



Masterclass No (6): Land-Based Financing in the Arab World

Opportunities, Challenges and the Way forward.



المؤتمر العربي الثاني للأراضي
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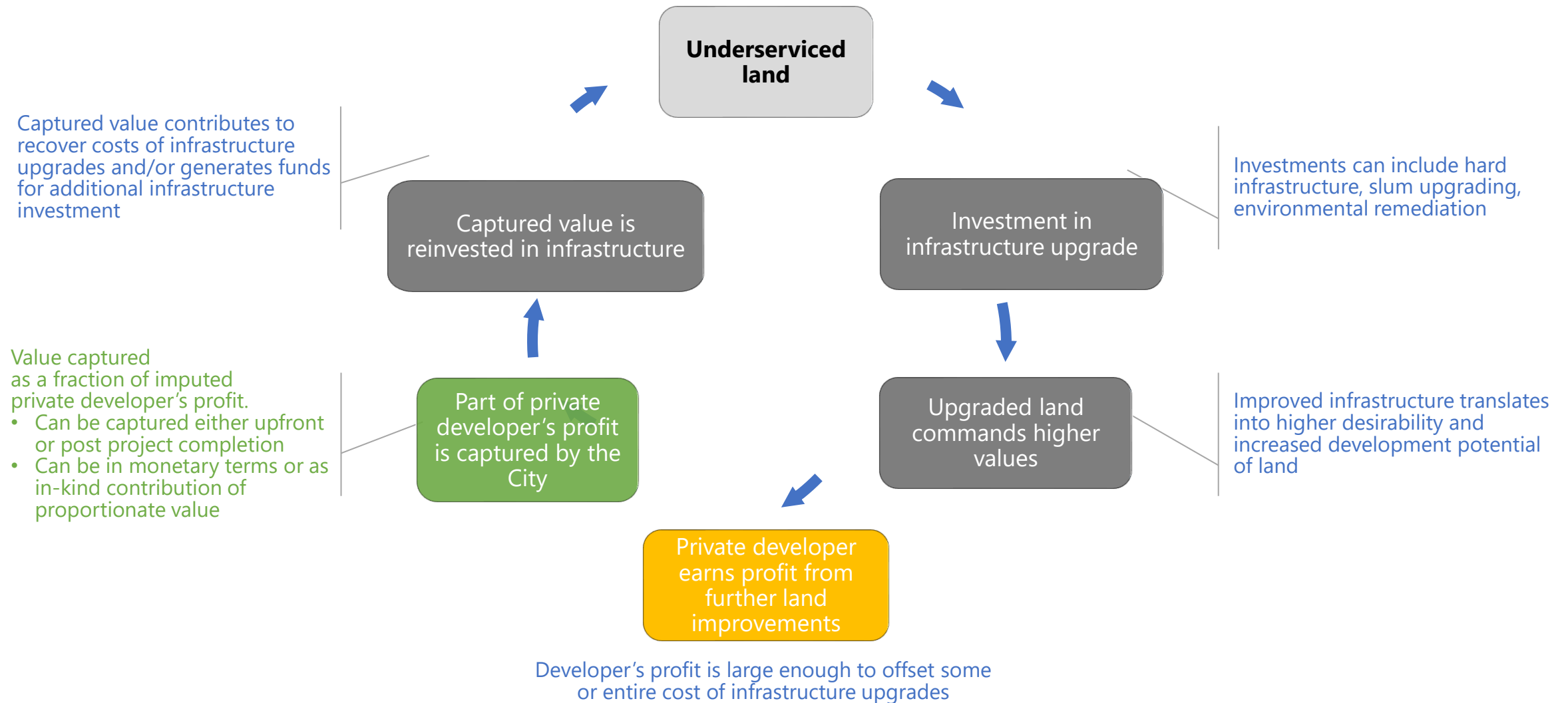
Outline of the Masterclass agenda

- **Land-Based Financing Instruments- an introduction** (*Mohamed Nada, World Bank*).
- **Where To Start? A Guide to Land- Based Finance in Local Governance** (*Jean Du Plessis, UN Habitat*).
- **Egypt's experience with Land-Based Financing Instruments** (*Samar Adel, World Bank*).
- **Planning City Expansion and the Application of Land-Based Financing in Egypt- A Case Study** (*Magd Zahran, World Bank*).
- **Concluding Remarks From the International Experience** (*Mohamed Nada, World Bank*).



