



WHERE TO START? A GUIDE TO LAND-BASED FINANCE IN LOCAL GOVERNANCE

A WORLD IN WHICH EVERYONE ENJOYS SECURE LAND RIGHTS



Where to start? A Guide to Land-based Finance in Local Governance

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CONTENTS

THE PURPOSE OF THIS GUIDE	V
EXECUTIVE SUMMARY	1
PART 1 INTRODUCING LAND-BASED FINANCE	6
1.1. What is land-based finance?	8
1.4. Challenges and cautions	13
PART 2 SEARCHING FOR OPPORTUNITIES	14
2.1. Taking inventory and establishing priorities	17
2.2. Overcoming legal bottlenecks	19
2.3. Assessing administrative capacities	22
2.3.1 Land administration	23
2.3.2 Land and property valuation functions	26
2.3.3 Rate setting and timing	30
2.3.4 Determining who will pay the tax: billing functions	33
2.3.5 Determining who will collect the tax and receive the revenue	34
2.3.6 Summary of land-based finance functional components	37
PART 3 ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT	38
3.1. Common challenges and impediments	40
3.2. Building public support	42
3.3. Building political will	44
3.4. Promoting equity and using evidence in setting policy	48
3.5. Innovative options for addressing long-standing problems in local governance infrastructure	55
PART 4 WHERE TO BEGIN WITH LAND-BASED FINANCE	60
4.1. Action plan development	62
4.2. Land-based innovation and reform process	65
4.3. Concluding observations	66
APPENDIX: LAND-BASED FINANCE INSTRUMENTS BRIEFLY DESCRIBED	68

LISTS OF FIGURES & TABLES

TABLE 1:	COMMON LAND-BASED FINANCE INSTRUMENTS	9
TABLE 2:	LAND AND PROPERTY TAX REVENUE BY REGION	12
TABLE 3:	LAND AND PROPERTY TAX REVENUE BY COUNTRY INCOME LEVEL	12
TABLE 4:	LAND AND PROPERTY TAX REVENUE BY GOVERNMENT EFFECTIVENESS RANK	13
TABLE 5:	POLICY DIMENSIONS OF LAND-BASED FINANCE	25
TABLE 6:	LAND AND PROPERTY VALUATION APPROACHES IN USE AROUND THE WORLD	28
FIGURE 1:	THE LAND-BASED REVENUE SYSTEM.....	37
FIGURE 2:	SCHEMATIC FOR THE WAY FORWARD	62
TABLE 7:	A GENERIC LAND-BASED FINANCE INNOVATION AND/OR REFORM PROCESS.....	65
TABLE A1:	LAND-BASED FINANCE INSTRUMENTS.....	71
TABLE A2:	LAND-BASED FINANCE INSTRUMENTS AND LAND-RELATED POLICY GOALS.....	72
TABLE A3:	MINIMUM REQUIREMENTS FOR EACH LAND-BASED INSTRUMENT.....	73

LIST OF BOXES

BOX 1:	PROPERTY TAXES UNDER ALEXANDER THE GREAT	9
BOX 2:	REVENUE POLICY EVALUATION CRITERIA	19
BOX 3:	LAND-BASED FINANCE IN COLOMBIA	20
BOX 4:	THE LAW AS A CONTINUUM	21
BOX 5:	EXAMPLES OF CONSTITUTIONAL PROVISIONS	22
BOX 6:	PUERTO RICO INVENTORY TAX	23
BOX 7:	THE BENEFIT PRINCIPLE	24
BOX 8:	RECURRING RESIDENTIAL TAXES IN FRANCE.	25
BOX 9:	LAND TITLING IN THAILAND.	26
BOX 10:	WHAT CONSTITUTES A “MATURE REAL ESTATE MARKET”?	30
BOX 11:	TWO USEFUL EXAMPLES	32
BOX 12:	THE PURPOSES FOR SEEKING PUBLIC PARTICIPATION.....	43
BOX 13:	MAYOR ANTANAS MOCKUS	45
BOX 14:	VARIATIONS IN POLITICAL SUPPORT FOR TAX REFORM IN SIERRA LEONE.....	46
BOX 15:	STRATEGIES FOR BUILDING POLITICAL COALITIONS.....	47
BOX 16:	REGRESSIVE, PROGRESSIVE AND PROPORTIONAL TAXES AND FEES.....	50
BOX 17:	LAND AND PROPERTY REGISTRATION AND TAXATION IN HARGEISA, SOMALILAND	56
BOX 18:	AN OPTION FOR DEALING WITH FLAWED ADDRESSES.....	59
BOX A1:	EXAMPLE OF NAME AMBIGUITY	69
BOX A2:	TAX INCIDENCE.	70

