Responsible Land Governance:
Towards an Evidence Based Approach
Annual World Bank Conference on Land and Poverty
Washington DC, March 20-24, 2017

Leveraging Land: Sustainable Government Finance for Equitable Local Services

LAWRENCE C. WALTERS[1], LIZ PATERSON GAUNTNER[2], JEAN DU PLESSIS[3], REBECCA OCHONG[3]

[1]Romney Institute, Brigham Young University, Utah, USA
[2]UN-Habitat, Urban Economy Branch, Nairobi, Kenya
[3]UN-Habitat, Urban Land and Legislation Branch, Land and GLTN Unit, Nairobi, Kenya

Presenting: larrycwalters@gmail.com

Paper prepared for presentation at the
"2017 WORLD BANK CONFERENCE ON LAND AND POVERTY"
The World Bank - Washington DC, March 20-24, 2017

Abstract

UN-Habitat and the Global Land Tool Network (GLTN) have released a new (2016) training package for land-based local government financing tools. This paper introduces the package's purpose, content and training methods. The package combines three powerful elements: (1) a discussion of the seven most common tools and a summary of the most recent literature on each, presented in a reader; (2) 21 case studies illustrating both strengths and weaknesses in the application of the tools in various cities and countries, and (3) an interactive joint learning environment that can be adapted to the needs of participants and promotes learning through the development of individualized action plans. The seven tools covered are the annual tax on land and property, including the site value tax; betterment charges and special assessments; developer exactions and impact fees; land value capture taxes; the sale of development rights; the sale and leasing of public lands; and transfer taxes and stamp duties.

Key Words: Land tax, land-based finance, local government, property tax, urban finance

I. Introduction

This paper draws heavily on four previously published pieces by the authors. The first describes the development of the UN-Habitat and Global Land Tool Network (GLTN) training package *Leveraging Land: Land-Based Finance for Local Governments* (Walters, Ochong, Paterson, & Plessis, 2016). The second places land-based finance within the context of urban finance more broadly (Walters & Gaunter, 2016). Finally, the published training package itself as contained in the *Leveraging Land* reader and trainer's guide (UN-Habitat, 2016a, 2016b)

Over half the world's population lives in urban areas. By 2050, this share is expected to increase to two-thirds. Asia and Africa are urbanizing faster than other regions and will contribute a significant share of the additional 2.5 billion people who will live in urban areas by 2050 with consequent pressures on demand for land, housing, infrastructure and services. Urbanization extends far beyond the world's 28 mega-cities; about half of the world's urban dwellers live in urban areas of fewer than 500,000 inhabitants. In many cases, large proportions of these urban dwellers live in poverty, often without officially recognized or documented land rights. To be sure, not all cities are growing. But as urbanization continues, sustainable development will continue to challenge urban leaders and managers (United Nations, 2014). As affirmed in the Habitat III New Urban Agenda, it is essential that cities and human settlements fulfill their social function, including the social and ecological function of land (UN-Habitat, 2016c).

In this context, sustainable development includes the public financial resources that both

- Are adequately linked to transparent and accountable mechanisms, and
- Enable investment in and maintenance of the physical infrastructure and urban services necessary to support urban living.

The need for additional resources to meet the demands of urban growth is nearly ubiquitous. This need has led many thoughtful observers to advocate greater use of land as a basis for raising additional revenues. For example, the editors of *The Economist* recently argued:

> [G]overnments should impose higher taxes on the value of land. In most rich countries, land-value taxes account for a small share of total revenues. Land taxes are efficient. They are difficult to dodge; you cannot stuff land into a bank-vault in Luxembourg. Whereas a high tax on property can discourage investment, a high tax on land creates an incentive to develop unused sites. Land-value taxes can also help cater for newcomers. New infrastructure raises the value of nearby land, automatically feeding through into revenues—which helps to pay for the improvements (Editorial, 2015).

The need for additional resources to fund growth-related needs is not limited to developing countries. In 2014, the National Bank of Canada published a discussion paper promoting land value capture to fund public transit for Montreal (Hazel, 2014). That report concludes in part:

> There is significant evidence to show that the improved connectivity supplied by new transit services generates increased land and development value. This is well recognized by the development industry. It therefore seems fair and equitable that a proportion of this additional wealth, generated by the new transit, should go to funding the transportation facility.

In an effort to support a broader understanding and use of land-based finance instruments, UN-Habitat and the Global Land Tool Network (GLTN) recently released a new training package on land-based finance for local governments. Given the wide range of land based finance instruments available, their selection and application are often complex and there is ongoing debate on pros and cons of each.

The *Leveraging Land* training package consists of two volumes: a reader and a trainer's guide. Both are freely available for download from the UN-Habitat and GLTN websites.[1] The package combines three powerful elements: (1) a discussion of the seven most common tools and a summary of the most recent literature on each, presented in a reader that has been reviewed by an international panel of experts; (2) 21 case studies from 18 countries illustrating both strengths and weaknesses in the application of the tools, and (3) an interactive joint learning environment that can be adapted to the needs of participants and which promotes learning through the development of individualized action plans. Each element is discussed more fully below.

The *Leveraging Land* training package represents a milestone in the efforts of UN-Habitat and GLTN to build local capacity. Earlier milestones included:

- The development and publication by GLTN and UN-Habitat of a collection of papers on land and property taxation (Sietchiping, 2011).
- The publication of a policy guide on land and property taxation (Walters, 2011).

Subsequent to the release of these two publications, GLTN and UN-Habitat received requests for more direction and in-person guidance on implementation of land-based finance instruments beyond simply

[1] **Reader**: http://unhabitat.org.ir/wp-content/uploads/2016/12/Leveraging-Land-LBF-for-Local-Governments-A-Reader.pdf; **Trainer's guide**: http://unhabitat.org.ir/wp-content/uploads/2016/12/Leveraging-Land-LBF-for-Local-Governments-A-Trainer-s-Guide.pdf

policy development. These requests led to the development of the *Leveraging Land* training tool, and development of training packages and modules on municipal finance (Kamiya & Zhang, 2016).