1- Land-Based Financing Instruments- an introduction

Land Value sharing establishes a circle of value from infrastructure upgrades



Land based financing relevant to privately owned and publicly owned land

Privately-owned land and buildings

Recurrent Property Tax

Betterment Charges

Developer Exactions

Sale of Development Rights

Transfer Taxes

Publicly-owned land

Sale of land

Sale/lease of land with
development conditions

Land as an equity
contribution towards a joint
venture

Instrument 1: Recurring Property Taxes

- **One of the oldest land-based revenue sources** is the recurring tax on land and, often, immovable structures on the land.
- Recurring means that the tax is assessed and is **payable at regular repeating intervals**, most commonly annually.
- The important elements of the instrument can be grouped into two broad categories: **policy issues and administrative issues**.
- **Policy issues** The policy choices surrounding recurring taxes on land should be articulated in law and formal policy statements.
- **Administrative issues** It is often the case that revenue from a recurring tax on land and property can be significantly increased if the administration of the tax is improved. Administration includes: ☐ Improving coverage (i.e., the proportion of legally taxable property included on the tax rolls) ☐ Improving the accuracy and timeliness of property valuation ☐ Improving billing and collection procedures.



Instrument 2: Betterment Charges

- Levied in cases where public investments benefit particular landowners much more than the community as a whole.
- **Betterment charges for cost-recovery are generally one-time charges** assessed in connection with specific government infrastructure investments or public decisions.
- **It is important to recognize that similar land-based finance instruments are called different names in different countries.** At the same time, a similar name does not necessarily mean the same thing in different national contexts.
- **Examples of countries** that apply the special assessments or betterment levy: Egypt, United States of America, Singapore, South Korea, South Africa, ... etc.



Instrument 3: Developer Exactions

- **Required contributions by the developer to cover the cost of additional public infrastructure and services.** Typically, governments levy these fees as a one-time, up-front charge, and receipt of payment is a precondition for public approval to develop land.
- In order to make use of developer exactions, **developers must respect the requirement** that specific permission from the appropriate government entity is required before beginning construction.
- **Developer exactions could assume any of the following forms:**
 - **Dedication of land for public use**, for example, a requirement that a project reserve a certain percentage of land in a new development for public space
 - **Construction of public improvements**, for example, a requirement that a developer construct a public road to connect the proposed development with the existing public road network
 - **Funding**, perhaps in the form of a negotiated amount and tied to a broader policy goal such as a contribution toward the cost of a new public day care or recreation center
 - **Utility connection fees**



Instrument 4: Sale of Development Rights

- **Owning land does not automatically include the right to develop that land any way the landowner desires.** In some instances, the right to develop is **regulated by zoning restrictions** that limit the type and density of development. Some countries have also implemented policies that require landowners to purchase from the government the right to develop their land beyond a certain minimum level.
- The proceeds from the sale of development rights are **used by governments to invest in social housing and other urban amenities**, generally in the same geographic area.
- **To be successful in selling additional development rights, there must be:**
 - **Market demand** for additional development in the designated area;
 - **The legal framework** allowing for the sale of development rights;
 - **Effective control** of existing development rights; and
 - **A governing authority with the technical and administrative capacity** to effectively initiate, monitor and regulate both the sale of development rights, any subsequent resale of the rights, and ultimate development.



Instrument 5: Transfer taxes

- **Levied at the time the registered title to real property is transferred from one party to another**, that's why the minimum requirements for implementing a transfer tax are **tied to the land registration system**.
- **There must be an up-to-date formal land registration system** that includes all land parcels and is recognized by the society as the definitive repository for land-related claims.
- **The legal framework must specify the tax rate and the base upon which the transaction value is estimated**. This may be the contract price between buyer and seller.
- **The land registration administration must be capable of:**
 - **Receiving and processing required registration documentation** including verification of authenticity and accuracy
 - **Assessing the accuracy of reported transaction prices.**
 - **Levying and collecting the appropriate tax.**



Instrument 6: Land sales

- The sale of public lands converts one type of public asset **(land)** into **another (cash)** through the sale of the land to the private sector.
- **Land should be sold through a transparent process**, such as an auction, in order to ensure that full market value is obtained.
- **The requirements to sell public land** are :
 - **The government must have land that it considers to be no longer needed for public purposes.** This is an important judgment with very long-term consequences. Caution in reaching such a judgment is required.
 - **There must be a market for the land.**



Instrument 7: Leasing public land

- **Through multi-year leasing agreements for either annual or one-time revenues, or both**, creates a leasehold interest that allows private entities to develop the land and potentially sell the lease in a secondary market.
- **Government entity seeking to lease land must have available land and it must have the administrative capacity to administer** and regulate a leasehold system. Many countries have attempted to lease public lands, but not all have been successful in generating revenue from their leasing system.