THE PURPOSE OF THIS GUIDE

Local leaders worldwide struggle to meet the needs of rapidly growing urban populations. This is especially true in Africa, which many observers regard as the world's fastest urbanizing region. From improved public transport and safe drinking water to adequate and secure housing and safe neighbourhoods, local governments bear responsibility for assuring the availability of essential community services. As the world's population continues to urbanize, the challenges of adequately providing these services will only increase.

This immediately raises the question: "Where will the money come from to pay for the needed service improvements and expansions?"

One option might be increased support from a central government. Around the world, local governments rely heavily on funds from higher levels of government to meet their needs. However, national and regional governments also face increasing financial pressures and are often unable or unwilling to increase inter-governmental funds. Central governments are at best an uncertain source for additional funding.

User charges for specific services are a second potential revenue source and one generally under local control. Safe drinking water, electricity and solid waste disposal are examples of public services that are often funded through direct charges collected from the beneficiaries of the service.

Well-designed user charges should be an important component of local public finance. When they are feasible and well administered, user charges recover the cost of public services from those who use them, just as market prices paid by consumers cover the costs of other goods.

However, not all public services lend themselves to user charges. Public safety and local road maintenance are

just two examples of services that are difficult to price and collect user charges for. Providing an adequate level of these "public goods" requires more funding than from user charges. In addition, some public services generate benefits to the community beyond those enjoyed by the immediate beneficiary. Universal public education is one; the entire community is better off if the next generation is educated.

Finally, decision makers must be sensitive to the distributional effects of user charges. Wealthy residents will always be able to afford higher service levels than their poorer neighbours. To avoid inequities, many communities elect to either not charge for some services or subsidize selected services to ensure all residents have adequate access. Thus, user charges are important but will not fully meet the needs of growing urban regions.

A third revenue source is taxes. However, local taxes need a tax base that is broad, easily identified and immobile. The base should be as broad as possible to keep tax rates as low as possible while fairly distributing the cost of government. At the same time, the base needs to be readily identifiable by local authorities, who often have limited capacity and resources for establishing and administering the system. Finally, the broad local base needs to be immobile to reduce the possibilities of tax avoidance.

Land has proven to be a successful tax base in many countries and is receiving increasing attention in many others. This Guide describes a set of land-based revenue concepts and instruments in common use around the world and aims to expand the understanding of local leaders and provide guidance on how to mobilize additional revenues related to land.



The Guide has four parts.

Part 1 provides an overview of land-based finance, discussing the advantages of using land as a foundation for local revenue generation. Brief examples of where land has been used and where land-based finance fits within the context of municipal finance more broadly are also discussed.

Part 2 provides a guide for taking inventory of the local context and assessing both the strength of opportunities and the remaining challenges.

Part 3 addresses the question of why land-based finance is not more commonly used in developing countries. The answer stems from the institutional and societal challenges that must be overcome. The major challenges are identified and strategies offered for addressing them. Each local context presents opportunities for improving land-based revenues; the challenge is to identify and prioritize those opportunities and design locally appropriate solutions.

Part 4 outlines the process for developing an action plan intended to convert aspirations into actions. It also presents an example of a land-based finance reform process.

The Appendix briefly introduces the most common land-based finance instruments used around the world.

The Guide focuses on being a quick read for decision makers who may initially have little more than casual

curiosity about land-based finance and it is a lead-up to the training package *Leveraging Land: Land-based finance for local governments*¹ developed by UN-Habitat and the Global Land Tool Network (GLTN).² The Guide makes the case that land is uniquely suited as a base for mobilizing additional local revenues and provides guidance on where to start this mobilization.

