LEVERAGING LAND: SUSTAINABLE GOVERNMENT FINANCE FOR EQUITABLE LOCAL SERVICES

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Masterclass Outline

Purpose of the class
Rationale for land-based finance for local governments
Limitations, challenges and opportunities
*Leveraging Land* training package
- Training design structure
- Training content
- Action plans
Future directions
PURPOSE OF THIS MASTERCLASS:
INTRODUCE LEVERAGING LAND TRAINING TOOL

LEVERAGING LAND: LAND-BASED FINANCE FOR LOCAL GOVERNMENTS
A READER
PREMISE #1: BY 2050, 2 OUT OF 3 PEOPLE WILL LIVE IN URBAN AREAS
PREMISE #2: Cities need additional resources to meet the increased demand for services.
A 3-TIERED APPROACH TO TRAINING AND TECHNICAL ASSISTANCE

**Tier 1:** A policy overview for senior officials
- The rationale for land-based finance

**Tier 2:** *Leveraging Land* for departmental managers and other mid-level government staff

**Tier 3:** Technical assistance provided upon request and consisting of two parts:
- A short scoping mission to identify and assess needs
- Targeted technical advice consistent with and supporting the action plan
LAND-BASED FINANCE ADVOCATED IN RESPECTED OUTLETS

[G]overnments should impose higher taxes on the value of land. … Land taxes are efficient. They are difficult to dodge; … a high tax on land creates an incentive to develop unused sites. …New infrastructure raises the value of nearby land, automatically feeding through into revenues—which helps to pay for the improvements (Editorial, 2015).
There is significant evidence to show that the improved connectivity supplied by new transit services generates increased land and development value. ... 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. (2014)
RATIONALE FOR LAND-BASED FINANCE

• Land is immobile
  • Revenue-generating instruments tied to land are difficult to avoid
  • Changes in land use are usually readily discovered

• Land-based taxes can have positive economic impacts
WILLIAM S. VICKERY
(1996 NOBEL PRIZE IN ECONOMICS)

“... removing almost all business
taxes, including property taxes on
improvements, excepting only
taxes reflecting the marginal
social cost of public services
rendered to specific activities,
and replacing them with taxes on
site values, would substantially
improve the economic efficiency
of the jurisdiction.”
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.
Not only was Henry George correct that a tax on land is non-distortionary, but in an equilibrium society ... tax on land raises just enough revenue to finance the (optimally chosen) level of government expenditure.
SO WHY ARE MORE COUNTRIES NOT USING LAND-BASED FINANCE EFFECTIVELY?
LIMITATIONS, CHALLENGES AND OPPORTUNITIES

• Administrative capacity is often lacking
  • Land-based revenue systems require strong and effective local government administration, and collaboration among multiple levels of government

• Administrative priorities often neglect vulnerable populations
  • The tenure rights of vulnerable groups are not recognized and may not be recorded if they are recognized
LIMITATIONS, CHALLENGES AND OPPORTUNITIES

• Land and property values for tax purposes are often not up to date
  • Discrepancies exist between market value and taxable value both within and between property classes

• Taxpayer resistance is often high
  • 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.
LAND-BASED TOOLS ARE USED EFFECTIVELY IN VARIOUS COUNTRIES AROUND THE WORLD.

MANY DEVELOPING COUNTRIES ARE MAKING SIGNIFICANT PROGRESS IN IMPLEMENTING OR IMPROVING LAND-BASED INSTRUMENTS.