Land value capture techniques can be classified based on the nature and timing of “value-capturing charges”

Tax-based vs. Fee-based vs. Incentive-based

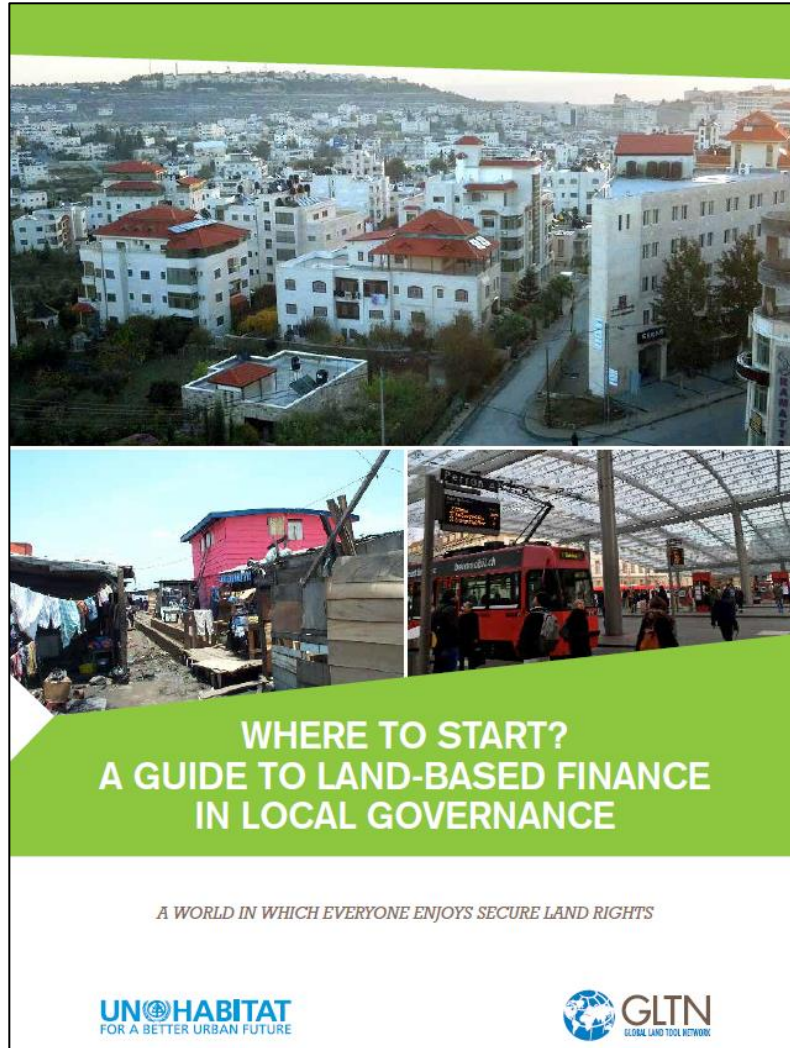
- ✓ **Tax-based:** Betterment levies, special assessment, land and property taxes.
- ✓ **Fee-based:** Developer exactions, sale/lease of public land, sale of development rights.
- ✓ **Incentive-based:** Increase of density allowances, negotiated land sale/lease with development conditions, and joint development with public land as equity.



Value capture timing (one-time vs. recurring; upfront vs. upon completion)

- ✓ **One-time charges:** Developer exactions, sale of development rights, betterment levies, public land sales
- ✓ **Recurring charges:** Property tax on land and buildings, surcharges on property tax
- ✓ **Either-or:** Leasing of public land

The “Where to Start?” Guide



This Guide aims to expand the understanding of local leaders on taxes and fees related to land and the advantages of this approach, it provides a roadmap for taking an inventory of the local context, it discusses the institutional and societal challenges that must be overcome, and describes the process for developing an action plan intended to convert aspirations into actions.

2- Where to Start? A Guide to Land-Based Finance in Local Governance

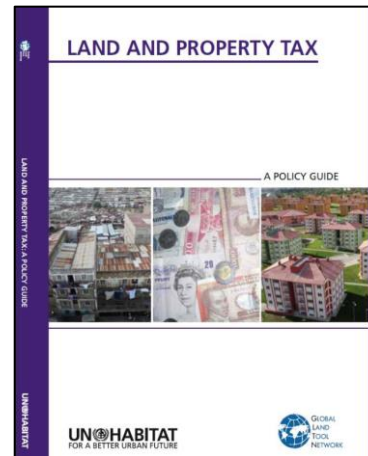
Why “Where to Start”?



■ LAND-BASED FINANCE READER ■



LEVERAGING LAND: LAND-BASED FINANCE FOR LOCAL GOVERNMENTS A READER



Where to Start?: Outline



Part 1: Introduction

- What?
- Why?
- Where?
- Why not?