Leveraging Land provides greater detail on each instrument and presents cases that help local leaders adapt and design the implementation of the instruments selected. Neither this Guide nor *Leveraging Land* will answer all the technical questions that must be addressed in a given setting but, if it is successful, the Guide should enable local leaders to craft a vision of how land-based finance will support local development efforts. The local leadership team will then be able to formulate an implementation plan based on this Guide and *Leveraging Land*.

1 UN-Habitat and GLTN (2016). *Leveraging land: Land-based finance for local governments*, Nairobi: UN-Habitat. This includes a Reader, available at <https://gltn.net/download/leveraging-land-land-based-finance-for-local-governments-a-reader/> and a Trainer's Guide, available at <https://gltn.net/2016/12/05/leveraging-land-land-based-finance-for-local-governments-a-trainers-guide/>

As complementary resources, see also the GLTN Land-based Finance Instructional Videos, as well as the Land-based Finance module in the GLTN Teaching Essentials Structured Knowledge Base for Responsible Land Administration, both available on the GLTN e-Learning Platform at: <https://elearning.gltn.net/>

2 For information on the Global Land Tool Network see www.gltn.net. The GLTN Strategy 2018-2030 is available at <https://gltn.net/download/gltn-strategy-2018-2030/>

EXECUTIVE SUMMARY

This Guide, in conjunction with *Leveraging Land: Land-based finance for local governments*, is both an introduction and initial roadmap for expanding the use of land as a foundation for mobilizing additional local revenues.

Land-based finance is an underutilized tool in many parts of the world. Among the many reasons for this, four stand out: public opposition, lack of political will, overuse of exemptions and lack of supporting institutional infrastructure. Leaders considering increasing the use of land-based finance instruments must confront these challenges and must also adapt generic instruments to the local context.

Changes related to land are rarely easy or quick. Sustainable change requires strong leadership and fundamental changes in how communities think about land and government. But change is possible and the potential benefits in the lives of everyday citizens are substantial.

If this Guide is successful, readers will come away with a clearer understanding of the potential for land-based finance, the likely challenges that will need to be overcome and, most important, they will have a clearer vision of the path forward.

1: INTRODUCING LAND-BASED FINANCE

What is land-based finance?

Land-based finance includes all charges, fees and taxes tied to some physical or financial attribute of land, or to a public action that affects land.

- ❑ The physical attribute may be as simple as land area or as sophisticated as a detailed description of land area, location, productive potential and proximity to public services.
- ❑ Financial attributes may be the land's value in the open market, the degree of benefit it receives from

a public action, or the value to the landholder of a change in approved land use.

Land-based finance approaches and methods vary extensively across countries and cultures. A handful of basic concepts are adapted and implemented in widely different ways as local leaders creatively adapt to local needs, constraints and priorities.

Advantages of land-based finance

- ❑ Land-based taxes and fees are difficult to avoid
- ❑ Land-based taxes and fees tend to promote transparency and accountability in local government
- ❑ Land-based taxes promote effective, compact and productive land use
- ❑ Land-based taxes and fees are fair
- ❑ Land-based taxes and fees can be pro-poor through improved tenure security and expanded civic engagement

Land-based finance around the world

Land-based taxes should be the fundamental source of revenue for subnational governments. Currently, such taxes typically account for less than 1 per cent of Gross Domestic Product (GDP) and less than 4 per cent of all tax revenues in developing countries. In upper-middle and high-income countries, land-based taxes and fees often approach 2 per cent of GDP and are over 7 per cent of total general taxes.

Developing countries seeking to improve land-based finance often pursue a revenue target of about 1 per cent of GDP and 5 to 6 per cent of total general taxes.

2. SEARCHING FOR OPPORTUNITIES

Policy makers should carefully weigh and inventory four key dimensions of the local environment:

- ❑ The legal environment, both in terms of current practice and the climate for potential changes

EXECUTIVE SUMMARY

- ❑ The administrative capacity of government agencies that may be called on to administer any new policies
- ❑ The historical and cultural context within which the new policy will need to function
- ❑ The condition and maturity of land markets

Carefully and accurately detailing the existing problems and the desired goals will drive both the alternative policy actions considered and the criteria used to evaluate and choose between alternatives.

