

AFRICITIES SUMMIT • DAKAR FROM DECEMBER 4TH TO 8TH, 2012

# LAND VALUE CAPTURE:

a method to finance urban investments in Africa?



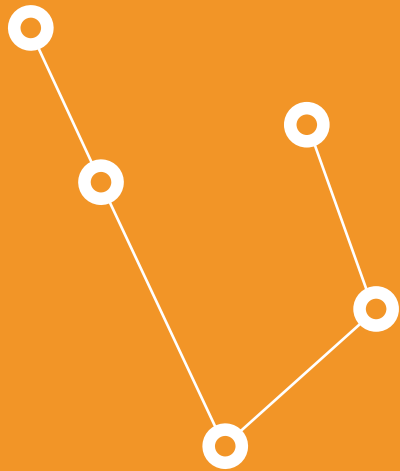
ILLUSTRATIONS

Special session organized  
by UCLG/Committee on  
Local Finance for Development



United Cities and Local Governments  
Cités et Gouvernements Locaux Unis  
Ciudades y Gobiernos Locales Unidos





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# STATEMENT OF THE PRESIDENT

## Fathallah OUALALOU

President of the Committee on Local Finance for Development,  
United Cities and Local Government, Mayor of Rabat

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For a long time, land has played a central role in financing urban infrastructure. Cities such as New York, London or Paris, and more recently Chinese cities, made it a major component for financing their urban infrastructures. By producing immediate substantial revenues, which significantly allows the reduction of the dependence on debt, the use of the various techniques of financing through land value capture appears well adapted to the cities witnessing a particularly fast urban growth.

Financing part of urban investments through land development still attracts little interest on the African continent. However, taking account of the enormous present and future needs, Africa will not be able to cope without this type of financing. The latter proves completely legitimate (collect the added value provided by public investments), and constitutes a type of financing with strong potential in cities with solid and regular space growth.

The special session that we held at the 6<sup>th</sup> AFRICITIES Summit in Dakar in December 2012 was the occasion to highlight opportunities and obstacles as to this method of financing. In Africa, it still involves a number of reforms:

- reforms as regards land legislation, particularly as to land tenure and land control by local government agencies;
- creation of qualified specialized operators;
- establishment of an effective control framework to avoid missteps and the collection of revenue by the elites;
- development of tools necessary for urban management: strategic planning, citizen participation, geographical information systems, land registers, local fiscal policies...

The Committee on Local Finance for Development of UCLG, which I have the honor to chair, has the role of supporting local governments' access to financing: land value capture, which represents one of the major sources of financing of local government agencies, constitutes a strong line of our strategy.

This publication outlines the experiences, projects and expertise presented during the special session of AFRICITIES devoted to this topic, hoping to contribute to enhancing the advocacy of this method of financing. I would like to thank local elected officials and experts, who, through sharing their experiences, allowed us to enrich the debate, as well as UCLG Africa for the organization of this highly interesting platform of exchange which the AFRICITIES Summit constitutes.

This debate dedicated to land value capture in Africa is now conducted at the continental scale. It constitutes a starting point for more ambitious studies that should be carried out in various countries in order to highlight the specific national needs in terms of tools, operators, reforms and capacity-building.

I hope you will enjoy reading it!

Financing urbanization through land value capture is quite obvious today, given the size of the required investments and constraint weighing on the traditional financing of development. In practice, financing urbanization through land property means the capacity to use the added-value acquired by land, due to its transformation into developed and constructible land site, so as to finance such development works in whole or in part.

In practice, 3 major tools allow local government agencies to recover part of the land added-value:

- If the public authority owns the land, develops it and sells it;
- If specific tax and duties make it possible for the public authority to invest in development works;
- If the public authority entrusts development to a third party that finances the necessary infrastructures.

It is in this case that appears the most appropriate to ensure urban development in the long run.

## LAND VALUE CAPTURE: a method to finance urban investments in Africa?

In Europe, North America and Latin America, nearly 80% of the population already live in urban areas. This proportion represents only 40% in Asia and Africa, but these two continents are currently conducting accelerated catching-up, with unprecedented growth rates in western countries.

The urban challenge facing the cities of these continents is huge: the urban population in Africa should in fact double in 20 years<sup>1</sup>. For instance, a city like Dakar increases by

100.000 new inhabitants each year. This sharp urban growth involves needs as regards the implementation of public facilities which very significantly exceeds the capacities of the budgets of the States or local government agencies of the countries concerned. Hence, there is a pressing need to find other funding sources for the requirements of public facilities induced by the increasing urbanization.

The examples presented in this publication testify to the assumption

of responsibility of the potential of land value capture by some African local government agencies. To move further on, the example of “*Community Land Trust*” makes it possible to open prospects as to innovative solutions which could be envisaged for the Continent.

This article attempts to specify how and under which conditions one of the lines very often recommended – financing urban infrastructures through land – may turn out efficient and useful.

## A VERY DIVERSE REALITY

Underlying the apparent simplicity of the statement “*financing urban infrastructures by land added-value*”, there are in fact extremely varied situations, policies and outcomes. Schematically, three major cases in point can be distinguished.

### 1. The local authority (State or local government agency) owns the land property which constitutes the scope of urban development

It is easily thought that the local authority invests in the implementation of infrastructures which will allow the land plots hence equipped to acquire value on the real estate market. The local authority, by transferring them to actors (investors wishing to build and preserve buildings, developers seeking land to build then sell projects, users wishing to settle in this perimeter) provides an added-value which makes it possible to finance infrastructures (c.f. the case of Antananarivo).