Part 2: Seeking opportunities

- Priorities
- Legal bottlenecks
- Administrative capacity



Part 3: Addressing challenges

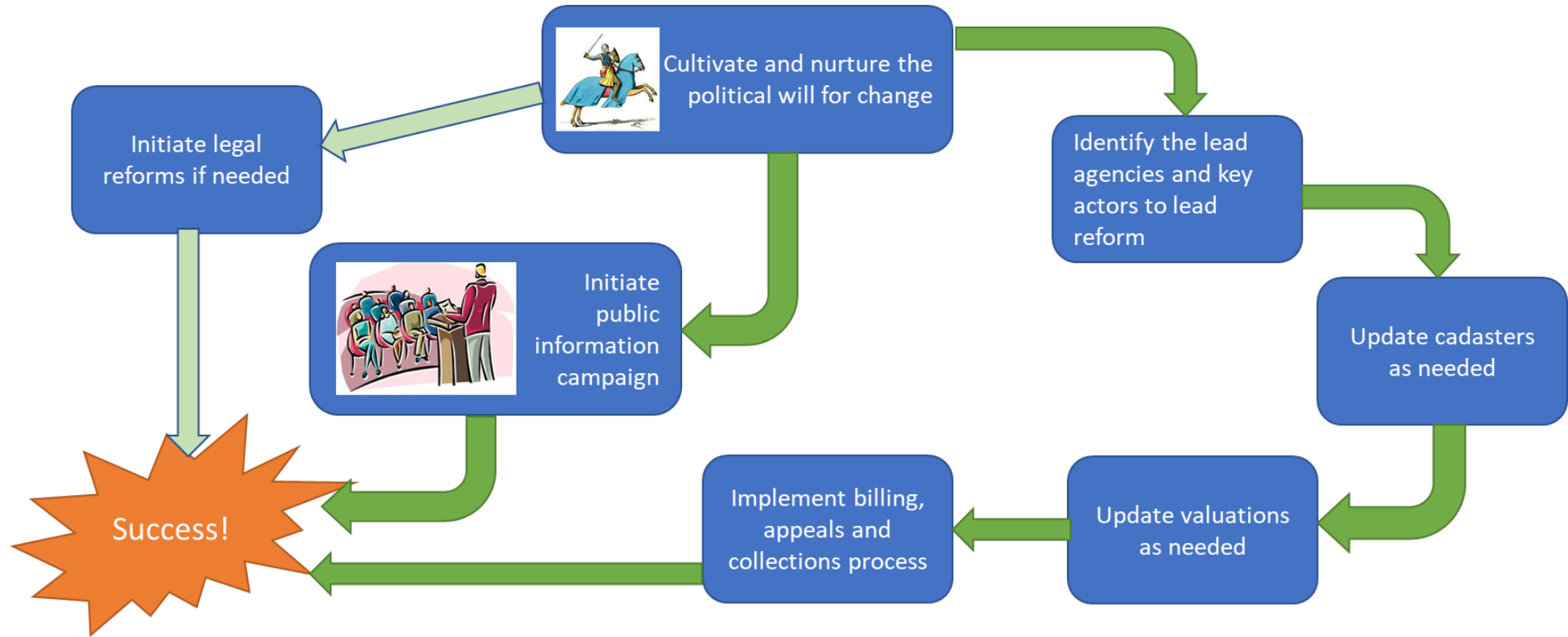
- Public support
- Political will
- Exemptions
- Supporting infrastructure



Part 4: Taking action

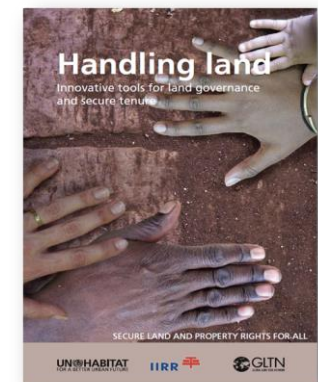
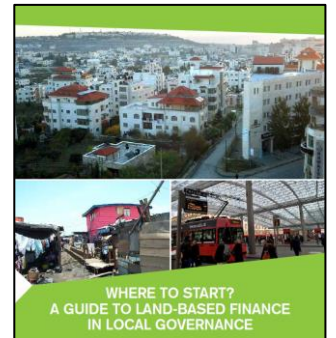
- Plan development
- Process

Action Orientation



Key points

- Land-based finance (LBF) is a key resource for effective local governance
- LBF tools are not more widely used for both political and technical reasons
- The *Where to Start?* guide
 - Introduces basic LBF concepts and principles
 - Provides guidance on how to assess the opportunities for expanding LBF
 - Identifies and provides strategies to overcome common challenges
 - Outlines the steps necessary to develop a meaningful plan of action to achieve desired outcomes
 - Free via download from www.gltn.net
 - For more information on GLTN, also download *Handling Land*.
Innovative tools for land governance and secure tenure





3- Egypt's experience with Land-Based Financing Instruments



Since July 2020, a technical assistance has been conducted at the local government level in collaboration with Ministry of Finance and Ministry of Local Development to identify the main own-source revenues in Egypt.



سوهاج
SOHAG

Local Government officials at Qena and Sohag Governorates were met to help in identifying the local revenues, among them land-based revenues.