II. Rationale for land-based finance

In the fields of urban public finance and international development, the concept of land value sharing (also commonly referred to as land value capture) has become a standard argument for implementing or reforming taxes based on land. Often the value of privately held land increases as a result of public investments in infrastructure, publicly approved changes in land use, or broader changes in the community, such as population growth. Such increase in the value of land or property without investment or expenditure of any kind by the land holder is referred to as an "unearned increment". Proponents of land value sharing argue that governments should use taxes and fees to collect some share of this increase in value for public purposes, including funding infrastructure and service improvements. The concept of land value sharing has been in circulation at least since 1776 when Adam Smith wrote *The Wealth of Nations*. Smith considered the topic of taxes on agricultural land (which he called "the ordinary rent of land"), houses ("house-rents") and residential land values ("ground-rents") and concluded:

> Ground-rents, so far as they exceed the ordinary rent of land, are altogether owing to the good government of the sovereign, which, by protecting the industry either of the whole people, or of the inhabitants of some particular place, enables them to pay so much more than its real value for the ground which they build their houses upon. … Nothing can be more reasonable than that a fund, which owes its existence to the good government of the state should be taxed peculiarly, or should contribute something more than the greater part of other funds, towards the support of that government. (Smith, 1776, Book 5, Chapter 2)

Whether or not one agrees that increased land value is due to the quality of governance, it is clear that in most instances increases in land value are not due to actions taken or investments by the land holder. This led John Stuart Mill to write in 1848:

> Suppose that there is a kind of income which constantly tends to increase, without any exertion or sacrifice on the part of the owners: … In such a case it would be no violation of the principles on which private property is grounded, if the state should appropriate this increase of wealth, or part of it, as it arises. This would not properly be taking anything from anybody; it would merely be applying an accession of wealth, created by circumstances, to the benefit of society, instead of allowing it to become an unearned appendage to the riches of a particular class.

> Now this is actually the case with rent. The ordinary progress of a society which increases in wealth, is at all times tending to augment the incomes of landlords; to give them both a greater amount and a greater proportion of the wealth of the community, independently of any trouble or outlay incurred by themselves. They grow richer, as it were in their sleep, without working, risking, or economizing. What claim have they, on the general principle of social justice, to this accession of riches? (Mill, 1848/2001, Book 5)

The strongest historical proponent of a tax on land value was 19th century political economist Henry George, who believed that society should abolish all taxes except the tax on land values. He viewed this tax as a remedy for the unequal distribution of wealth and argued that it could be used to prevent speculation and support productivity. In his immensely popular 1879 book *Progress and Poverty*, he wrote:

> The tax upon land values is, therefore, the most just and equal of all taxes. It falls only upon those who receive from society a peculiar and valuable benefit, and upon them in proportion to the benefit they receive. It is the taking by the community, for the use of the community, of that value which is the creation of the community….
>
> And to shift the burden of taxation from production and exchange to the value or rent of land would not merely be to give new stimulus to the production of wealth; it would be to open new opportunities. For under this system no one would care to hold land unless to use it, and land now withheld from use would everywhere be thrown open to improvement. (George, 1920, Book VIII, Chapter 3)

Contemporary economists favor land taxes for another reason: Land taxes are economically efficient. Normally taxes reduce the supply of goods produced and/or raise prices, which detracts from the welfare of producers and consumers.[2] However, a land value tax does not reduce the supply of land, which is fixed. When supply of a good is completely inelastic, economic theory predicts that the full price of the tax will be borne by the seller—i.e., the price of land will be reduced by the amount of the tax. This is an efficient outcome since the seller did not exert any effort to create the value of the land itself. In fact, counter intuitively, a value-based tax on land can actually decrease the price of residential and non-residential units. This is because it can deter speculation and incentivize landholders to put their land into use, adding to the supply of units in the market.

[2] In fact, whether there is an overall social welfare loss will also depend on what the government does with the tax revenue collected. It is quite possible that the benefits to society generated through public action will more than offset private losses due to the tax.

Several modern noted economists have commented on the theoretical strength of land taxes. Nobel laureate William Vickery observed:

> The property tax is, economically speaking, a combination of one of the worst taxes—the part that is assessed on real estate improvement … and one of the best taxes—the tax on land or site value. (Quoted in Mikesell, 2013, p. 491)

Even conservative economist Milton Friedman grudgingly acknowledged the merits of land taxes:

> There's a sense in which all taxes are antagonistic to free enterprise – and yet we need taxes. ... So the question is, which are the least bad taxes? In my opinion the least bad tax is the property tax on the unimproved value of land, the Henry George argument of many, many years ago. (Quoted in Cohen & Coughlin, 2005)

Thus, the current view on the use of land value sharing reflects a substantial consensus that "unearned increments" in land value can and should be recaptured, at least in part, by the community. Few disagree with the Vancouver Action Plan—the founding document of UN-Habitat—which states:

> The unearned increment resulting from the rise in land values resulting from change in use of land, from public investment or decision, or due to the general growth of the community must be subject to appropriate recapture by public bodies (the community). (UN-Habitat, 1976)

Most experts agree with economists H. James Brown and Martim O. Smolka, who conclude that in theory (1) publicly created value should be captured, (2) substituting land-based taxes for other taxes to pay for investments is economically efficient, (3) land-based taxes tend to lower land prices and reduce speculation, and (4) land-based taxes could cover a major part of public infrastructure improvements (Brown & Smolka, 1997). Given this consensus it is reasonable to ask why the instruments are not more widely used.

III. Limitations, challenges and opportunities

Land value sharing and land-based revenue systems in developing nations can be extremely useful and fundamental in building an adequate and stable revenue system, but they are not without challenges. Some of these challenges can be attributed to weak or outdated land use planning systems and land markets that are often characterized by informal and extra-legal land transactions. Effective land-based finance must be built on an institutional framework that includes the capacity (in both the public and private sectors) to carry out land valuations, land registers that are reliable and up-to-date, and cadastral information that is unambiguous and publicly available (Palmer & Berrisford, 2015). Even with a sound legal foundation for land-based revenues (something not always present), four cross-cutting challenges are common in developing countries: administrative capacity, administrative priorities, valuation, and taxpayer resistance.