The transfer to real estate actors can take various forms: direct sale, transfer of the right of development, emphyteutic leases (c.f. Addis-Ababa) and the ownership by the local authority can result from various mechanisms (historical ownership, acquisition or expropriation), but the economic mechanism remains the same: he who invests in the infrastructures developing land benefits directly from its added-value. As a local authority, it controls – moreover – the rate of the flow and destination of the sold urban land plots.

This particular case is found in different contexts such as Egypt (construction of new cities around Cairo), Denmark (financing the development of Orestad), India

(Mumbai), China, the United States, Paris in the 19<sup>th</sup> century (works of Haussmann) or the rebuilding of the city-center of Beirut (Solidere Project) after the destruction caused by the civil war (1975-1990).

### 2. Tax on land added-value carried out by private agents thanks to the public investments made<sup>2</sup>

Taxation (specific or general) is based on a tax tool and supposes that the State or local authority which finances urban development is endowed with technical, administrative and legal capacity to set and collect this taxation.

Also, the use of this mechanism is met in contexts where these capacities are available:

- In Latin America, particularly in Bogota with the “*contribution of value capture*”;
- In Switzerland, with the “*contribution of added-value*”;
- In the United States with the “*special assessment*”;
- In Europe where land tax and the entire set of taxes related to the construction deed (development tax in France) are the usual methods of financing urban development.

It should be noted that the – attractive – idea to tax the added-value, that would be generated by public investments in infrastructures for private land plots developed by these investments, turned out to be very difficult to implement due to the evaluation of this added-value (very questionable...) and the risk of the counter-productive effect of such taxation (which may slow down the transactions and hence development)<sup>3</sup>. →

The investment need required for the accommodation of new urban areas is added to the amounts necessary to make up for the deficit already accumulated in most cities as regards infrastructures, facilities, essential services, as well as technical skills and strategic planning. The various estimates carried out show that the amounts mobilized today to finance urban investments are largely insufficient to make it possible for cities to fully develop their potential, be it in terms of economic growth, reduction of poverty or the environment. Indeed, while the needs are estimated for sub-Saharan Africa at more than 90 billion US\$ per annum, the latter mobilizes today only half of this amount for its infrastructures, along with approximately 8 billion US\$ provided by donors<sup>4</sup>.

(1) UN Habitat 2008: the urban population of Africa in 2010 was estimated at 372 million inhabitants, and it should reach 754 million inhabitants in 2030.

(2) Taxation on added-value is a traditional technique also practiced in many countries, under various formulas. The tax on added-value can take several forms, according to whether it applies once or recursively. It is reputed to be complex to implement and collect, but examples such as that of Colombia show that it can be at the same time effective and ultimately well-received.

(3) C.f. The recent debate, in France, concerning the financing of the implementation of Grand Paris Express (investment of approximately 30 billion €), efficient transport infrastructure assumed to give added-value to the real assets located near the stations. The final financial plan does not adopt this funding source explicitly.

(4) “African Infrastructures, an imperative transformation”, Africa Infrastructure Country Diagnosis (AICD), World Bank, 2010.

### 3. Intervention of a public or private actor that carries out and/or finances the infrastructures necessary for the development and land-use planning of a land perimeter which will be the object of real estate developments

In many countries under French law, the relevant operations are entrusted to “developers” by way of concession. These would acquire the land plots and produce the necessary public facilities in exchange of a new destination of constructible land plots, and/or land density increase. The financial results of the operation will also allow on one hand, in its expenditure section, the implementation of public facilities made necessary by the arrival on the developed perimeter, of a new population to reside or work therein (school, sport, cultural facilities, etc...), and on the other hand, in its revenue section, the resale of the serviced land plots, provided with precise constructability to investors, developers or users (c.f. the case of Porto Novo).

In the countries under Anglo-Saxon law, land developers have a similar

role in a legal framework which is more contractual and less regulatory than in France. These operators are mainly real estate operators who develop and build sites of a few hectares without generally conducting urban analyses at a broader scale (c.f. the case of Durban).

At any rate, it is the resale of developed land plots or buildings which finance the facilities and infrastructures implemented to allow urban development.

Public-private partnerships (PPP) show very diverse legal and sometimes very old realities, but always rest on the contractualization of rights and obligations of the local authority and the private operator entrusted with the implementation of public infrastructures. It is presumed that the local authority has the technical, administrative and legal skills necessary to define, allocate and manage such a contract (whose risks of corruption are quite obvious...) but this supposes also the existence of qualified private operators with strong technical, legal and financial skills, endowed with the capacity to conclude long-term contractual relations with the local authority.

The failure of this system is obvious and the diagnosis has been established for a long time. In urban areas in particular, a parallel system has developed which results in the existence of a market on which “titles” are exchanged (at best “residence permit”), a market structuring the development and organization of informal districts accommodating nearly the entire growth of cities.

A remarkable paradox, the implementation of major urban infrastructures financed by international financial donors enhances the scope of these informal markets and thus “deconstruct” a little more the myth<sup>6</sup> of land registration. A case in point is the official compensation for the PAP (people affected by projects) occupying buildings without title. The solution does not reside in the registration of all land plots (neither technically nor legally possible) but in the introduction “from the bottom”<sup>7</sup> of recognized property, on the basis of peaceable ownership in duration, registered in a system of the type “urban land register”. Implemented for 20 years in Benin, this system, much less expensive than land registration (cost price estimated for Cotonou: 85500 C.F.A/ha or 130€/ha or less than 1 M<sup>2</sup> for the entire city<sup>8</sup>), also – and especially – allow setting up the basis for a land tax absolutely necessary for the financing of local government agencies.

Land register should also allow the recording of transactions, hence the follow-up of the property, and thus improve the effectiveness of taxation.