During the discussions, many challenges have been identified as hindering collection of taxes and charges related to land.

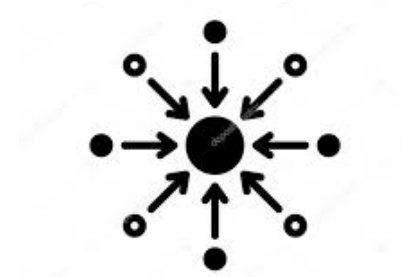
Main challenges that were identified during the discussions with local and national authorities



Betterment levy is rarely applied as the law is outdated (issued in 1955) and the steps for collection and calculation are not clear for city council staff to collect during the issuance of building permits.



Vacant Land tax was deemed unconstitutional by the Supreme Court in 1993 on the basis that “the land does not generate income in order to impose a continuous tax of 2% and increasing this value by 7% each year” so it is not collected.

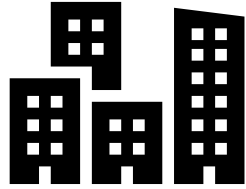


Most of the revenues are **collected locally and then transferred to the central treasury** so there is **little motivation or interest** on the part of local authorities to launch or support land-based financing since revenues collected locally disappear.



In 2017, **the agricultural land tax was frozen** and not collected by local government until now. A 14 percent tax of the lands' annual rental, which, in turn, is based on estimates of local committees appointed by the relevant governor.

Main challenges that were identified during the discussions with local and national authorities



No special exactions are imposed on developers due to the increased load on road and utilities networks in the area due to the new construction, nor are there exactions imposed due to infrastructure improvements in the surrounding areas.



Property tax has been administered by the central government. It faces many problems such as the **majority of properties in Egypt are not recorded and that over 90% of residential property not liable for the property tax.**



Unclear of the regulations governing rezoning and changes in the building heights as it appears that building heights levy has not been attempted by governorates, even though the practice of adding unlicensed floors to buildings is extremely widespread in Egyptian cities.



Limited capacity at the local level regarding the application of instruments aimed at the disposal (sale or leasing) of Public Land.

What can be done to enhance land-based financing in Egypt?

- The discussions with the staff in Qena and Sohag governorates has resulted in finding many ideas that can help in enhancing local revenues and specially those related to land-based financing.
- 1) **Fixing the legal framework:** Many challenges are related to problems in the legal framework such as the outdated law of betterment levy and the unclarity of the application of developer charges and building heights. A holistic approach should be provided through the consolidation of legislation that applies to the different tools in addition to developing tools which are complimentary to one another.
 - 2) **Creating incentives:** The local government employees don't have an incentive to collect the different revenues mainly because they don't benefit from collecting such revenues in addition, generous central transfers weaken the incentive for local government to collect revenues. Local governments need to face incentives to adopt the new or reformed taxes, fees and user charges and develop the capacity to use them fairly and effectively. Citizens and businesses must learn to pay new taxes, fees and user charges, which they will resist doing unless they broadly perceive that local governments are being responsive and treating them fairly.
 - 3) **Enhancing the administrative capacity:** The administrative capacity at the local level should be enhanced to enable the staff in the local administrative units to evaluate the different tools and choose the most suitable instruments for the different cases.



4- Planning City Expansion and the Application of Land-Based Financing in Egypt- A Case Study



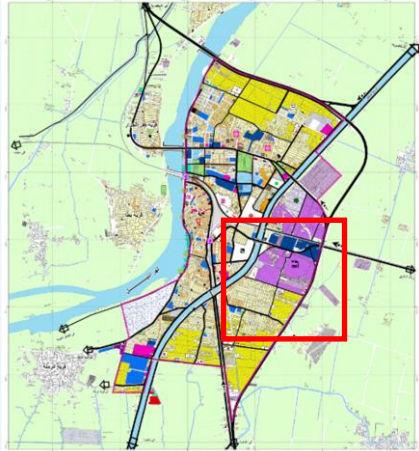
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Egypt's population increased: to 24 million in 1952; to 50 million in 1986 and 90 million in 2015. Urbanization increased from 26,4% in 1937 to 37,5% in 1960 and 43,9% in 1986.

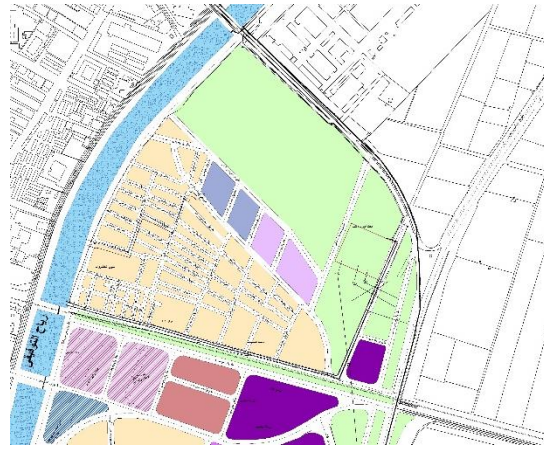
2

Existing cities have absorbed 95% of the population increase through informal urban expansions that lack access to quality services, infrastructure and built environment.

