

Unlocking Urban Land Values for Infrastructure Finance Lessons from Indian and International Experience

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Concluding Remarks and Vote of Thanks by Ms. Patricia Clarke Annez,
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Thank you very much. I would also like to welcome all of you and thank you for taking the time to be with us today and bringing your own thoughts and experience to this very important topic. I would also like to start by thanking our cosponsors in this event, the Ministry of Urban Development, IDFC, and the National Institute of Urban Affairs, who all contributed to make this possible, I have special thanks for Swati and Ramesh Ramanathan of the India Urban Space Foundation, and Shrinivas Kowligi for being the most wonderful partners and co-producers and strategic allies in trying to organize an event that is genuinely responsive to the issues in India today and sensitive to the problems that people believe may impede going forward with this agenda.

Let me step back a little bit because I don't know all of you and I want to tell you who I am and why I am here. I work for the Wolfensohn Center for Development at Brookings. There is a little one-page item in your booklet that describes our project. Essentially our project is an outgrowth of the Commission for Growth and Development. Dr. Montek Singh Ahluwalia, among others, was a member of that international blue ribbon commission that was looking at how countries achieve high growth and sustain it. They sought to answer this question by looking at countries that grew at 7% a year for 20 years—which is a huge achievement. Not that many countries done so. India is on the verge of doing so. The Growth Commission concluded that urbanisation is one of the key parallel processes accompanying high growth—and it is therefore essential to make it work well if countries wish to grow rapidly for a sustained period. Everyone agreed urbanization is not always pleasant, it is certainly not easy but it is always present in economies that have excelled in sustained growth.

The key question is: How do you make urbanisation part of, even a contributor to sustained inclusive growth? We have identified three challenges and those are the themes of our project, one of which we are discussing here today. The first challenge is how you address the needs of the urban poor to ensure that there is inclusivity and shared growth, that outcomes for the poorest are kept at a level that is sustainable, that is acceptable, and that keeps all income groups included as part of the society. The poor are an essential part of making to cities work, and they must be embraced as part of the urban ecosystem, and given a reasonable level of support. The second issue is real estate and housing, very much tied up with the issues of inclusivity. How do we ensure that land markets can respond to growing demands to locate in urban areas, how do we ensure that the cost of decent housing is not out of reach of everyday people, even the middle class? India has one of the highest house price to income ratios in the world; this is a real issue for affordability. One of the reasons that the cost is so high is that land prices are high. There are a number of reasons for this, important among them, regulations and inadequate infrastructure. Considering how to loosen land regulation to increase the responsiveness of land supply is essential. Also essential is infrastructure to support higher *formal* density in cities. Without high density development accompanied by the infrastructure to support it, cities will have a great deal of difficulty accommodating growth and urbanization in an inclusive fashion. The last point is finance, the key enabler

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for improving infrastructure, and that is what this discussion is about today. That is also why I chose this topic as one of our first activities in this project of which I hope to have many more in the next few years as this unrolls. So this project and its broader goals are why I am here.

Now, why did I invite you here? There is a recent publication, George Peterson authored it, PPIAF (the Public Private Infrastructure Assistance Facility) and the World Bank sponsored it at my behest. This book looks at the use of land values for infrastructure finance. It starts from the following observation. One of the important differences between developing country local finance and that of higher income countries is that the value of land assets of cities is high in relation to their income streams. This is certainly true in India. Income streams like property tax and user charges are very low in relation to prevailing land values. Considerable resources can be mobilized using land assets in various ways. China, for example, has financed a very considerable portion of its dramatic expansion of urban infrastructure using these instruments. In the book, we looked at this phenomenon and we found that that is actually common in many countries, not just in China.

George Peterson's book documented international experience around the world and he found first of all that the values that you can achieve from using land for finance dwarf the values of many other more traditional fiscal instruments at the local level. To give you an example and we have Mr. El-Hefnawi from Egypt here to discuss this case, the Government of Egypt sold 2100 hectares of land around Cairo. The value of that one series of sale that were done at auction, not at a negotiated price, was equal to 10% of total national government revenues. It was worth 117 times the value of property tax collections in the entire country. In Mumbai, 13 hectares were sold in Bandra-Kurla. That 13 hectare plot sold for something which is five times the MMRDA's budget in the preceding year. It is 3.5 times the value of all municipal bonds issued in India since the programme started in 1996. We are talking about the auction of one plot that brings huge values.

As Swati has pointed out and the Minister as well, these transactions are controversial, they need a tremendous amount of care for dealing with sensitivities surrounding them. The reason we did not stop at George Peterson's book and we organized this workshop was to bring people actually involved in the transactions to discuss their experience, to understand the practical reality of how you go forward with this. And as controversial and as sensitive as these transactions are, I would posit to you that trying to stop them, or keeping them out of the public policy debate is not the answer. The private sector players in India and in countries around the world, know the value of land, they know what can be achieved from those transactions. They will go forward with them whether or not there is a framework in public policy to balance the competing interests that have a claim on those values. My goal here, and I hope you can share it with me, is that we deliberate today and going forward on how to make public policy support a more equitable, a more economically efficient, and fair framework for these transactions. Because of the values involved, on one form or another, the private sector will seek to unlock land value. Bringing them into the sphere of public deliberation, with a proper policy framework, is a very important agenda because it can have high social and economic value. I don't want to take too much of the time that should be spent for these very important discussions from the people who actually know the transactions themselves. I would like to thank you very much for your attention and welcome you to be candid in all your questions and constructive in your thoughts about how we can take this agenda forward in India. There are a number of people that have been involved with this event, the ADB, we have representatives from PPIAF, my project from the Brookings Institution. We have resources to work on this. There are tremendous resources in this room to work on this. So, I urge you all to think constructively about how we can take our thinking and action further. Thank you very much.