#### Ensuring tax resource

Land-based tax resources are recurring and their progress is relatively stable (or growing...). It gives a good visibility of local finance, and facilitates the recourse to loans by getting valid capacities of refunding for local governments; it represents then an essential base of the policy

## ESSENTIAL PREREQUISITES

Whatever the mechanism implemented so that land value contributes to the financing of the infrastructures necessary for urban development, some basic prerequisites are essential.

#### Dealing with the land issue

The system of land tenure of the majority of countries in sub-Saharan Africa is currently incompatible with the establishment of the me-

chanisms above. By denying the existence of common laws, the system inherited from colonization wanted to create “*from the top*” a land tenure system where any land which is not properly registered (i.e. which is not the object of a title document delivered by the State at the end of a long<sup>5</sup> and expensive process) is considered as belonging to the national property.

of investment of local government agencies. It is thus essential, for Sub-Saharan African countries in particular, to develop local land taxation: the Beninese experience quoted above shows that the system of Urban Land Register makes it possible to increase revenues from taxes in a substantial way. In addition, it is well-known that the existence of an annual tax is quickly conducive to promoting – or selling – a land plot subjected to this tax. It thus contributes to the fight against “*land hoarding*” which freezes land plots and slows down urban development.

Finally, the regular payment of a land tax constitutes, through time, a presumption of property. The tax becomes thus a tool of land security. If it were realized that, technically, the existence of a land register is absolutely not a prerequisite for the establishment of the annual tax on land, addressing programs should however be consolidated, particularly in recent and unsolicited districts<sup>9</sup>. This tool has, of course, many other applications than taxation. It is an urban management tool<sup>10</sup> for stakeholders in several city urban sectors (urban services, social services, economic development, etc...).

### **Which infrastructure to finance?**

A third fundamental prerequisite for the establishment of the mechanisms of the financing of urban development by land is obviously the existence of coherent infrastructure programs with objectives – and the report – of urban development, as well as the existence of programs aiming at improving living conditions and the exercise of economic activities in the existing districts (historical centers, “allotments” districts of the postcolonial years, and even substandard and unsolicited districts which constitute the current mode of urban expansion of sub-Saharan Africa).

Regarding infrastructure, a look back at the basics of urban development is essential.

- First of all, mobility and accessibility are paramount. The projects of creating hundreds or thousands of “serviced plots” in the periphery of big cities can no longer make the deadlock (as it seems to have been often the case) on the means of public transport necessary. Even if private supply is often provided in these districts as the populations settle therein, the urban composition of these districts (for instance the planning of bus/minibus →

*“The urban population of Africa increases more quickly than that of any other area in the world. By the end of 2020, out of the 30 cities which will witness the fastest growth worldwide, 24 will be in the African continent. In 2030, the urban population of sub-Saharan Africa should double compared to 2010 and reach nearly 600 million people. African cities are already confronted with enormous problems: more than half of their inhabitants live in over-populated slums, and approximately 200 million survive on less than 2 USD a day”.*

Food and Agriculture Organization of the United Nations, FAO 2012

(5) In Gabon, we identified not less than 134 stages and steps to obtain the registration of a land plot.

(6) According to H. Ouedraogo: “Myths and deadlocks of land registration and the need for alternative approaches”. Land Technical Committee, UN-H, December 2010.

(7) C.f. J. Comby “Getting out of the colonial land system”, 1995, at comby-foncier.com

(8) C.f. “Guide of the building owner. Urban land registers”, UN-Habitat 2012.

(9) It should be pointed out that historically the collection of tax on land largely preceded the appearance of the land registers (19th century in France), only as a regulatory instrument of the taxable amount.

(10) C.f. “Addressing and management of cities”, Hugues Leroux, Lucien Godin et al, World Bank 2005.

## **What are the advantages and disadvantages of the financing of investments in infrastructures by land?**

This technique makes it possible for the local government agency to obtain immediate revenues and thus reduce its dependence on debt and the related budgetary risks. It contributes to controlling urban land markets by orientating the investments towards the most relevant spaces for sustainable urban development. However, the urban land markets remain unstable, hence the need for taking into account its revenues only as a contribution of specific capital. Also, the land sales cannot continue indefinitely and the approach is irreversible once the transfer has been concluded. Prudence remains then crucial insofar as land sales often lack transparency and the mechanisms ensuring good governance. Finally, these financing techniques should not be considered as an end in themselves, but should instead constitute an integral part of the good planning of public investment.

→ “stations”) and their linkage to the city major road network should be studied, and the corresponding investments programmed and carried out at the same time as the production of the improved lands.

- Secondly, the required investments for the protection of these developed perimeters against natural risks (the first of which is the risk of floods) should be studied, programmed and completed upstream the development of districts. Otherwise, we will quickly be confronted, on the one hand, with unsolicited establishments on risk zones (for example in talwegs or depressions whose role would be to channel and store water in periods of heavy rains...) and, on the other hand, with significant overcosts to build afterwards, in already “occupied areas”, the primary infrastructures necessary for the protection of the

districts against natural risks.

- “Traditional” networks (water, electricity...) generally do not pose major problems but, here again, good programming of their implementation (and particularly the implementation of the primary antennas which will allow the connection of the new district to the existing network) are necessary.
- Finally, the entire set of infrastructures known as “superstructure” such as schools, health centers, markets, sports facilities, neighborhood houses should also be programmed and executed at the same time as the development of land plots. The construction project of these infrastructures, and thus their technical and financial programming, is entrusted in all cases to public authorities – central State or local government agencies as per the case – depending on the level of decentralization.