HOW TO BRING ABOUT CHANGE
FOCUS ON ESSENTIAL FUNCTIONS AND TASKS

• Political Will
  • Changes in policies and practices affecting land are nearly always contentious and politically difficult.
  • Such changes virtually always require a champion at a senior level in government.
  • Essential task: *Identify the champion*

• Leadership for change
  • Senior officials are busy people and have multiple responsibilities.
  • It is unlikely that the champion will also have the time to actually provide the day-to-day leadership necessary to bring about change.
  • Essential task: With the advice and consent of the champion, *assemble the change leadership team*. 
• Public engagement
  • Changes that affect land, access to land, land-based wealth or land-based income are contentious.
  • It is essential that the public be informed and consulted throughout the change process.
  • Essential task: 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

• Adaptation of instruments to local context
  • Revenue policies should be consistent with core social values and resulting expenditures should promote the attainment of wellbeing as envisioned in those values.
  • Essential task: Adapt the instruments to reflect locally accepted core social values and objectives
Leveraging Land: Land-based finance for local governments training package

• Reader
  • Instruments and cases

• Trainer’s Guide
  • Training strategy and tools
LEVERAGING LAND:
OBJECTIVE AND INTENDED OUTCOMES

Intended outcomes for each participant:

- **Improved understanding 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
- **Colleagues and peers** with the same understanding and commitment

Develop the capacity of local leaders and officials by enhancing their ability to implement land-based financing instruments
LEVERAGING LAND: TARGET AUDIENCE

Target audience:
- Land officials, administrators and professionals from developing countries working at the local and national level of government

Basic premise:
- Urban land is a key factor of production and an important source of financing for urban development
LEVERAGING LAND: TRAINING STRUCTURE

- Duration: 3 to 4 full days
- Four 90-minute sessions each day

- 3 to 5 finance instruments (modules) covered
- Each module includes case studies and localized applications
Background, Objectives, Outcomes, Learning approach, Design
(Guide, pages 1-12)

Land-based Finance Tool Content Overview

Day 1
- Introductory sessions

Day 2
- Module 1
- Module 2
- Module 3

Day 3
- Module 4
- Module 5

Day 4
- Action plans

Choose 5 modules during pre-training

Reader (Available separately)
- Recurring land tax
- Betterment charges
- Developer exactions
- Land value increment tax
- Sale of development rights
- Land sales and leases
- Transfer taxes

Training modules
- Recurring land tax
- Betterment charges
- Developer exactions
- Land value increment tax
- Sale of development rights
- Land sales and leases
- Transfer taxes

Action Plan Guidelines
(Guide, pages 60-67)

Introductions Overview
Ground rules
Ice Breakers
(Guide, pages 14-24)

= Trainer’s Guide content
### Session #1: Exploration
(90 minutes)
- Introduction to the instrument and two cases (15 minutes)
- Small group discussion of the cases (30 minutes)
  
  *Identify key tasks, functions and administrative structures necessary to successfully use instrument*
- Large group discussion of cases (45 minutes)

### Session #2: Application
(90 minutes)
- Session introduction and key questions (5 minutes)
- Small group discussion (40 minutes)
  
  *Identify the key elements necessary to implement or improve the instrument in the local context*
- Large group discussion (45 minutes)
MORE ON THE APPLICATION SESSION

• Small groups are asked to answer:
  • *If our jurisdiction wanted to implement this instrument,*
    - What tasks and functions would need to be carried out?
    - How many of those tasks and functions are we currently doing and how well?
    - What skill sets and other resources would we need to improve, expand or acquire?
  • What would be the best administrative organization to support effective accomplishment of the required tasks?
  • How does our current administrative organization differ from this design?
  • What legal and administrative changes would be required, and what additional skills and resources would be needed, for us to implement this instrument?
  • NOTE: No decision is reached on the relevance of the instrument at this stage!
LAND-BASED FINANCE INSTRUMENTS INCLUDED
LAND-BASED FINANCE INSTRUMENT #1

**Description:**
Recurring tax based on an estimate of the value of land or on land attributes

**Timing:**
* Assessed annually
* Can be collected in installments

**Appropriate for Policy Goals:**
* Recover the cost of public investments
* Claim a portion of increased private land value created by public action
* Collect payments for public services proportional to the benefits provided to landholders
* Collect a “use charge” for private use of public land

**Minimum requirements:**
* 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
LAND-BASED FINANCE INSTRUMENT #2

Description:
Recurring tax based on an estimate of the value of immovable improvements or on attributes of the improvements.

