for DFID is to make the documentation prepared under the 'harnessing land values' project widely available. Partly this can be done through the DFID and ACC websites and partly it can be done by distribution through internal engagements between DFID staffers. A key opportunity for dissemination is the Africities conference to be held in Johannesburg in November-December 2015. This conference is a key opportunity to share the findings of this research project, and to build relationships for future use of the project materials in other countries across the region.

The ACC/DfID initiative convened a highly successful one-day seminar on land-based financing for urban infrastructure investment for international urban development agencies working in Sub-Saharan Africa. Hosted by the African Development Bank in Abidjan and attended by the World Bank, Cities Alliance, UN-Habitat, UNECA, UCLGA and DBSA, as well as representatives from Ghana and Burkina Faso, this meeting provided a glimpse of the potential for inter-agency cooperation and alignment. DfID is urged to support ongoing cooperation between agencies working in this field to promote knowledge sharing and the development of more appropriate and effective instruments for land-based financing through cooperative processes.

5 Data management

While the 'harnessing land values' project was not directly about data, it did include the development of an interactive web-based database referred to as 'Africa Land and Infrastructure Scan' (ALICS). Data on 31 cities in Sub-Saharan Africa is included and analysed. There is value in taking this work forward so the database can be more widely used and the Cities Alliance have taken an interest in it. DFID needs to decide on its own interest in promoting this system. There is also interest from the ACC research team in taking it forward either independently or cooperatively with DFID. In particular, UN-Habitat's recently launched Urbandata website (<http://urbandata.unhabitat.org>) provides an opportunity for the ALICS data to be incorporated into a global database, and for the ALICS material to be used to enhance the data provided through Urbandata on African cities.

6 Support to national governments

An obvious point of entry for DFID is to work with the national governments of DfID priority countries to improve and strengthen their fiscal, governance and institutional frameworks for land-based financing. While land-based financing is a useful focus for intervention, as mentioned above, it is recognised that for this type of funding to have the biggest impact it needs to be seen as part of an overall funding strategy for urban infrastructure. The research undertaken as part of the harnessing land values project indicates a lack of attention to this aspect and hence the recommendation for DFID to support the preparation of National urban infrastructure investment frameworks in the priority countries.

It is also recognised that sound governance arrangements in a country and a sound system of intergovernmental relations and fiscal transfers is important for urban infrastructure interventions to have maximum potential. Unless these governance and institutional frameworks are improved at all levels of government then there is little prospect of a national urban infrastructure investment framework gaining traction.

Land-based financing is an important part of these arrangements and hence recommendations are included below on what can be done to improve national policy and practice in these two fields.

6.1 National urban infrastructure investment frameworks

The inter-governmental fiscal framework for Sub-Saharan African countries needs to recognise the importance of land-based financing as an infrastructure financing mechanism. This goes along with the other three primary mechanisms for financing urban infrastructure: 1) transfers (and donations); 2) City own source funding; and 3) service provider funding. While an infrastructure investment framework needs to focus on capital finance this must also address the financial viability of cities and other local governments through understanding what their operating expenditure requirements are and the revenue they can, and should, raise to cover operating expenditure. The key features of a national urban infrastructure investment framework have been proposed in the research reports as follows:

- a) The role of the State, City, parastatals and private sector in providing and funding infrastructure.
- b) The design of inter-governmental transfers in the form of tax sharing, general purpose grants and specific purpose grants.
- c) Role of international development agencies in funding urban infrastructure.
- d) With regard to City own-source funding, the extent to which Cities can raise revenue which allows them to cover necessary operating costs and generate surpluses which can be used for infrastructure investment.
- e) The extent to which borrowing will take place by the State, City or parastatals and the extent to which the State will guarantee loans if they are taken out by City or parastatals.
- f) The obligations of parastatals to finance urban infrastructure at sufficient levels to provide the service they are responsible for to all.
- g) The application of land-based finance and the type of financing instruments to be promoted.

Ideally the investment framework should be based on an analysis of costs and revenue along the lines of the 'Municipal Infrastructure Investment Framework' in South Africa (DBSA, 2010). But it is possible to work on a progression from a simple framework, which is largely conceptual, to one with a full analysis.

A useful start to a DFID intervention relating to urban infrastructure finance would be to assist the country or countries concerned to develop a Framework, starting with one which has an emphasis on concepts without relying on a high level of analysis.