In European contexts, where the primary infrastructures have been established for a long time, reflections and works on urban development generally stress other aspects (urban form, smooth traffic, multi-functions, energy optimization...), and basic disciplines such as operational programming and city planning “are being devalued”. The findings and projections concerning the growth of African cities should be enough to restore them all their importance...

### **Economic and organizational obstacles**

In many African big cities, the best investment of the last ten years has been to acquire a land plot in order to resell it – without developing it – ten years later. In certain countries, the same land can have its market value multiplied by 10, or even more, without changing its use value (its characteristics, constructability,

## **Can land finance all the investments of urban development?**

Experience shows clearly that it is not the case. For example, in the case of an urban development carried out in the periphery of a residential area, on land plots dedicated to agricultural use and now becoming constructible, the added-value obtained from land finances the development of these land plots (roadway system and all internal networks in the zone, including their connection to the major roadway systems and external networks and to public spaces), but the financing of the public facilities necessary for the inhabitants (schools, sports, cultural facilities...) is generally ensured by the taxes related to the construction of the buildings of these land plots (development tax in France) and by annual land taxes. It can be estimated that, according to the level of the real estate market (which determines the level of the land market) and depending on the initial cost of the acquisition of bare land, the added-value obtained from developed land makes it possible to finance only internal development, or about 50 to 70% of superstructures public facilities (schools, ...). The basic sewerage infrastructures (purification plants) or the production of drinking water (water factories) and energy (electricity) can only be financed through taxation or taxes included in the tariffs of water and energy.

With regard to “rebuilding the city on the city”, the financial equation is even more difficult. It is currently estimated, in the Paris region, that a development operation consisting in repurchasing land plots already urbanized and often polluted (industrial waste lands, for example) to rebuild residence units, facilities, shops and offices, requires a contribution from the local authority amounting to a million euro per developed hectare, to finance the public infrastructures necessary to the operation.



road service...). Here lies the most harmful perverse effect of *“the addiction to land title”*. These findings are the most visible expression of the fact that, on the real market, the price levels of urban land have no connection with the incomes of the majority of inhabitants.

Through spill-over, this elevated level of price affects the increasingly distant peri-urban zones and appears in connection with “bare” lands, i.e. lands neither developed nor located in a zone where the necessary infrastructure exists. This reality definitively affects any process of additional development by the implementation of infrastructures, and thus the participation of this development in the financing of infrastructures. When “raw” land is already at the price corresponding to “serviced” land, there is no more added-value to expect from the implementation of infrastructures and facilities. It is then necessary to tax land on its market value through the tax mechanism mentioned above. Besides this economic obstacle, in the majority of African cities, there are no structures able to lay down, formalize nor implement the land and urban policies which would ensure that the public interest would benefit from land added-value, and would avoid *“the discrete hand”* of private individuals (D. Lorrain) or the perverse effects of the sale of land plots (as it is the case in India). As the approach is irreversible once the transfer has been concluded; prudence is strongly required.

Land and urban policies require strong professional skills, such as the availability and mastery of the necessary tools to pin down the real situations of urban evolution (satellite imagery and its processing, GIS, investigations...), the capacity to undertake exploratory and operational studies (project ownership to define the “good schedules of conditions” and to control the engineering and

research departments...) and the capacity to create the frameworks and partnerships which will make it possible to implement genuine policies of urban development.

### **A priority: the promotion of genuine urban development operators**

Beyond the consolidation of these competences within public authorities and local governments, the existence and formation of operators who should be genuine “urban developers” is essential. In this regard, the European experience, taken up by certain countries of the African continent (c.f. the example of Greater Casablanca and the development company created to conduct the project of the new city of Zenata) shows that it is possible – for a local government agency – to control its urban development and to finance a good deal of the implementation of the public facilities necessary for the urbanization of new districts by itself, by the mastery of the process of land development and the collection of the added-value resulting from the transformation of land into *“serviced and constructible”* land.

This process is, generally, carried out by a specialized operator, a developer, controlled by the local authority either by means of its capital (Company of Mixed Economy in France, Stadtwerke in Germany, Intercommunale in Belgium, Kommunala bolag in Sweden, etc) or by a specific contract (development concession in France). It is in this vein that we consider it a priority for local authorities and local governments to engage in this process. To this end, it seems that the sharing of experiences, decentralized co-operation, or the trade of training and qualifications between urban developer operators already established in the technical field of development works, will all contribute effectively to make the financing of urbanization through land a reality. ●

The analyses converge to show that the extension at the current pace of the amounts of financing and implementation of local investments leads to a deadlock. *“This trend cannot be sustained and leads to potentially unmanageable situations from both economic and sociopolitical points of view. The scaling to be operated will not be easy because the structural instruments to do so are not established. It is necessary to work out new systemic solutions that can meet such considerable needs in a short period. It is the systems of financing themselves that should be reconsidered”.*



*“Financing Africa’s cities”*,  
Thierry Paulais,  
2012.

Any urban extension generates an increase in land plots value. The land plots which benefit from easy access, waste services and service road for public transport witness a greater increase in their value. The question is who will benefit from this added-value: the owner or beneficiary and only the former, or the local authority which financed the investment.

## LAND VALUE CAPTURE IN AFRICA: well-established methods, legitimate but unfounded concerns



**Thierry Paulais**

Deputy Director of the Department of Africa at the French Department Agency (AFD).