1st Planning policy instrument: Specifying an urban growth boundary



2nd Planning policy instrument: Undertaking Detailed Plan for urban expansion area inside the boundary



3rd Planning policy instrument: Undertaking subdivision plans for urban expansion areas



Informal Expansion Ezbet El Brens Banha City

The building law No 119 for the year 2008 laid down the key policy instruments used in managing urban expansion of existing cities

UGB should be applied first during the process of conducting cities strategic plans. These strategic plans also identifies urban expansion areas which will requires a second layer of planning (detailed planning).

subdivisions are not undertaken due to difficulty of applying instruments, such as using eminent domain according to law 10/1990 and the usage of public purchase according to law 89/1998.

Tremendous increase happen in Land value upon UGB, however no LVS policy Instrument in this phase

1st LVS policy instrument: Betterment Levy (50% of the increase in land value), is to be collected after detailed plans approval

2nd LVS policy instrument: Development Exaction, represents 33% of the land. Land owners undertake informal subdivisions, 20% max for roads.

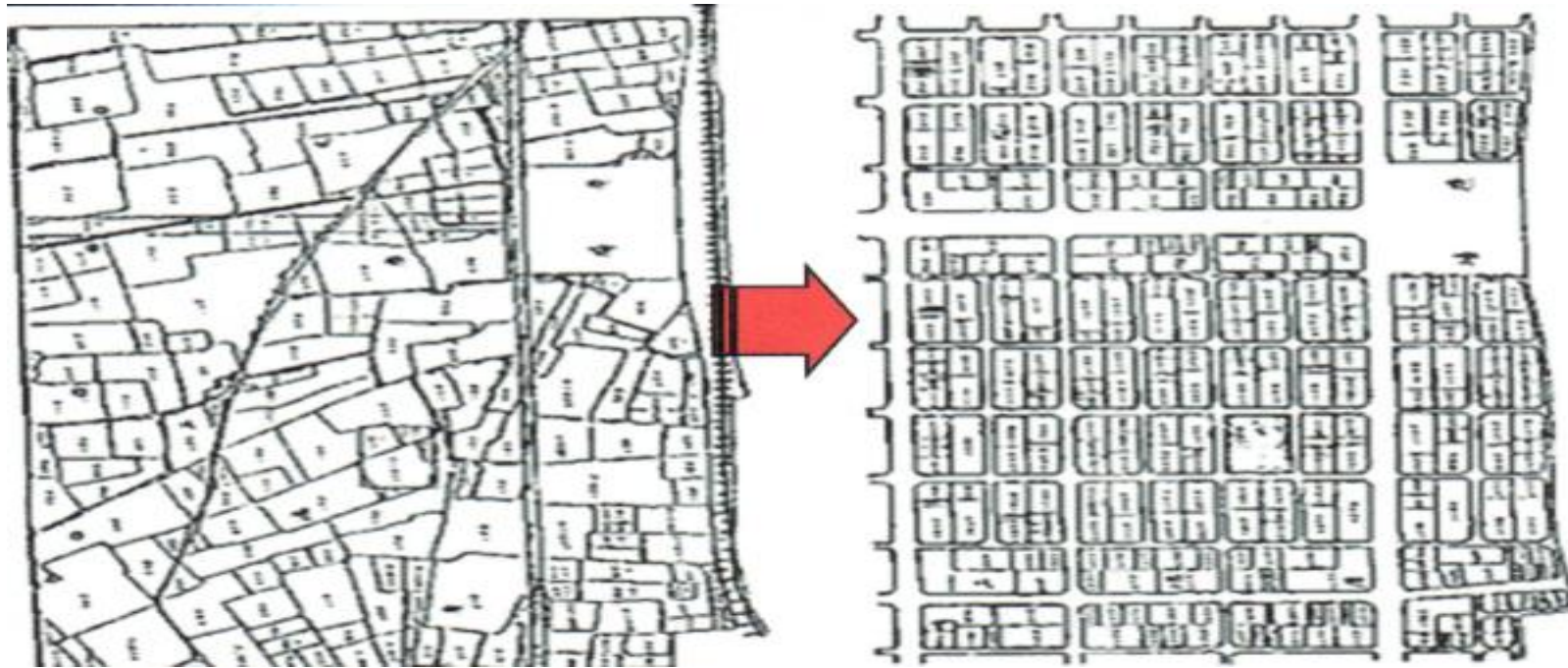


1

There is a big gap between legislation and implementation. Amendments and reforms needed to be addressed to enable new planning and development methodologies like land readjustment.