6.2 Policy on land-based financing

Assuming, that there is buy-in by national governments to using land-based financing and that the process has been taken far enough to identify specific instruments, national governments will have a substantial impact if a policy position is prepared and advocated to local governments. Based on proposals from the research this could be focused on the land-based finance instruments most likely to be widely applied such as 'in kind' contributions and development charges. South Africa, for example, is in the process of rolling out a developer charges policy.

6.3 Advocacy and support

Advocacy of the land-based financing concept by national governments and international development agencies will be important if application of the instruments is to gain traction in Sub-Saharan Africa. While the Angolan, South African and Ethiopian examples show what can be done, there is relatively little happening and therefore room for far more effort in this field. This advocacy should be aimed Cities to assist them in preparing infrastructure investment plans and applying land-based financing instruments, specifically development charges. DFID can play an important role with such interventions in priority countries.

6.4 Urban governance and accountability

National frameworks for urban management and local government are essential parts of the state machinery needed to deliver land-based financing. Four core aspects of these frameworks should be supported: 1) the legal status of city governments in relation to national governments; 2) rationalisation of the legal frameworks for land use planning and development control; 3) strengthening of institutional arrangements in place to establish and protect clean and transparent local government, with a view to rooting out corruption especially in the land development sector; and 4) improved regulatory and policy frameworks for urban land tenure and administration. Programmes addressing each of these three elements of urban governance are in place in the various DfID priority countries, but they are not tied together or integrated. For effective land-based financing and to complement the efforts to promote national urban infrastructure investment frameworks it is imperative that urban governance reforms are also supported and promoted through DfID's support to its priority countries.

7 Direct support to Cities

The argument is made above that support to national governments should be prioritised by DfID. However, there may be a more immediate benefit, albeit at less scale, in working with an individual City or group of Cities. In this respect a good entry point is to start with support to Cities in preparing infrastructure investment plans which will incorporate land-based financing. The absence of this type of planning in most Sub-Saharan African cities has been evident through the research undertaken for this project. The Cities Alliance's work on City Development Strategies (and related city-wide planning) provides a window for DfID to insert elements of direct support relevant to land-based financing into these initiatives. Credible infrastructure investment plans will significantly strengthen current and future city planning initiatives.

City infrastructure investment planning

The preparation of an infrastructure investment plan is essential for a City to be able to relate infrastructure requirements, and associated costs to the availability of funding. The Plan also allows a City to better understand the levels of service which are possible and the extent to which services which rely on infrastructure can be provided at an adequate service level to all in the city. Key features of a plan should include:

- a) The role of City and its service providers – typically parastatals – in providing and financing infrastructure.
- b) An understanding the social and economic objectives of the City and the role subsidies play (See Section **Error! Reference source not found.**).

- c) Identifying a service provision programme based on increasing coverage of adequate services, taking population and economic growth in to consideration.
- d) An assessment of transfers available to the City, likely trends and the targeting of transfers at particular services and associated infrastructure.
- e) Assessment of the revenue sources available to the City itself and the extent to which these can cover necessary operating costs.
- f) Opportunities for the City to borrow or use operating surpluses to fund infrastructure.
- g) Understanding of the ability of parastatals to finance the infrastructure they are responsible for in the city. Also the extent to which the City can contribute to the financing of this infrastructure.
- h) Assessment of the extent to which land-based financing can be applied and of the instruments which are most appropriate (see below).

Assuming, as is proposed below, that the land-based finance instruments will primarily be 'in kind' contributions and development charges the City should develop a policy for these instruments which is consistent with national policy.

Ideally the investment plan should be based on an analysis of costs and revenue along the lines of that proposed in the 'Infrastructure Investment Planning' guideline used in South Africa (DBSA, 2009). But it is possible to work on a progression from a simple plan, which is largely conceptual, to one with a full analysis.

Land based financing policy and implementation

The next step in supporting cities will be for them to develop their own policies and practice for applying a specific land-based financing instrument, with development charges favoured. Then there is the option of supporting them to implement the policy.

8 Piloting

DfID's priority countries in Sub-Saharan Africa are:

1. Democratic Republic of the Congo
2. Ethiopia
3. Ghana
4. Kenya
5. Liberia
6. Malawi
7. Mozambique
8. Nigeria
9. Rwanda
10. Sierra Leone
11. Somalia
12. Sudan
13. South Sudan

14. Tanzania

15. Uganda

16. Zambia

17. Zimbabwe

In terms of ALICS the countries from this list which have the best opportunity for success are Rwanda, Ghana, Kenya, Tanzania and Zambia. Uganda and Nigeria are also possible countries for piloting. Given DfID's high level of involvement with the URN programme in Nigeria it seems sensible to support a pilot initiative in that country.

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