DR

*While it seems completely justified that the local authority recovers part of this added-value, it is also economically essential to do so as to finance future investments. Several techniques, described specifically in this publication, are likely to be used in Africa, in a separate or simultaneous way according to the relevant contexts: direct transfer of land plots, taxation on the added-value, or direct taxation of the owners or developers through development operations.*

*The principle of financing by land, however, sometimes causes some reservations and concerns, according to two types of arguments. The*

*first relates to the presumably inflationary and increasing character of land development, and the second to the antisocial character of the mechanisms which would exclude ipso facto the under-privileged. These concerns are legitimate, but also appear to be unfounded.*

*Indeed, the increase of land prices is consubstantial with the phenomenon of urban growth. Schematically, prices go up when the demand is strong, because of an increasing population and a dynamic local economy; conversely, prices drop in cities in the phase of decline or decrease, as it is currently the case, for example, in industrial cities in developed countries. The countries of the African continent belong obviously to the first particular case, and it is certainly not by maintaining the current situations of shortage that the upward trend could be contained, but to the contrary by increasing the production of land plots to be urbanized according to the needs.*

*The exclusion of the disadvantaged, such as the difficulties of the middle-classes in accessing land*

*in most countries, is also initially the outcome of shortage. The latter benefits the richest classes and elites close to the authorities, who manage to establish themselves, on opaque land markets and with reduced investments, with highly profitable rental assets.*

*Reversing this state of affairs requires the increase of the production of land plots to urbanize according to the needs. In addition, a regular and continuous production of land plots within the framework of development procedures makes it possible to proceed to subsidies shared by various categories of products, causing a drop in the prices of the social operations below the cost price.*

*In conclusion, a development policy based on the development of land plots is thus not intrinsically risky as regards the rise of prices or the accessibility to land; it is even the opposite, insofar as it makes it possible to increase the level of supply and to lower its cost if the ad hoc techniques are implemented.*

# ILLUSTRATIONS

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**Greater Casablanca**  
(Morocco)

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**Addis Abeba**  
(Ethiopia)

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**Porto Novo**  
(Benin)

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**Antananarivo**  
(Madagascar)

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**Durban**  
(RSA)

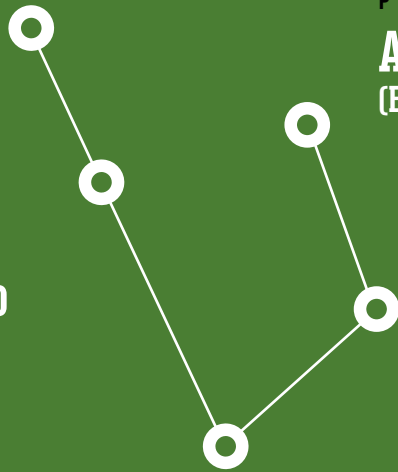


ILLUSTRATION 1

# Greater Casablanca (Morocco)

The Greater Casablanca area, a metropolis of more than 3.7 million inhabitants, witnesses a very strong economic and demographic growth, involving uncontrolled urbanization as well as major imbalances in space, social and economic terms. Important work was undertaken, between the AUC and IAU-IdF, to work out a genuine vision of the development of Greater Casablanca: the strategic development plan.

This strategic planning took into account all the components of urban development:

- Economic development (ports, logistic platforms, industrial parks, tourist infrastructure...);
- Transport infrastructures (tram, RER, road network...);
- Urban services: water, waste, sewerage;
- Regional green screens: city parks, gardens, green connections and castings...
- The development of university poles;
- Elimination of slums and creation of districts of mixed housing intended for all;
- Safeguard and development of the construction heritage (Médina and Art-deco districts...);
- Etc



Source : AUC, IAURIF 2008

It was then extended on a larger scale, up to that of the district, and was phased.

Important public land plots were mobilized and made available for this urban development (particularly the site of the old aerodrome of ANFA – 400 hectares).

A development company, subsidiary of CDG – Morocco, was established to carry one of the major projects of this strategic planning, the new city of ZENATA, located between Casablanca and Mohammedia.

In a perimeter of approximately 2.000 hectares, ZENATA will accommodate more than 300.000 inhabitants and 100.000 jobs.

**Strategic development plan of Greater Casablanca.** This project meets the conditions so that the development of the land contributes fully to the financing of urban development. The space and temporal planning of urban development offers to the local authority the control of urbanization, as the major urban infrastructures and structuring facilities were identified upstream. The State provided an important amount of land plots whose transfer would cover the cost of the infrastructures. Finally, operators “of general interest” are created to develop the major urban projects of this strategic development plan.

## ILLUSTRATION 2

# Development of the banks of the lagoon of Porto-Novo (Benin)

### Project of land value capture in a significant ecological site

In 2009, the city of Porto-Novo chose to work out a development project on the banks of the lagoon by calling upon the International Workshops of urban project management of Cergy-Pontoise. This ambitious project is characterized by its location in a significant ecological site. Consequently, a double challenge for the city is posed: stimulating and promoting its development based on land enhancement, while preserving and developing the natural resources and the environment hosting it.

The ownership of the approach and validation of the project by the Municipal Council made it possible for the city to be recognized by the State as a qualified interlocutor in terms of development, in a context of ambiguous status of public land, decentralization being still a pending process in Benin. Urban land is now considered as a public property on which no project can be committed without the approval of the State and the city.

Having become aware of the scarcity of land and the optimization offered by its urban fabric, Porto-Novo initiated a project of identification of land potential, reappropriation of municipal land

reserves, as well as the release of right-of-way and acquisition of land in the strategic sectors. The development project of the lagoon should be based on processes of land value capture.

On the eastern bank, through the establishment of this urban development project, a land plot from 200 to 300 hectares could thus be developed by gathering the functions of economic development

(with the construction of a river port, and a bridge which would support exchanges with the hinterland), housing, higher education and natural areas.