Administrative capacity: Land-based revenue systems require strong and effective local government administration, and collaboration among multiple levels of government. Such administrative capacity is often lacking in local governments, especially in rapidly expanding small and medium-sized urban areas.

The challenge is compounded because even well-administered systems are unlikely to yield enough revenue to fully fund all operations and needs (Bahl & Bird, 2008). Many land-related revenue reforms in particular have been largely unsuccessful because the cost of making administrative improvements is higher than the potential yield at tax rates deemed politically acceptable (Bahl & Wallace, 2008).

Administrative priorities: In many contexts, the tenure rights of vulnerable groups are not recognized and may not be recorded if they are recognized. This places huge populations outside formal land rights recognition and administration. A common result is that vulnerable populations often do not receive basic services, and local governments are not able to leverage land and raise the revenue needed for service improvements. The medium- and long-term potential for improving urban conditions by addressing this challenge is very substantial. Recognizing both the need and the opportunity, the New Urban Agenda states:

> We commit to promote, at the appropriate level of government, including sub-national and local government, increased security of tenure for all, recognizing the plurality of tenure types, and to develop fit-for-purpose, and age-, gender-, and environment-responsive solutions within the continuum of land and property rights, with particular attention to security of land tenure for women as key to their empowerment, including through effective administrative systems. (UN-Habitat, 2016c, paragraph 35)

Valuation: A third common problem with instituting land value sharing and land-based revenue systems is the difference between market values and assessed or taxable values. In theory, many land-based revenues should be collected based on the fair market value of a property. In reality, discrepancies commonly exist both between and within classes of property since assessment is as much art as it is science, and is fraught with judgments and administrative discretion (Bahl & Bird, 2008). It is common for valuations for tax purposes to fall below what a property would sell for in an open market, resulting in a loss of taxable value for the local government. In many instances, these shortfalls and the resulting revenue losses develop due to irregular and outdated valuations, and inadequate valuation processes. If taxable value fails to keep pace with actual value, the ability of land-based taxes to recoup and share the benefits of public investments is compromised, and if the accuracy of valuation differs between locations, property classes or value brackets, the distribution of the tax burden is very likely unfair.

Taxpayer resistance: A fourth problem with land-based revenue instruments lies in taxpayer resistance. Because they are often paid in lump sums, many of these taxes are extremely visible to taxpayers compared with other taxes levied on or through businesses (Bahl & Bird, 2008). It can be difficult for taxpayers to compare the relative fairness of alternative taxes, especially if the connection between taxes paid and benefits received is unclear to them. This often results in opposition to land-based taxes (Bahl, Martinez-Vazquez, & Youngman, 2008). Because land-based revenue instruments are often unpopular in developing nations, they are rarely a priority for elected officials (Bahl & Cyan, 2011).

While there are noteworthy challenges to effective use of land-based finance instruments, none is insurmountable. Land-based tools are used effectively in various countries around the world, and many developing countries are making significant progress in implementing or improving such instruments. This progress is achieved by focusing on the essential functions and tasks that must be carried out in order to successfully implement land-based finance. These functions and tasks are the steps necessary to actually implement the instrument in a given country. Some of these steps will be common to all instruments and across cultures, including at least the following:

- *Political will*—Changes in policies and practices affecting land are nearly always contentious and politically difficult. This is particularly true if the change requires land holders or developers to pay fees or forego private profits for public purposes. Such changes virtually always require a champion at a senior level in government. Even if there is broad public support for a policy change, change is unlikely unless senior officials support the change. One **essential task** therefore is to identify who the champion will be. The **essential functions** of that champion are to voice support for change in the highest councils of government, to build and sustain the political will for change, and to lead the effort to explain both what the changes will be and why they are necessary.
- *Leadership for change—*Senior government officials are busy people and they usually have multiple responsibilities. For these reasons, it is unlikely that the champion will also have the time or perhaps the expertise to actually provide the day-to-day leadership necessary to bring about change. An **essential task** therefore is, with the advice and consent of the champion, to assemble the change leadership team. This can be a relatively small team, but it should include leaders who are committed to bringing about change. They should be people who can communicate with and speak for key stakeholders. The team should also consist of leaders who have the vision and expertise required to design the needed changes. The **essential function** this team will carry out is the design of the implementation action plan, the assembly and organization of the required resources (both human and other), and the supervision of the changes as they are rolled out. This is the team that will confront the internal political and logistical challenges that will inevitably emerge.
- *Public engagement*—Again, changes that affect land, access to land, land-based wealth or land-based income are contentious. Land represents power and wealth and thus change requires managing both the

power and politics associated with land in order to build long-term and broad-based public understanding and support for any proposed changes. It is essential that the public be informed and consulted throughout the change process. This involves more than the occasional public announcement or news report. The **essential task** is to design a meaningful public engagement process to inform the public on the need for and nature of the changes, and to build public support for change. How this should be done will depend on the level of trust the public has for government and other public authorities. It will also depend on technology and logistics. But the ongoing **essential function** is to build public trust through open, honest and attentive communication with all of the public.