Timing:
* Assessed annually
* Can be collected in installments

Appropriate for Policy Goals:
* Recover the cost of public investments
* Claim a portion of increased private land value created by public action
* Collect payments for public services proportional to the benefits provided to landholders
* Collect a “use charge” for private use of public land

Minimum requirements:
* 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
LAND-BASED FINANCE INSTRUMENT #3

Betterment levies

Description:
* Charges assessed in connection with specific infrastructure improvements
* Limited to recovery of actual costs incurred

Timing:
* Assessed and collected as a one-time charge

Appropriate for Policy Goals:
* Recover the cost of public investments
* Collect payments for public services proportional to the benefits provided to landholders

Minimum requirements:
* 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
LAND-BASED FINANCE INSTRUMENT #4

**Special Assessments**

- **Description:**
  - Charges assessed in connection with specific infrastructure improvements
  - Limited to recovery of actual costs incurred

- **Timing:**
  - Assessed once
  - Collected over a period of time, often as a temporary addition to the recurring property tax

- **Appropriate for Policy Goals:**
  - Recover the cost of public investments
  - Collect payments for public services proportional to the benefits provided to landholders

- **Minimum requirements:**
  - All points included for betterment levies
  - Adequate installment billing and collection system
  - Agreement of a majority of landowners
LAND-BASED FINANCE INSTRUMENT #5

**Description:**
- Charges assessed in connection with development approval
- Can be paid in cash, in land or in kind

**Appropriate for Policy Goals:**
- Claim a portion of increased private land value created by public action
- Avoid direct expenditures for new infrastructure

**Timing:**
- Assessed once
- Collected as project is approved and completed

**Minimum requirements:**
- 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
Description:
Tax assessed as a percentage of the increase in land value due to public actions or general market trends.

Appropriate for Policy Goals:
* Claim a portion of increased private land value created by public action.

Timing:
• 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.

Minimum requirements:
• 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.
**LAND-BASED FINANCE INSTRUMENT #7**

**Description:**
- 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

**Timing:**
- Collected once

**Appropriate for Policy Goals:**
- Recover the cost of public investments
- Claim a portion of increased private land value created by public action
- Avoid direct expenditures for new infrastructure

**Minimum requirements:**
- 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
LAND-BASED FINANCE INSTRUMENT #8

**Description:**
Payment received in exchange for freehold title to public land

**Appropriate for Policy Goals:**
* Recover the cost of public investments
* Claim a portion of increased private land value created by public action
* Avoid direct expenditures for new infrastructure

**Minimum requirements:**
• 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

**Timing:**
* Collected once

Sale of public land
**LAND-BASED FINANCE INSTRUMENT #9**

**Description:**
- 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

**Appropriate for Policy Goals:**
- Recover the cost of public investments
- Claim a portion of increased private land value created by public action

**Timing:**
- Assessed and collected once

**Minimum requirements:**
- 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
LAND-BASED FINANCE INSTRUMENT #10

Description:
- 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

Timing:
- Recurring payments
- Payment amount reviewed and updated periodically

Appropriate for Policy Goals:
* Collect payments for public services proportional to the benefits provided to landholders
* Collect a “use charge” for private use of public land

Minimum requirements:
- 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
LAND-BASED FINANCE INSTRUMENT #11

**Description:**
- Charge assessed for recording the transfer of a land title from one party to another.
- Can be either a fixed fee or a percentage of the value of the property being transferred.

**Timing:**
- Assessed and collected once.

**Appropriate for Policy Goals:**
- Claim a portion of increased private land value created by public action.
- Collect payments for public services proportional to the benefits provided to landholders.