The tourist attractiveness of the protected area, and the possibility of developing activities near a river and a multimode road pole, will make it possible to attract the investors needed for the start of a process of land development.



**Development of the bank and lagoon.** The identification and optimization of its land resources are essential to ensure the sustainable development of the city. This requires technical and financial support, in order to carry out the preliminary studies which such project requires, as well as detailed technical feasibility and impact studies, to ensure the safeguard of the major environmental balances.

ILLUSTRATION 3

## Redevelopment Project (Durban, RSA)



This project is typical of an “Anglo-Saxon” practice of urban development. It is different from the French and south-European modes in two key ways:

- The project is designed as a real estate project “turn-key” (and drawn as such), rather than a development process of the city, adaptable and scalable around major invariants (infrastructure, program) which constitute the urban skeleton.
- It is entrusted to a private company (created for the project) which contractualizes with the local authorities on the final real product and negotiates the es-

tablishment or amendment of the rules of city planning to this project.

In the case of Durban, it is about the reconversion of a declining harbor space benefiting – by nature – from a situation favourable to the sea front traditional real development.

The proximity of the sea and the nature of harbor space facilitated the creation of an “urban landscape” arranged around canals of the “marina”-type which enhances even more the residential buildings.

The initiation of the project resides in the establishment on a site nearby the port of a marine amusement park (uShaka Marine World) which reinforces the attractiveness of the future district as a site of second residential area.

The entire set of developments and infrastructures necessary to the project (public spaces, canals, internal networks within the area...) are financed by the sale of serviced land plots... but the master plan does not show any public facilities such as school, cultural, health or social type. Similarly, the issue of transportation is dealt with only by the existence of vast peripheral carparks.

(1) Cf. <http://www.durbanpoint.co.za/vision.aspx>

**Durban, the sea front.** This approach is that of a major real estate project of sea front where city planning is defined as “the embellishment of public spaces” and the implementation of “sequences of textures, colors and materials which speak about Africa” in order to produce a “clean, well maintained and safe environment”.

ILLUSTRATION 4

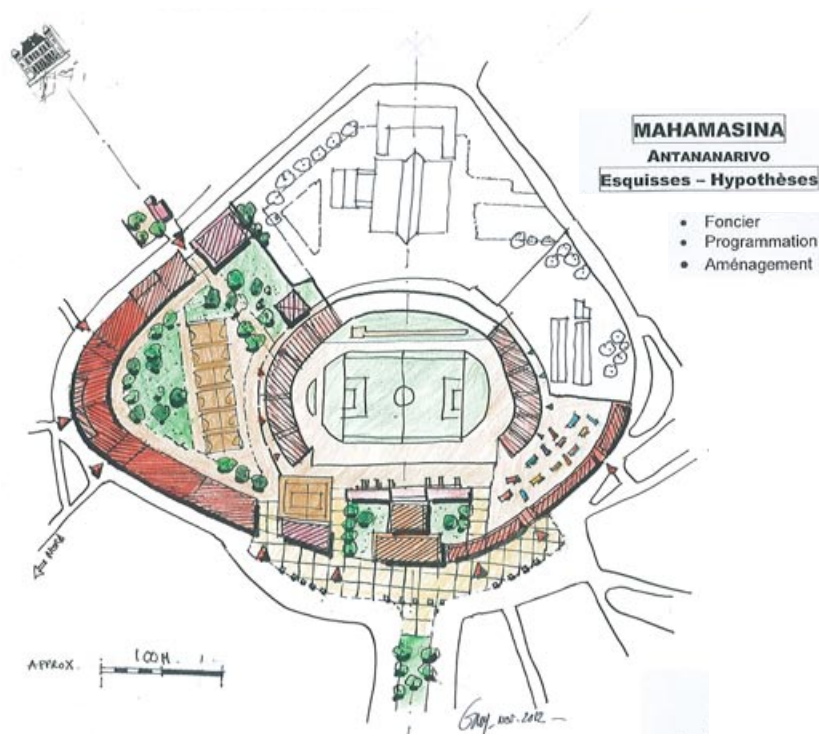
## Development project of Anosy-Mahamasina (Antananarivo, Madagascar)

As the population of Greater Tana has reached today 3 million inhabitants, the extent of challenges is immense. However, the financial capacity of the Urban District of Antananarivo (UDA), with less than 1€ per capita and per annum in investment capacity, remains largely insufficient to meet the basic needs.

In a depressed socio-economic climate and after a prospective reflection of UDA on the possibilities of increasing its financial resources, land value capture seemed a relevant complementary option. As the result of decentralized co-operation with Ile-de-France region, the Institut des Métiers de la Ville (Institute of Urban Professions) facilitated the realization of various studies laying out the development project of Anosy-Mahamasina site, based on the identification of the land available.

Since part of the land plots is managed by and belongs to UDA private property, a land mutation could be carried out therein while still preserving the municipal ownership of the North-eastern part of the site.

This development project constitutes an opportunity to try out a new way of manufacturing the city with the support of private operators, in consultation with all the urban development stakeholders, as part



**Development plan of Anosy-Mahamasina.** This central hub would strengthen the supply of public spaces in the city, and in addition would produce a dynamic economic development of the zone so as to contribute to the improvement of the living conditions of the population. A Master Plan was designed with a legal structure of the project which would allow municipal ownership of the land. The exploitation of the available land by creating the conditions for private operators to conduct the development of the zone is at stake.

of a renewed partnership. The low investment capacity of the UDA does not allow it to neither plan an entirely public investment nor to realize a development project under its own management.

