WOLFENSOHN CENTER FOR DEVELOPMENT at BROOKINGS

Unlocking Urban Land Values for Infrastructure Finance

Workshop on September 14-15 in Bangalore, India
Conference on September 16 in Delhi, India

Organization and Partners

As part of the Wolfensohn Center for Development at Brookings, the Making Cities Work for Growth Project sponsored two major events on the topic of using urban land for infrastructure finance on September 14-15 in Bangalore and on September 16 in Delhi. The events were organized in partnership with the India Urban Space Foundation, founded by Swati and Ramesh Ramanathan, who had a strong role in developing the original Jawaharlal Nehru National Urban Renewal Mission (JNNURM) concept, which has now become a $20 billion urban investment program sponsored the Government of India. The conferences were also co-sponsored by the the Infrastructure Development Finance Corporation, the Ministry of Urban Development (MOUD), and the National Institute of Urban Affairs.

Bangalore Workshop in Brief

In Bangalore, a private workshop was held for about 45 participants over a day and a half bringing together teams from the state governments, the Planning Commission, the MOUD and Department of Economic Affairs (DEA) of the Ministry of Finance, the Indian Railways Land Authority, private developers, participants in PPPs using land finance, and elected officials. Teams including revenue secretaries and urban development secretaries attended from four selected states: Gujarat, Maharashtra, Tamil Nadu and Karnataka, deemed to have considerable potential for developing land based finance transactions. Nandan Nilekani, Minister of Unique Identification Authority and recently retired CEO of Infosys, opened the event in Bangalore with a keynote address laying out the issues and constraints, while underscoring that the potential for using urban land for infrastructure finance was too important to ignore. Several cases from Chile, Colombia, Egypt, the Philippines and India were discussed in depth during the workshop, with an emphasis on the practicalities of making these transactions work.

Delhi Conference in Brief

The conference in Delhi opened with a keynote address from Hon. S. Jaipal Reddy, the Minister of Urban Development, Government of India and remarks from Dr. Ramachandran, the Secretary of Urban Development. Isher Ahluwalia, Chairman of the High Powered Expert Commission (HPEC) on Urban Infrastructure chaired the main technical session, and Arun Maira, recently appointed Member of the Planning Commission for Urbanization chaired the concluding session. About 85 participants from about 15 states, the Planning Commission, the Ministry of Urban Development, local think tanks and private sector developers attended. A number of municipal commissioners, urban secretaries, heads of the development authorities all attended without any financial support from the ministry or the project.

Highlights of the Bangalore Workshop and the Delhi Conference

The program in Bangalore included four thematic sessions discussing both an Indian case and one from outside India. The outside presentations included:

- the shift in Egypt from negotiated transactions to auctions for the sale of government land, a practice which has now been extended from the Ministry of Housing to all ministries, including industry, which had heretofore offered costly industrial incentives with concessional land prices;

- the reconversion of U.S. military bases in the Philippines and redevelopment of the base in the Manila metro center as a second major city center (this case was particularly interesting for its use of a special ring fencing law stipulating how the proceeds of land sales were to be allocated);

- the revitalization of the betterment levy in Bogotá from a nearly moribund tax to one that financed a very substantial share of capital improvements (this was achieved by a reform that shifted from the traditional plot by plot approach); and

- the successful use of impact fees across jurisdictions in the metro region of Santiago de Chile to develop infrastructure for regional connectivity and infrastructure improvements to support the conversion of agricultural land to urban use.

The local Indian cases included:

- efforts of the Indian Railways Land Development Authority to re-use public railway lands in urban areas;
- the use of contribution of publicly-owned lands to finance building Bangalore’s new international airport;
- the revitalization of land-pooling schemes in Gujarat as a means for financing infrastructure development (streamlining the process coupled with firm political support for new town planning schemes has resulted in a much more rapid execution and consequent better public acceptance of the schemes); and
- Mumbai Metropolitan and Regional Development Authority and its use of land auctions for infrastructure development.

Key Discussion Points

Minister Nandan Nilekani established the framework for the three days of meetings with his opening keynote address. He noted that unlocking land values in India has become hugely controversial because:

- Much of the value created has been captured by private parties through rent-seeking and corruption. The public good needs to be served; otherwise, there will be popular resistance. The public sector needs to fully and fairly capture a substantial share of land-value gains.
- However, that by itself is not sufficient. The public value that is captured must be equitably and efficiently allocated. Infrastructure investment in cities has an important claim on these resources. However, there are other claimants as well, including: farmers and tenants whose land is taken, the costs of mediating environmental impacts, the general public budget.
- Competition over how benefits are to be shared often has led to gridlock: so that projects languish, no value is created, and there are no benefits to be distributed.

Despite the controversy, these issues must be addressed. Land values are too important as a source of financing for us to be deterred. Models of land-value capture and benefit sharing that are politically and socially acceptable need to be developed. The history of urban development shows that it is precisely at this stage of growth—when land values are escalating because of the flood of in-migrants to the cities, and when public infrastructure is helping to create large productivity gains reflected in land prices—that land becomes most important as a source of urban infrastructure finance.

These themes were developed by conference participants in the sessions that followed.