**Minimum requirements:**
- 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>
<thead>
<tr>
<th>Region</th>
<th>Country</th>
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</thead>
<tbody>
<tr>
<td>Latin America</td>
<td>Bogotá, Colombia</td>
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<td></td>
<td>Cuenca, Ecuador</td>
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<td></td>
<td>Medellín, Colombia</td>
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<td>São Paulo, Brazil</td>
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<td>Africa</td>
<td>Tanzania</td>
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<td>Sierra Leone</td>
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THE LAST DAY: ACTION PLANS

Objective: Encourage and assist participants as they

• **Critically compare** the instruments discussed in terms of their practical potential for the participant’s home setting

• **Recognize the most critical tasks and functions** in adapting and implementing the most relevant instrument(s)

• **Recognize the administrative requirements** for successful implementation, including both the human and other resources necessary

• **Recognize the political, legal and other environmental factors** that will affect implementation

• **Devise a prioritized list of actions** required in order to implement or improve the most relevant instrument(s)

• **Develop an action plan** for accomplishment of the desired changes
ACTION PLANS

• Translate strategies into concrete commitments for action
• Operationalize strategies in relation to each actor
• Concentrate on immediate and short-term future
# ACTION PLAN TEMPLATE

<table>
<thead>
<tr>
<th>Action Steps</th>
<th>Responsibilities</th>
<th>Timeline</th>
<th>Resources</th>
<th>Potential gaps &amp; weak links</th>
<th>Coordination Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Who Will Do It?</td>
<td>By When? (Date)</td>
<td>A. Resources Available</td>
<td>A. Who or what?</td>
<td>Who is involved?</td>
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<td></td>
<td></td>
<td>B. Resources Needed (financial, human, political &amp; other)</td>
<td>B. How to overcome or work around?</td>
<td>What methods?</td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td>How often?</td>
</tr>
</tbody>
</table>

- **Step 1:**
  - A.
  - B.

- **Step 2:**
  - A.
  - B.

- **Step 3:**
  - A.
  - B.
DIRECTIONS FOR FUTURE DEVELOPMENT

• *Leveraging Land* is an effective and relevant training package

• Given the dynamic nature of urban needs, *Leveraging Land* needs ongoing refinements and updates

• Areas for future development
  • Additional and updated case studies
  • Need for versions that will engage high level officials
  • Need for further legal and technical support
  • Post-training follow up
  • Adaptation to specific contexts
WHAT ARE YOUR RECOMMENDATIONS FOR:

• Improving the package?
• Assuring that the package is widely used?
Leveraging Land: Land-based finance for local governments

NEED TO KNOW MORE?

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EXPERT REVIEWS AND FEEDBACK

- 24 leading international experts convened to review content and training structure
- Extensive feedback resulted in major revisions in content and organization
FIELD TRIALS

EGYPT
- 33 Egyptian officials from both national agencies and 9 governorates
- 3 instruments covered
- Feedback quite positive and materials well received
- Some scheduling challenges

PHILIPPINES
- 22 national and local government participants
- 3 instruments covered
- 82% of participants felt materials were useful and applicable in their local context
- Training organization, structure and content were effective, engaging and relevant
LAND-BASED FINANCE ASSESSMENT AND COLLECTION PROCESS

Legislation
- Define
  - What is taxable
  - What is meant by value
  - Range of allowable tax rates
  - When the tax payment is due
- Assign administrative responsibilities
- Provide collection process and sanctions
- Assign revenue

Land administration functions
- Identify taxable entities
- Keep cadaster up-to-date

Valuation functions
- Determine taxable value of each entity
- Monitor changing market conditions
- Keep valuations up-to-date

Billing functions
- Determine final tax obligation of each entity
- Notify taxpayers
- Receive and resolve inquiries and appeals

Rate setting functions
- Estimate revenue needs
- Set final tax rate

Collection functions
- Receive tax payments
- Pursue tax avoiders
- Remit revenue