- *Adaptation of instruments to core social values*—The purpose for enhancing local government revenues is to promote human flourishing within urban areas. It is not sufficient to adopt policies simply because they increase revenue. Revenue policies should be consistent with core social values and resulting expenditures should promote the attainment of wellbeing as envisioned in those values. The **essential task** is to articulate the values that should guide policy and practice. The **essential function** is to administer land-based financing instruments in a manner consistent with those values. GLTN recommends land policies and practices that are pro-poor, equitable, sustainable, affordable, scalable and gender-sensitive, all in the pursuit of good governance and subsidiarity, and while recognizing a continuum of land rights. The recent adoption of the New Urban Agenda further endorses and seeks to promulgate similar social values. (UN-Habitat, 2016c)

IV. A framework for thinking about alternative land-based finance instruments

Land-based financing instruments are compatible with a number of land-related policy goals. However, some instruments are more consistent and appropriate than others in some contexts. While not an exhaustive list, common land-related policy goals include:

- Recovering the cost of public infrastructure investment
- Claiming for public purposes a portion of the increase in private land value created by public action
- Collecting payments for public services proportional to the benefits provided to landholders
- Avoiding direct expenditures for new infrastructure
- Collecting a “use charge” for private use of public land

The overarching requirements in order to make effective use of land-based finance instruments include:

- A strong legal foundation including systems which recognize all land tenure security rights, including those of poor and marginalized residents
- Adaptation to the local culture and context
- A sound understanding of local urban land markets and land values

- The administrative capacity necessary to effectively and efficiently administer whichever instruments and system of tenure security are adopted

The importance of this last point is highlighted in Figure 1 which identifies the key legal and administrative tasks associated with the assessment and collection of a land-based financing instrument. Not all of these functions need to be carried out by the same agency or level of government. Best practice suggests that functions should be assigned to agencies best able to carry out the function effectively. This will often mean that valuation, for example, is more centralized while collection is more localized. And legislation may be even more centralized at the regional or national level.

*********** Figure 1 about here *****************

V. The framework applied to common instruments

Before considering which particular land-based instruments are most relevant for a given goal, it is important to be clear on terminology. The same term can be used in different countries to describe very different instruments, and the same instrument operating in two countries may be labeled very differently. For this reason, Table 1 is extracted from the *Leveraging Land* Reader and presented here to clarify for the reader the instruments included in the *Leveraging Land* training.

*************** Table 1 about here ***************

As noted, the relevance of land-based finance instruments for land-related policy goals varies. Table 2 provides a summary indicating the most relevant instruments for common goals. In the table five potential land-related policy goals are listed, along with the 11 instruments. Table cells in green indicate that the instrument listed at the head of that column is potentially relevant for the goal listed on that row of the table. For example, if the goal is to recover the cost of public infrastructure investments, the appropriate land-based finance instruments to consider include:

- Recurring taxes on land value
- Recurring taxes on building value
- Betterment levies
- Special assessments
- Sale of development rights
- Sale of public land
- Lease premiums

The other four instruments are better suited for achieving other goals. Further, the text in some of the cells indicates any special issues that should be considered in pursuing the instrument in that column with the desired goal listed in the row.

Some of the Table 2 entries also suggest that some instruments are more appropriate than others for some settings. For example, if the goal is to collect a user charge for private use of public land (last row in the table), it makes a difference whether the land occupancy is formal or informal. If the land use is authorized, it makes more sense to use recurring lease payments built into the agreement that grants the right to use the land. On the other hand, if it is an informal settlement on public land, a formal lease agreement is not practical. However, some cities have been successful in levying a land value tax, especially if paying the tax is linked to eventual regularization of tenure.

Note that sometimes the design of the land-based finance instrument can change its achievement of policy goals. For example, recurring lease payments could be used to recover the cost of public infrastructure investments if priced accordingly and used to repay loans for an investment project. The ability to adapt instrument design is important in settings where the best-suited instrument for the policy goals is unavailable, requiring adjustment of other instruments to fit the intended purpose.

**************** Table 2 about here ******************

Many of the entries in Table 2 make assumptions about the level of the tax rate, the administrative capacity of the agencies involved, etc. Table 3 provides a more detailed statement of the minimum requirements for each instrument.

This framework for thinking about land-based financing instruments highlights both the minimum requirements for successful implementation and the critical need to adapt a given tool to local conditions and context. This is a central purpose and assumption in *Leveraging Land* training.

**************** Table 3 about here ******************

VI. Structure of the *Leveraging Land* training package

The intended ***target audience*** for the *Leveraging Land* training is land officials, administrators and professionals from developing countries working at the local and national level of governments. The training is intended for functionaries from institutions who are involved in or can benefit from capacity development in land-based financing. The focus is on individuals needing to improve both their understanding of and skills in the effective implementation of the most common land-based financing instruments. The training also aims to equip participants with the requisite knowledge that can be used to strengthen the use and implementation of various land-based finance instruments already in use in their national or local governments. The suggested time allocation assumes about 25 participants from about five countries [or jurisdictions within the host country].

The structure of the training provides for the formulation of practical, achievable action plans by the participants. In order to facilitate and encourage implementation of the action plans developed, it is strongly suggested that there be several participants from each country [or jurisdiction] represented. It is also recommended that the participants joining the training do so with a willingness to do preparatory self-study, a clear mandate and support from their employers or principals to apply what they have learned in their work, and a commitment to pass this learning on to others. The criteria and process of nomination and selection of participants should be structured with this in mind.

In selecting the participants from a given country [or jurisdiction] care should be taken to assure that representatives from key stakeholder groups are included. Representatives from agencies and institutions that either have key information, that will play a key role in designing and implementing any land-based finance changes, or that are likely to be essential partners in a coalition of stakeholders should certainly be considered. Such agencies might include:

- The Ministry of Finance, especially if it now plays a role in collecting, managing or disbursing local government revenues
- Any ministry concerned with land administration or land management, and their local government counterparts
- Any ministry with oversight responsibilities for local governments
- Urban planning agencies
- Vice-mayors, deputy mayors or department heads with responsibility for local government finances
- Other agencies that will play a role in land administration, urban planning, infrastructure investment planning or the administration of urban finances
- Agencies or staff with knowledge of existing laws and regulations related to the application of land-based finance instruments

Consistent with the GLTN capacity development strategy and good practice learning cycle (GLTN, 2015), the ***Leveraging Land training objectives*** seek to develop the capacity of local leaders and officials by enhancing their understanding of and ability to implement land-based financing instruments. By the close of the training event, participants should have a sound understanding of the roles and tasks required to implement or improve each instrument in their local environment. They will know where to turn to access resources to further enhance their understanding. They will also have developed an action plan that prioritizes those tasks, establishes milestones and preliminary timelines, makes specific assignments and provides for regular follow through with other participants following the training.