Unlocking Land-Value Gains

Presenters made clear that there are good models for “unlocking” land values, both internationally and in India. Egypt has reaped more than US$3 billion in proceeds from land auctions around Cairo in 2007—amounting to 10% of the total government budget and over 100 times annual property revenues for the entire country. The Mumbai Metropolitan Region Development Authority generated ten times the annual budget of the regional development authority from an auction of about 13 hectares in Bandra Kurla. Bogotá has financed half its major road network from betterment taxes levied on land-value gains. The Bangalore and Hyderabad airports, like the new Manila business and activity center of Bonifacio Global City, were created by public-private partnerships, in which the public sector's principal contribution was land—land that could be developed commercially and allow the private partners to pay for infrastructure investment.

Sharing Land-Value Gains

As the discussion of different case studies proceeded, it became clear that agreement on sharing of land-value gains was central to political acceptance. The number of potential claimants widened, as did the magnitude of claims. A number of participants thought that social housing should have an equal claim with infrastructure on the public resources generated. Several participants complained that resources generated by land sales or development fees in metropolitan areas were diverted into general state budgets, without accountability for expenditures, rather than targeted for investment in the same cities. It was generally agreed that, at least in the past, public authorities had taken land via eminent domain or equivalent legal initiatives, without adequate compensation to farmers and other displaced people. The financial stakes were illustrated by land surrounding the Bangalore airport, which was reported to have increased from IR 450,000 to IR 7,000,000 per acre in 2-3 years. Farmers were compensated at an initial market value, but did not share in the value created by the airport and economic growth.

Several different strategies for sharing land-value gains were presented and discussed, as possible models for replication. The Gujarat Town Planning Scheme is based on a land pooling mechanism, in which owners agree to contribute a portion of their land to pay for infrastructure that benefits the whole group. This model has been applied in Gujarat both to new development at the urban fringe and to large-scale re-development of central Ahmedebad. The approach, which lay dormant for a period because of the apparent complexities, has been revitalized by transparent public meetings showing how land will be re-apportioned and public improvements installed to the benefit of all. Landmark legislation was passed by the state, allowing authorities to proceed with public investment, once a minimum threshold of agreement among property owners had been reached, thereby overcoming the gridlock imposed by a few holdouts.

Other models spell out in basic legislation how the proceeds of land sales or development charges will be allocated. For example, in Manila's case the law prescribes exact proportions of revenue that will go to different purposes (including infrastructure investment and compensation of adjoining municipalities for the burdens placed on their existing infrastructure systems.) A good deal of discussion centered around proposals in India, particularly in the Mumbai region, to create a dedicated Infrastructure Fund into which land revenues flow, and whose resources are restricted to priority investments as laid out in a regional development plan.

Transparency

Much of the controversy surrounding land-based financing concerns the lack of transparency and accountability in land dealings. This issue—and reforms to address it—came up repeatedly in the conferences. The case of land sales outside of Cairo demonstrated the financial gains from open competition and transparency. Open auctions were reported to have increased land prices realized by the State by as much as 100 times over the previous practice of privately negotiated land transfers to individual developers. Public frustration, as well as planners' frustration, focused on the lack of accountability for the resources generated by land sales or other mechanisms. When revenues disappear into the general state budget, or the coffers of individual state agencies, without public accounting, there is justifiable skepticism about how the revenues finally are used. Some merely are applied to the government's operating budget; others are captured by individuals working within a non-transparent system.

One type of non-transparency generated discussion in several different cases. The "bartering" of land for private investment in infrastructure or low-income housing results in a non-transparent subsidy system that is likely to distort economic efficiency and defies accountability. The contribution of land to public-private partnerships, without publicly determined and disclosed valuations, represents one type of non-transparency subject to potential abuse. Transferable development rights, in which developers are given rights to higher density development in places of their choosing, in return for slum clearance and construction of low-income housing, represents another kind of "in-kind" exchange that encourages private development to take place unrelated to public planning decisions.

Addressing the External Costs of Development

New development at the urban fringe places pressure on existing infrastructure systems, like road networks and water supply. Density increases around activity centers, like new metro stations, make sense in terms of economic efficiency, but also require infrastructure investment to accommodate the higher density development. Disputes over the capacity of existing infrastructure systems, the burdens created by new development, and how these costs can be recaptured often have led to gridlock and inefficient land use. These disputes are exacerbated b y the jurisdictional fragmentation of most metropolitan regions. Development that takes place in one municipality creates costs system-wide and in other municipalities. Even if the host municipality can recover its costs through development fees or an equivalent charge, how do costs external to the jurisdiction get recovered?

The case presented for Santiago, Chile illustrated a very sophisticated system of calculating impact fees based on the external costs created by development of different densities in different locations, based on the additional demands placed on system-wide infrastructure. The technical basis for calculating impact fees—and thus internalizing external costs—was of interest to participants. Most of the discussion, however, centered on the political arrangements that made this solution possible. In Santiago's case, the national government intervened directly to establish the impact fee system for the entire metropolitan region. Participants debated whether state governments could play a comparable role in India, or whether metropolitan-scale institutions needed to be created to handle this type of externality.