2

land readjustment helps to cope with the problem of massive land fragmentation. Also, it is a tool to overcome the gap between the detailed plan and its implementation.

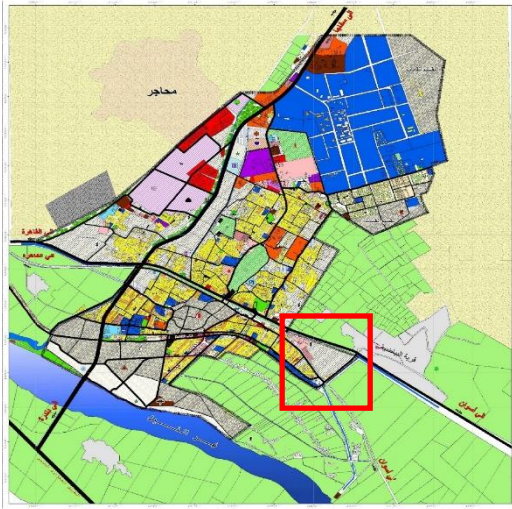


Why Use Land-Readjustment ?

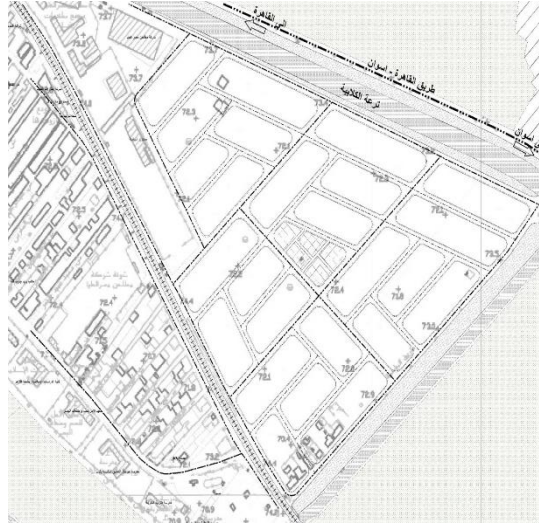
(Jabatan Perancangan Bandar Dan Desa - Senanjung, Malaysia)

- 1 Capture land value increments to cover redevelopment Costs
- 2 Provide urban population with basic services and local infrastructure
- 3 Engage urban poor in land redevelopment and prevent forced eviction
- 4 Increase development density to make room for urban expansion and revitalization
- 5 Redevelop urban areas according to an updated master plan

1st Planning policy instrument:
Specifying an urban growth boundary



2nd Planning policy instrument:
Undertaking Detailed Plan for urban expansion area inside the boundary



3rd Planning policy instrument:
subdivision Land- Readjustment plans for urban expansion areas



Spontaneous Readjustment Triangle Area Qena City

1

LR projects require an initial cost for implementation, consisting of the compensation for landowners who are not interested in joining the project. local government budgets have very limited financial resources and they are very much dependent on central government transfers (which constitutes around 93% of their budget).

2


Failing to collect revenues to finance planning and implementation of LR plan for Qalyub city extensions, a compromise was done, borrowing from the essence of Development Exactions. Land Owners were convinced to contribute 30% of their land to cover road network and basic services. This proves the willingness of local stakeholders to participate in the process, in condition they are engaged from the beginning.



Tremendous increase happen in Land value upon UGB, however no LVS policy Instrument in this phase?

1st LVS policy instrument:
Betterment Levy (50% of the increase in land value), is not collected

LVS policy instrument: Develop. Exaction, extract 30 % of Land to be allocated for roads and basic services

An aerial photograph of a cityscape. In the foreground, there is a large, flat, open area that appears to be a construction site or a cleared field, with some debris and a few small structures. To the left, there are several tall, multi-story residential buildings with balconies. In the background, more dense urban development is visible under a blue sky with wispy clouds.