The *Trainer's Guide*

The training materials include both a *Reader* and a *Trainer's Guide*. The *Trainer's Guide* includes (1) detailed instructions on how to adapt the materials to the needs of a particular audience through a pre-training planning process that involves potential participants; (2) guidelines for selecting participants who can collaborate to promote change following the training; (3) detailed lesson plans for each training module; and (4) detailed instructions on creating action plans (including participant worksheets).

The *Leveraging Land* training materials organize land-based finance instruments into eight modules including a double module on the annually recurring tax on land and property. Because of the amount of material and the action learning approach taken in the training, it is expected that a typical face-to-face training will not be able to cover all eight modules. As conceptualized, the training sessions will be spread over four days and cover five modules. Figure 2 presents a schematic view of the training structure.

In preparation for the actual training sessions, the intent is to distribute the *Reader* to all potential participants. They are then encouraged to peruse the *Reader* in as much detail as possible, and identify five of the seven instrument clusters on which they would like the four-day training to focus, with motivations and reasons for their selection. The training sponsor(s) will analyze the responses, select the list of five instruments and adapt the training design as may be appropriate. (Note that selecting the annual land and property tax requires two modules in the schedule.) Participants will then be tasked to study at least the relevant sections of the *Reader* in detail and then assemble and bring with them relevant information regarding their own context and experience.

*********** Figure 2 about here ******************

Each training module is divided into two 90-minute sessions. During the first session, the *Leveraging Land* instrument is briefly introduced by the facilitator and any questions participants have from their reading are answered. The facilitator also introduces two cases that illustrate the instrument under discussion. Participants are then divided into small groups to discuss the cases.

Two cases are used to illustrate each instrument to highlight the fact that the same land-based finance instrument can operate quite differently in different contexts. One implication of this observation is that implementing a given instrument in a participant's context will likely require adapting the instrument to the unique local history, culture and legal environment. Focusing more specifically on these adaptations is the subject of the second half of the module.

In the second 90-minute session, the focus is on local application. Participants are asked to apply what they have learned about the tasks and functions needed to use the instrument, and the necessary supporting administrative structures to their own context. Each small group is asked to identify

- The key tasks and functions required to implement or improve the instrument in their own context
- The current status of each of those functions (e.g., exists and works well; exists but does not work well)
- The skill sets and actions required to carry out each function efficiently and effectively
- The supporting administrative structures and assignments that will best carry out the required functions
- Any changes in the administrative structure and assignments that will be necessary to carry out the functions
- Any legal changes that will be required in order to implement the structure and functions

The intent of this session is neither to develop an action plan at this stage nor to reach a decision on the relevance of the instrument for any given country or city. Rather the intent is to facilitate a careful and thoughtful analysis comparing the current state of affairs with the conditions necessary to effectively implement the instrument.

The *Reader*

The content of *Leveraging Land* training is presented in the *Reader*. The reader includes a short Executive Summary intended to be helpful especially during the pre-training phase as potential participants discuss potential topics of interest with their peers.

Instruments

The land-based finance options are next presented, organized into seven "instrument" chapters. All of the instruments represent some form of land value sharing (or land value capture) in that some share of the monetary value of land is made available to government entities for public purposes. The instruments are grouped for training purposes based on similarity in the combination of purpose and incidence. Nonetheless, there remains a substantial amount of judgment regarding how the instruments are clustered and different experts would undoubtedly produce somewhat different clusters of instruments. To review the structure and content of the reader, an Expert Group Meeting (EGM) was convened, and subsequent pilot tests for the *Leveraging Land* package were held in Egypt and the Philippines to obtain feedback on precisely this organizational question. A number of structural revisions based on this feedback resulted in the current version.

The structure of each instrument chapter is similar. First, the instrument is defined as clearly as possible to distinguish it from other instruments however they may be known. Second, the general purpose of the instrument is outlined. Next, the minimum legal, administrative and economic requirements are discussed. This discussion is followed by a description of how the instrument works in practice with examples from multiple countries. The implications of the instrument are described in terms of the revenue potential, incentive effects for private investment, social impacts and spatial and planning implications. Following a summary of key points from the chapter, two or more cases are suggested for consideration. Throughout each discussion, multiple references are provided to both cite sources and provide guidance for further reading.

Cases

The *Reader* includes 21 case studies drawn from 18 different countries. The countries included, along with the instrument illustrated, are listed in Table 4. The cases are generally fairly short (six pages or less), and again follow a similar structure. Each case begins with a general description of the country (or city) context and a brief description of the specific urban development challenge that was faced. The case then describes how the land-based finance instrument was implemented in an effort to address the challenge. A concluding section outlines the outcomes of the implementation as of the most recent available date.

**************** Table 4 about here ******************

The facilitator is provided with a set of guiding questions (in the *Trainer's Guide*) to help participants structure their discussion of each case. The cases are not intended to provide participants with all the information needed to completely answer the questions. The cases are intended to provide insights and promote discussion among the participants with the expectation that they will draw on their own experience and knowledge to adapt the instrument under consideration to their own context.

Participants in *Leveraging Land* training are encouraged and where possible actively assisted to develop additional, locally appropriate case studies, to promote local relevance and more effective learning during the training process.

VII. Outcomes: Action plans and follow through

The training package is designed to enable participants to become active change agents, effectively promoting best land-based finance practices in their own context. The final day of the training focuses on the development of individualized action plans, which are a key element in the *Leveraging Land* training. There is also an assumption that participants will continue to work together following the training, and that organizers will follow up to assess how well the actions plans are being implemented.

After having studied the material in the *Reader* and discussed the relevant cases, participants will work together to create an action plan. Agreeing on the action plan will require that participants:

- Compare what they have learned regarding each of the five instruments
- Prioritize the instruments for potential application in their own context based on ease of implementation, likely political support, legal and other impediments, etc.
- Develop an overall plan of action with specific sequencing, timelines and assignments
- Agree on a follow-through strategy including calendaring follow up meetings to update and revise the action plan.