The recourse to the concession of development or to urban-land lease had also been considered, but it would not be in favor of housing construction, taking into consideration the profitability impacted by the final result of the development project. At this stage, only a pu-

blic-private partnership including a partial transfer of land (North-eastern part of the site) would allow the UDA to benefit from the sale in the municipal budget, and at the same time to allocate part of the private sector investment to the construction of public infrastructures. In this case, the UDA will have to conduct the allotment of its land, and prepare a specific legal clause in order to limit the unregulated allocation of the real estate transfer, by requiring an obligation to build.

ILLUSTRATION 5

## The system of emphyteutic lease to finance urban infrastructures (Addis Abeba, Ethiopia)

Since 1994, the new national land tenure system makes it possible for the municipality of Addis-Abeba to resort to emphyteutic lease (Urban Land Lease), which grants a long-term occupation right (from 50 to 99 years), making it possible for the purchaser to invest in the plot of land and create value out of it.

In Addis, the lease of land plots is done mainly through the system of bidding, which coexists with two other mechanisms, namely the administrative prices fixed by the municipality and the prices negotiated with the purchaser. Some of the land plots are provided free for projects benefiting the inhabitants, such as low-cost housing. Even if the tenant of the land cannot sell it or transfer it for inheritance, he can transfer it to beneficiaries for the period of the lease, and collect the income of this transfer by sub-leasing or transferring his rights completely: in this case 40% of the profits should go to the municipality.

The municipality can thus set up a local fiscal policy to finance its development. The rents obtained from leasing public land plots should be used at 90% to finance infrastructures, residence units and basic services. Maintaining land plots as public property also makes it

possible for the local authority as a whole to gain profit at the end of the contract, from the rise of their value.

Emphyteutic lease is a mechanism of land value capture through the long-term lease of land, ensuring revenue for the local government agency to invest in infrastructures, as well as ensuring protection from the speculation related to the sale/resale of land plots. However, it requires the existence of a well defined infrastructure program, as well as technical and human skills for the collection and allocation of the resources essential for its implementation. The relevance of this system depends on the capacity to encourage the tenants to maximize the development of the acquired land plots, and does not completely eliminate the risk of land speculation related to the system of auction.

### EMPHYTEUTIC LEASE

This type of lease was devised to develop public land assets, to limit urban space expansion (respecting the Master Plan), to increase the autonomous sources of revenue of the local government agency, and to control the acquisition of the profits gained during the transfer of the urban land rights. This system testifies to an alignment of the central authority with the needs of the local government agency, considered as an administrative hub that must contribute to national development.



# Community Land Trust:

## A model of governance shared for accessible and permanent low-cost housing

Community Land Trust (CLT) represents for local authorities an effective and attractive strategy of financing accessible residential units benefiting more largely to the entire district. Winner of World Habitat Award 2008, CLT renews the debate on the potentialities of a non-commercial and solidarity approach to land property.

Designed at the beginning of the year 1970 in the United States, Community Land Trust (CLT) makes land available for acquisition (or lease) of residential units accessible for low-income families, as well as for other uses beneficial for the district. It is based on the dissociation of land and building, on the basis of attribution of a distinct mode of property for each one and specific management rules. At the purchase, the deduction of the price of land (property of the Trust thanks to public subsidies and private financing obtained through leverage action) facilitates both the accessibility to housing for the families and the productive activities accommodated by the buildings. At the resale, CLT exercises a right of pre-emption and applies a limitation of the added-value obtained by the families reselling their housing units (equal to approximately 1/4 of the real added-value of the local real estate market).

From the point of view of the local authorities, this system guarantees the permanent accessibility to residential units for low-income families, without new recourse to public investment. Only one single use of public money benefits several generations of owners from the same asset.

Mobilizing local savings and creating important financial leverages, CLT also makes it possible to diversify the financings which would have been inaccessible to the public sector. The shared governance of the system, on equal footing between the representatives of the inhabitants, the public authorities and the members of the district, also ensures a momentum of shared local interest. CLT also offers a

considerable means of regulation for the cities which witness phenomena of gentrification or real estate market instability, and makes it possible to establish a population in the area, ensuring the mixture and sometimes the survival of a declining district.

After 40 years of exercise, CLT shows encouraging results. In the United States, facing the wave of foreclosures of property which hit the American households in the wake of the subprime crisis, CLT showed a great resistance with a number of seizures ten times fewer.

Combining the decommercialization of land with the immobilization of the public subsidies in soil and rock, CLT managed to produce a permanent social asset, a catalyst of solidarity in the access to housing. The model is in full swing in the United Kingdom, Canada, Australia and Belgium.

### FOR MORE INFORMATION:

- **Card-index FMDV on Community Land Trusts, a solution for the financing of North-American cities:**  
<http://www.fmdv.net/index.php?id=28>
- **Is the city burning? For a citizen-oriented reappropriation of our cities,** Movement Review n°74, Discovery Editions, summer 2013,
- **The Community Land Trusts, affordable access to land and housing,** UN HABITAT, The global urban economic dialog series, 2012
- **National network of CLT of Major Britain:**  
<http://www.localauthoritylandtrusts.org.uk/home>
- **Platform CTL Brussels:**  
<http://localauthoritylandtrust.wordpress.com/>

## 3 QUESTIONS TO... Jean-Pierre Elong Mbassi



**Jean-Pierre Elong Mbassi**

Secretary-General of UCLG Africa.

DR

**The needs in public investments for the cities of Africa are enormous. In your opinion, why is it that this method of financing related to land development is so rarely used?**

**Jean-Pierre Elong Mbassi:** When we talk about land development, we should keep two things in mind.

The first is that urbanization produces two effects:

On the one hand, the added-value of urbanization, which makes urban land more valuable than non-urban land. The specification of urban perimeters is thus important, since it instantaneously produces a differentiation between the two.