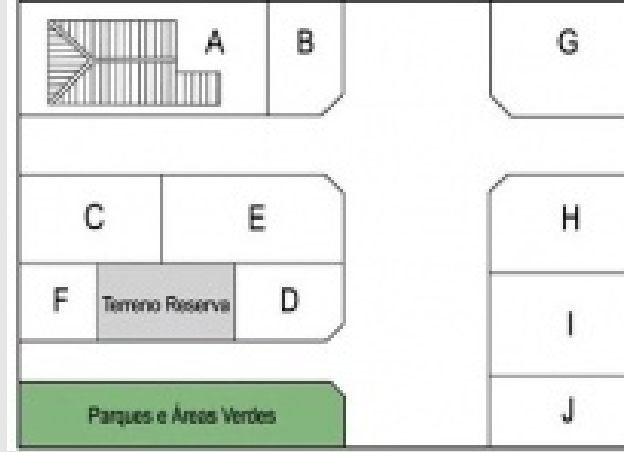
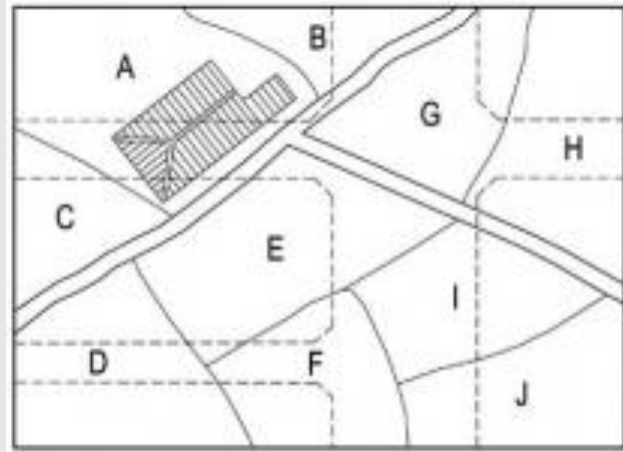
The current rate of 50% of the incremental value will very likely be difficult to sustain. No other country has been successful in effectively administering and collecting a land value increment tax at that rate.

In addition, ability to estimate what the value increment will be is difficult and local authorities may lack the expertise and the data required for such estimates.

3 Policy Instruments to assure efficient city extensions planning

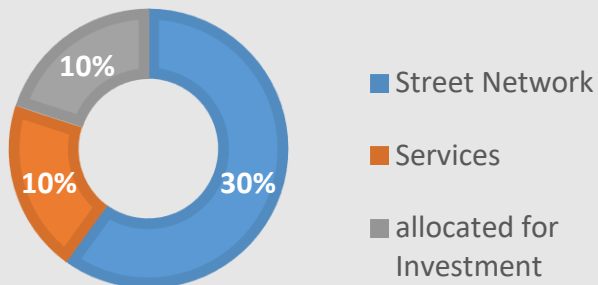
1st Suggested Urban policy instrument:

Undertaking Land Readjustment plans instead of subdivision plans



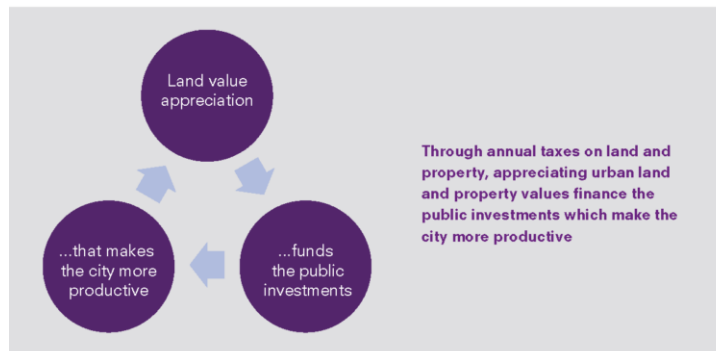
1st Suggested LVS policy instrument:

50 % land to be extracted as Development Exaction



2nd Suggested LVS policy instrument:

Annual property tax to be collected firmly



Land Readjustment to be clear within the legal framework.

The building law 119/2008 does not provide a clear process for undertaking of land readjustment. Laws and regulations related to land readjustment have to determine the justification and limits of intervention to private ownership.

A modified version of Development exaction to be adopted instead of unpractical current development exaction and betterment levy.

Once the approval of the LR plan, the local government is to extract 50% of the land (or equivalent in value), which shall be used to provide a well planned street network (30%), Services (10%) and (10%) as land for investment, in compensation to the government provision of infrastructure and public amenities.

An annual property tax to be collected firmly.

This tax would finance constant maintenance and service developments, which will accordingly increase the quality of life in the city as well as productivity.



5- Concluding Remarks From the International Experience

Concluding Remarks From the International Experience

- Consideration should be given to those land-based revenue tools that can be most readily and easily implemented.
- The administration of the land use planning system involved in changes to land use zoning and the building permit system need to be closely aligned to specific land-based tools.
- Where more than one tool is envisaged, it is important that they be complementary.
- The choice of the tools need to be considered in terms of administrative feasibility.
- Legislation should be reviewed and revised where appropriate. New supporting regulations should be considered.
- Developing practice guides that provide clarity and transparency in how the tools are applied in practice.

Land Based Tool	Administration	Valuation	Revenue	Revenue charge	Legislation in place	Revenue potential
Property Tax	High	High	SNG	Annual	Yes	High
Developer Fees	Medium	Low	CG	One time	No	Recover costs
Betterment Levy	Medium	High	Shared	One time	Yes	Medium
Rezoning and FAR	Medium	Medium	SNG	One time	Yes	Low/medium