An action plan is different from, but linked to, a strategy:

- A strategy provides an agreed set of principles and a policy framework which guide all actors and stakeholders, whereas action plans translate this broad guidance into concrete commitments for action.
- While issues are the reference points for strategy, actors (stakeholders) are the reference points for action plans.
- Strategies cut across actors and interests, while action plans operationalize strategies in relation to each actor.
- Although action plans should be coordinated across actors, implementation of the action plan rests upon the competence and authority of the various actors in the public, private and community sectors.
- Strategies provide medium and long-term guidance, while action plans concentrate on activities in the immediate and short-term future.

Action plans can thus be characterized as being:

- *purpose-specific*: there is a problem of common concern to be addressed;
- *actor-specific*: commitments and responsibilities of implementation are clearly spelled out;
- *area specific*: there is a clearly-defined geographic territory to deal with;
- *time-specific*: actions are not open ended but are tightly programmed to be delivered in a fixed time frame;
- *resource-specific*: an action plan is fully costed and based on commitment of existing resources - it does not hinge on resources yet to be mobilized; and
- *measurable*: progress in implementation, increments of change, and impacts can be clearly tracked and monitored.

The ***desired outcome*** from *Leveraging Land* training is that participants will each have

- Improved understanding of and skills in the application of land-based financing instruments
- An action plan for improving land-based financing in their home environment
- A personal commitment to the successful implementation of that action plan
- A set of colleagues and peers who share that understanding and commitment and with whom they can work closely in the course of application of the *Leveraging Land* instruments

This last point is critical and extends beyond the actual training dates. Training participants acting alone and in isolation are much less likely to be effective than those taking a team approach. Participants who coordinate their efforts, provide mutual support, collectively revise and update their action plan and monitor their progress together are much more likely to realize meaningful change in their social environment.

It is also expected that training organizers will check back with participants following to see that this ongoing collaboration is taking place. Participant surveys at the conclusion of the training are helpful, but the real test of success will be manifest in the behavioral changes in the professional lives of *Leveraging Land* participants. Such changes take time to mature and manifest.

References

Bahl, R., & Bird, R. M. (2008). Subnational Taxes in Developing Countries: The Way Forward. *Public Budgeting & Finance, 28*(4), 1-25.

Bahl, R., & Cyan, M. R. (2011). Tax Assignment: Does the Practice Match the Theory? *Environment and Planning C: Government and Policy, 29*(2), 264-280.

Bahl, R., Martinez-Vazquez, J., & Youngman, J. (2008). The Property Tax in Practice. In R. Bahl, J. Martinez-Vazquez, & J. Youngman (Eds.), *Making the Property Tax Work: Experiences in Developing and Transitional Countries*. Cambridge, MA: Lincoln Institute of Land Policy.

Bahl, R., & Wallace, S. (2008). *Reforming the Property Tax in Developing Countries: A New Approach*. Retrieved from Atlanta, GA:

Brown, H. J., & Smolka, M. O. (1997). Capturing Public Value from Public Investments. In H. J. Brown (Ed.), *Land use and Taxation: Applying the Insights of Henry George*. Cambridge, MA: Lincoln Institute of Land Policy.

Cohen, J. P., & Coughlin, C. C. (2005). An Introduction to Two-Rate Taxation of Land and Buildings. *Review, Federal Reserve Bank of St. Louis, 87*(3), 359-374.

Editorial. (2015). Space and the City. *The Economist*.

George, H. (1920). *Progress and Poverty*. Garden City, NY: Doubleday, Page & Co.

GLTN. (2015). The GLTN Capacity Development Strategy. Retrieved from http://www.gltn.net/index.php/resources/publications/recent-publications/334-the-gltn-capacity-development-strategy

Hazel, G. (2014). *Land Value Capture As a Source of Funding of Public Transit for Greater Montreal*. Retrieved from Montreal, Canada:

Kamiya, M., & Zhang, L.-Y. (Eds.). (2016). *Finance for City Leaders Handbook*. Nairobi, Kenya: United Nations Human Settlements Program.

Mikesell, J. (2013). *Fiscal Administration, 9th Edition* Boston, MA: Wadworth CENAGE Learning.

Mill, J. S. (1848/2001). *The Principles of Political Economy*. Kitchener, Ontario, Canada: Batoche Book.

Palmer, I., & Berrisford, S. (2015). *Urban infrastructure in Sub-Saharan Africa: Harnessing land values, housing and transport*. Retrieved from Rondebosch, South Africa:

Sietchiping, R. (Ed.) (2011). *Innovative Land and Property Taxation*. Nairobi, Kenya: United Nations Human Settlements Program and Global Land Tool Network.

Smith, A. (1776). *An Inquiry into the Nature and Causes of the Wealth of Nations, 5th Edition*. London: Methuen & Co. Ltd.

UN-Habitat. (1976). *The Vancouver Declaration on Human Settlements and the Vancouver Action Plan* Retrieved from Nairobi, Kenya:

UN-Habitat. (2016a). *Leveraging Land: Land-Based Finance for Governments: Reader* Retrieved from http://unhabitat.org.ir/wp-content/uploads/2016/12/Leveraging-Land-LBF-for-Local-Governments-A-Reader.pdf

UN-Habitat. (2016b). *Leveraging Land: Land-Based Finance for Governments: Trainer's Guide* Retrieved from http://unhabitat.org.ir/wp-content/uploads/2016/12/Leveraging-Land-LBF-for-Local-Governments-A-Trainer-s-Guide.pdf

UN-Habitat. (2016c). The New Urban Agenda. Retrieved from https://habitat3.org/the-new-urban-agenda/

United Nations. (2014). *World Urbanization Prospects: The 2014 Revision, Highlights*. Retrieved from New York, NY:

Walters, L. C. (2011). *Land and Property Tax: A Policy Guide*. Nairobi, Kenya: United Nations Human Settlements Program and Global Land Tool Network.

Walters, L. C., & Gaunter, L. P. (2016). Sharing the wealth: Private land value and public benefit. In M. Kamiya & L.-Y. Zhang (Eds.), *Finance for City Leaders Handbook*. Nairobi, Kenya: United Nations Human Settlements Programme.