On the other hand, the added-value of agglomeration, which appears when the city is large enough to develop central functions adding to the added-value of urbanization a value related to the concentration of urbanization.

However, these two types of added-values were badly contained by the mechanisms of urbanization management, particularly because in Africa the preemptive city planning is made impossible by the rates of population increase, and because cities grow by the addition of new districts. Land

development is thus initially about the inhabitants themselves, and the added-values are collected by private owners.

**What would be, according to you, the appropriate tools for implementing this financial engineering?**

**JPEM:** Under these conditions, if local government agencies want to collect the added-value, they can do it only by constituting land reserves, or with the implementation of public facilities and through development operations which should be targeted on specific land parcels of the city. However, the collection of land added-values by the means of development operations requires a certain degree of urban development, and tools making it possible to control such development.

Indirectly, land development could be done through the establishment of a mortgage market, recognized by the entire financial system. That would make it possible to engage a mechanism of land development in the long run, but supposes the existence of tools for the cartographic follow-up of land and real estate, to model the added-value obtained, and of legal tools allowing the emergence and operationalization of this market.

**Finally, what would be the prospects in Africa to develop this type of financing?**

**JPEM:** The cities of Africa can finance their growth by land added-value today, but in a limited way, and the development of this type of financing could only be done over a long period of time.

Jean-Pierre Elong Mbassi has been the Secretary-General of United Cities and Local Governments of Africa (UCLG Africa) since 2007. He is also Co-President of the World Cities Scientific Development Alliance – WCSDA, and Assistant Secretary-General of the Sino-African forum of local governments. Mr. Elong Mbassi is the man behind Africities Summits, the most important gathering event for cities, regions and local government agencies of Africa, and has been in charge of supervising this organization since the first edition in 1998. Mr. Elong Mbassi is endowed with an experience of almost 40 years in the field of urban development and town planning, urban services, local economic development, the governance of local government agencies, housing and the reorganization of slums. From 1996 to 1999, he was the very first Secretary-General of the World Association of Cities and Local Authorities Coordination - WACLAC, at the same time as he served as Secretary General of the Municipal Development Partnership, MDP, from 1992 to 2006. Previously, from 1981 to 1991, Mr. Elong Mbassi was the Director of the first urban project cofinanced by the World Bank in Cameroun, relating to the reorganization and development of a zone of substandard housing of 300.000 inhabitants in the city of Douala. Mr. Elong Mbassi began his professional career in Paris, in France, where he was first in charge of studies, then operations manager at the Agency of Co-operation and Development from 1973 to 1980.

## Acknowledgments

### UCLG Africa:

- Africities organizing Team
- Jean-Pierre Elong Mbasi, Secretary General

### Partner cities:

- Moukaram OCENI, Mayor of Porto-Novo, Benin
- Juan PARTIDA MORALES, city of Tlajomulco-Mexico
- Keith MATTIAS, city of Durban, Republic of South Africa

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- Marc OUEDRAOGO, Ministry of Planning and Urban Research in Burkina Faso
- Ramy RABENJA, AGETIPA Madagascar
- Clotilde BAÏ, African Bank of Development
- Mamadou DIAGNE, Cities-Alliance
- Joshua GALLO, Public Private Infrastructure Advisory Facility
- Janique ETIENNE, French Fund for World Environment
- Jean-François HABEAU, World Fund for Urban Development
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REolutions to Fund Cities is a 4-year world program, launched by FMDV in partnership with Metropolis and UCLG. It aims at the identification, analysis, transfer and the pilot implementation of economic and financial strategies and mechanisms having made it possible to improve the impact and performance of sustainable policies of local development. REolutions Africa joins this publication to address the potential of financing urban infrastructures through land development.

## Committee on Local Finance for Development/UCLG

In recent decades the decentralization processes have witnessed major progress in terms of devolution of competences, hence placing local governments in the middle of the contemporary world challenges affecting most countries, as to food, energy, environmental, financial crises, or the fight against poverty.

However, the various studies conducted on local finance, particularly the GOLD II Report<sup>11</sup>, have shown that these processes are today confronted with a great number of difficulties: weak development of financing systems, lack of capacities of local government agencies and more generally, the insufficiency of their resources.

Under these conditions, the improvement of the living conditions of the populations has not been materialized and the reinforcement of financial decentralization proves to be impossible to contain so as to make decentralization credible. Indeed, the latter may very well be perceived as an unrealizable dream if the transfer of competence to local governments does not allow improving the quality of life of the citizens, and if the city officials do not have the financial means allowing them to assume the responsibilities entrusted to them under the law.

The financing issue of local governments hence constitutes a subject of paramount importance for United Cities and Local governments (UCLG). The Committee on Local Finance for Development (C.L.F.D), whose mission is to support the access of local government agencies to financing, represents in this respect an essential tool for the development of its policies and advocacy which it voices on the international scene.

Supporting the financing of local governments involves striving to ensure the optimization of their four major financing sources: financing systems of decentralization, access to loans, land development and recourse to public-private partnership.

In partnership with its technical and financial partners, C.L.F.D implements a number of activities intended to support the exchanges and the capitalization of experiences and to organize a network of experts in local finance; to support the alignment of the needs of the members of UCLG and their potential funding agents; and finally to sensitize international, regional and national institutions to the stakes related to financial decentralization.

<sup>(11)</sup> Financing local government agencies, challenges of the 21<sup>st</sup> century" 2010, 2<sup>nd</sup> world report of United Cities and Local Governments on decentralization and democracy, Bruylant Publishing House.

### In collaboration with