Walters, L. C., Ochong, R., Paterson, L., & Plessis, J. d. (2016). *Scaling up land-based financing for sustainable and equitable cities*. Paper presented at the World Bank Conference on Land and Poverty, Washington, DC.

Table 1: Land-based finance instruments included in the *Leveraging Land* training

Instrument	Description	Timing
Recurring land value tax	• Recurring tax based on an estimate of the value of land or on land attributes	• Assessed annually • Can be collected in installments
Recurring building value tax	• Recurring tax based on the value of immovable improvements or on the attributes of the improvements	• Assessed annually • Can be collected in installments
Betterment levies	• Charges assessed in connection with specific infrastructure improvements • Limited to recovery of actual costs incurred	• Assessed and collected as a one-time charge
Special assessments	• Charges assessed in connection with specific infrastructure improvements • Limited to recovery of actual costs incurred	• Assessed once • Collected over a period of time, often as a temporary addition to the recurring property tax
Developer exactions	• Charges assessed in connection with development approval • Can be paid in cash, in land or in kind	• Assessed once • Collected as project is approved and completed
Land value increment tax	• Tax assessed as a percentage of the increase in land value due to public actions or general market trends	• Can be assessed when land title transfers or when specific public actions result in increased land values • Collected when land title transfers or by special billing
Sale of development rights	• Payments received in exchange for permission to develop or redevelop land at higher density or changed land use • Rights can either be sold at auction or at fixed price • Rights may be transferable to other locations or resold	• Collected once
Sale of public land	• Payment received in exchange for freehold title to public land	• Collected once
Lease premiums	• Payment received in exchange for right to occupy and benefit from public land • Permitted land use is specified • Terms vary from 2 to 99 years	• Assessed and collected once
Recurring lease payments	• Payment received in exchange for right to occupy and benefit from public land • Permitted land use is specified • Terms vary from 2 to 99 years	• Recurring payments • Payment amount reviewed and updated periodically
Transfer taxes and stamp duties	• Charge assessed for recording the transfer of a land title from one private party to another • Can be either a fixed fee or a percentage of the value of the property being transferred	• Assessed and collected once

Source: Leveraging Land: Reader, 2016

Table 2: Land-based finance instruments and land-related policy goals

Land-related goal	Land-based finance instrument: Recurring land value tax	Recurring building value tax	Betterment levies	Special assessments	Developer exactions	Land value increment tax	Sale of development rights	Sale of public land	Lease premiums	Recurring lease payments	Transfer taxes and stamp duties
Recover the cost of public infrastructure investment	May need to be paired with local borrowing			Requires landholder approval					If priced appropriately		
Claim a portion of increased private land value created by public action	If the tax rate is high enough				If law permits exactions beyond those that benefit the site	If local government administers and retains the revenue					If tax is high; see land value increment tax
Collect payments for public services proportional to the benefits provided to landholders										Can be combined with land use charge	If tax is modest
Avoid direct expenditures for new infrastructure							If the sale takes place before new infrastructure is installed				
Collect a "use charge" for private use of public land	Informal settlements									Formal occupancy	

Source: Leveraging Land: Reader, 2016

Table 3: Minimum requirements for each instrument

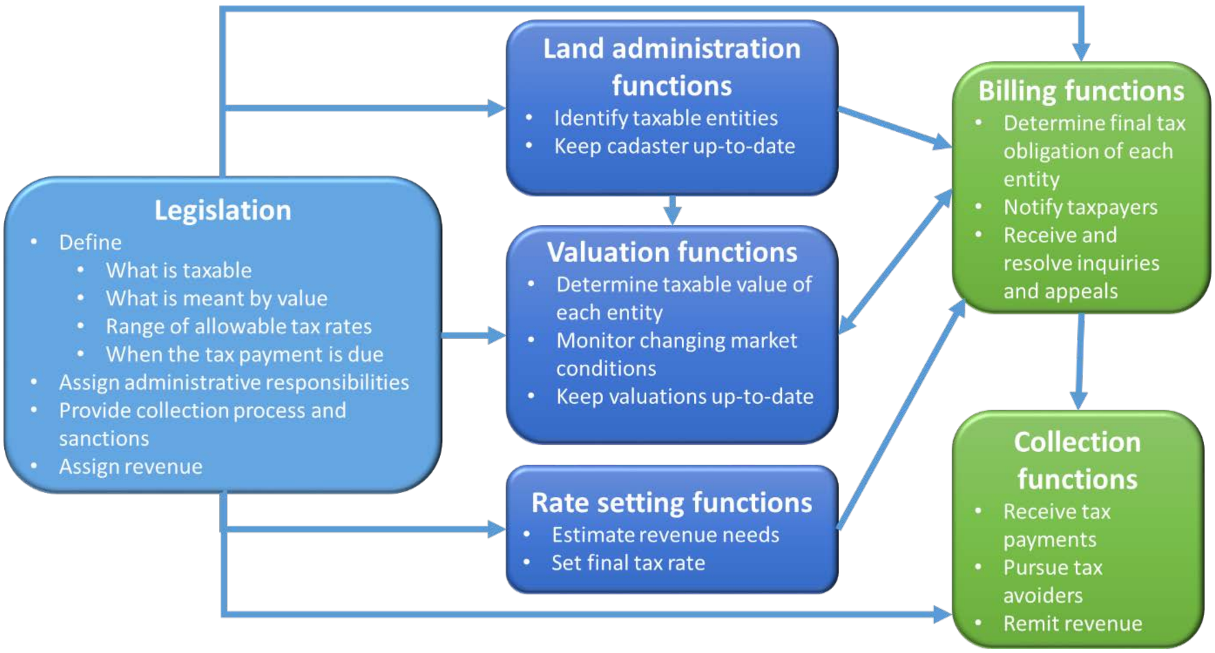
Instrument	Minimum requirements for implementation
Recurring land value tax and recurring building value tax	• Appropriate enabling legal framework • Fiscal cadaster (land registry) that includes all taxable land plots • Appropriate estimate of taxable value • Administrative ability to calculate tax due, deliver bills, and collect tax
Betterment levies	• Appropriate enabling legal framework • Identification of all land plots whose value is affected by the improvements • Estimated impact of the improvements on the land value of each affected plot • Accurate estimate of the cost of the improvements • Method for allocating the improvement costs to individual plots based on the share of benefit received • Adequate one-time billing and collection system
Special assessments	• All points included for betterment levies • Adequate installment billing and collection system • Agreement of a majority of land owners
Developer exactions	• Appropriate enabling legal framework • Estimate of the impact of the proposed development on existing infrastructure • Administrative coordination with city planning functions • Method for calculating the amount of exaction due • Adequate billing, collection, and project monitoring system
Land value increment tax	• Appropriate enabling legal framework • Estimate of the "before" and "after" land values • Administrative capacity to identify when the tax is due • Adequate billing and collection system
Sale of development rights	• Appropriate enabling legal framework • Effective control of existing development rights • Demand for additional development rights • Administrative and planning capacity to determine acceptable amount of additional development • Capacity to manage the process of selling additional development rights • Capacity to monitor use and any resale of rights sold
Sale of public land	• Appropriate enabling legal framework • Administrative and planning capacity to determine which lands should be privately developed • Capacity to manage a transparent and fair sales process • Capacity to allocate and manage sales proceeds
Lease premiums and recurring lease payments	• Appropriate enabling legal framework • Administrative and planning capacity to determine which lands are available for lease • Appropriate estimate of market value of land to be leased • Administrative ability to solicit and negotiate leases • Administrative ability to monitor leases for the duration of the lease • Administrative capacity to allocate and manage lease proceeds
Transfer taxes and stamp duties	• Appropriate enabling legal framework • Effective land registration system • Administrative capacity to identify when the tax is due • Capacity to estimate taxable value • Adequate billing and collection system

Table 4: Case studies included in the *Leveraging Land* training materials

Region	Country	Module
Latin America	Bogotá, Colombia	Recurring taxes on land and property
		Land value increment taxes
	Cuenca, Ecuador	Betterment charges and special assessments
	Medellín, Colombia	Betterment charges and special assessments
		Developer exactions
	São Paulo, Brazil	Sale of development rights
North America	Vancouver, British Columbia, Canada	Developer exactions
East Asia	Hong Kong, PRC	Land leases and land sales
	Singapore	Recurring taxes on land and property
		Transfer taxes
	Taiwan (ROC)	Land value increment taxes
South Asia	Ahmadabad, Gujarat, India	Land leases and land sales
	Kandahar, Afghanistan	Recurring taxes on land and property
	Mumbai, India	Sale of development rights
	Punjab, Pakistan	Recurring taxes on land and property
Europe	Albania	Recurring taxes on land and property
	Helsinki, Finland	Land leases and land sales
Middle East and North Africa	Egypt	Land leases and land sales
	Turkey	Transfer taxes
Africa	Tanzania	Transfer taxes
	Sierra Leone	Recurring taxes on land and property

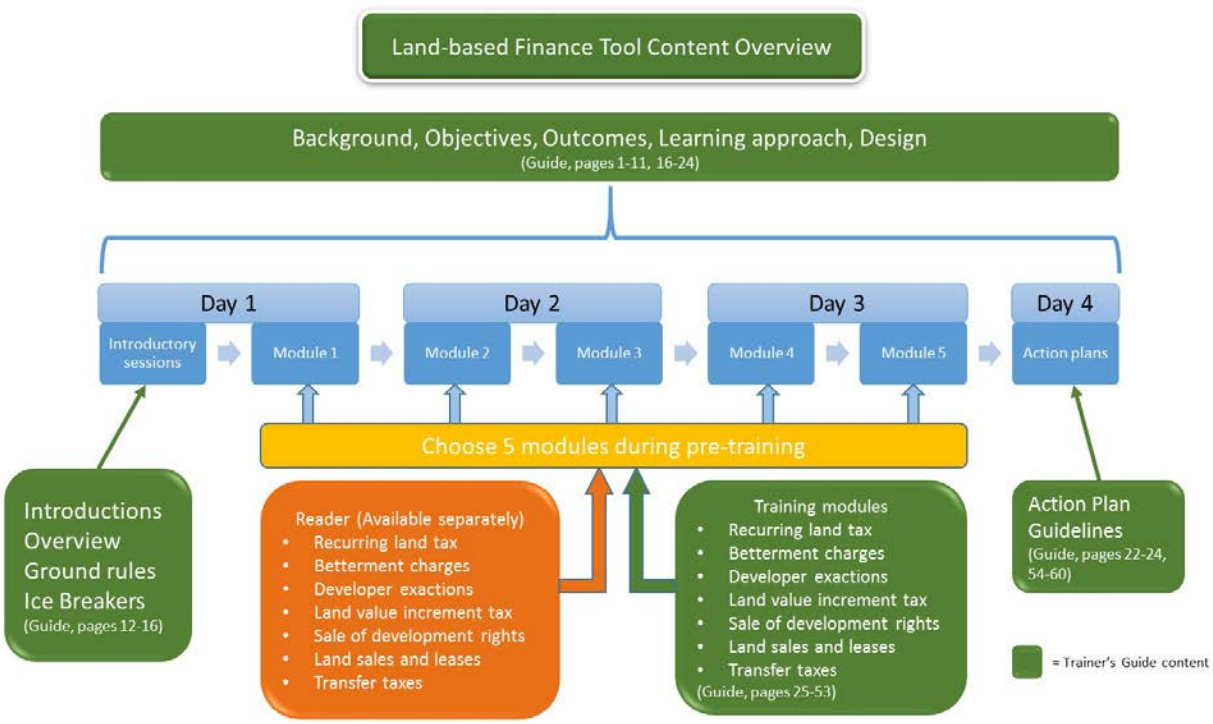
Source: Leveraging Land: Reader, 2016

Figure 1: The land-based finance assessment and collection process



Source: Leveraging Land: Reader, 2016

Figure 2: Training Organization



Source: Leveraging Land: Trainer’s Guide, 2016