This section provides guidance on how to assess the strengths, weaknesses and opportunities related to the implementation of land-based finance in the local context.

Overcoming legal bottlenecks

Legal systems

- ❑ Specify and defend specific human rights
- ❑ Prohibit certain types of action or activities
- ❑ Establish specific institutions and procedures for creating or modifying laws, for enforcing existing laws, for adjudicating disputes and prosecuting crimes and for selecting government officials

Laws should set standards and define procedures and approaches, but not specify methods.

There will always be a need for oversight to assure transparency and accountability. This requirement implies that multiple levels of government will likely need to be involved with land-based finance.

Assessing administrative capacities

The objective of revenue administration is to:

- ❑ Adequately fund needed infrastructure and public services

- ❑ By timely collecting the correct amount of taxes and fees from the intended target group
- ❑ While minimizing administrative costs for government and compliance costs for taxpayers

Determining the way forward in adopting, adapting and implementing a land-based finance instrument requires careful consideration of the level of administrative resources required, and where those resources are located within the government.

Land administration

The central role for land administration in the context of land-based finance is to identify those who will be taxed and connecting those entities to specific land plots.

Land and property valuation

Every jurisdiction seeking to successfully implement and sustain a tax on land and property faces similar challenges and must successfully carry out a common set of tasks.

At the same time, land-based finance instruments differ widely in one key area: the approach taken to determine the value of land and property for tax purposes. The approaches taken differ in their data requirements, administrative complexity, equity across taxpayers and the degree to which revenues keep pace with economic growth.

Rate setting and timing

Best practice internationally suggests that the range of acceptable rates will be set at the national or regional level. Within this range, local governments set the final rate based on local needs and spending priorities. To secure public support and compliance, it is important to inform and engage the public in setting the spending plan and establishing the final tax rates.

EXECUTIVE SUMMARY

Revenue generation policy cannot be designed in isolation from other, often competing, goals. It is essential to recognize that any full or partial exclusion from the tax system will necessarily increase the tax burden on remaining taxpayers.

An informed public will support and comply with taxes that are reasonable in magnitude and devoted to visible public projects and services valued by the population.

Billing functions

Taxpayers must be notified in a reliable and timely way. Taxpayer questions and appeals must be received and processed promptly and fairly.

Collection functions

The evidence is strong from a variety of jurisdictions that compliance improves markedly when the taxpayer's cost to comply is reduced. This can be done by increasing the options available for paying the tax at banks, utility offices, through mobile phones, etc.

The collection function also includes pursuing those who avoid paying their obligation when due. Sanctions must be applied fairly and within the parameters set forth in law, but they must be applied where called for.

Best practice from many jurisdictions suggests that while the majority of the land-based finance systems may be administered at the local level, there should be a regional or national agency responsible for oversight, evaluation and reporting on local performance.

3: ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

Challenges, cautions and common impediments in land-based financing

The challenges and impediments limiting the use of land-based finance can be grouped into four categories:

- ❑ Lack of public support, especially from local elites
- ❑ Lack of political will and commitment to good governance
- ❑ Pressures to give away the tax base through exemptions and special treatment
- ❑ Inadequate “infrastructure” in the supporting environment

This section offers strategies for addressing common challenges in implementing or expanding land-based finance.

Building public support – Without public understanding and support, sustained use of land-based finance instruments is unlikely. Keys to building public support for land-based finance initiatives include:

- ❑ Public engagement and participation are essential in building and sustaining public trust and support.
- ❑ Transparency and accountability in public finance contributes to building public trust and requires:
 - Clarity in how resource allocation decisions are made, and
 - Systematic public reporting of revenues collected, expenditures made and outcomes achieved.
- ❑ Effective communication creates a narrative explaining the need for additional funding, the benefits to be achieved and the equitable distribution of the tax burden.
- ❑ Adaptation to the local context. The central elements of any of the land-based finance instruments must be adapted to the local context, the local history and the local culture.

EXECUTIVE SUMMARY

Building political will – Resistance to the introduction or expansion of land-based finance can come from within the political institutions themselves. Managing internal resistance and building political will are thus paramount and require concerted action.

- ❑ Forging political will and creating sustainable support requires the creation of a new narrative, a change in the perception of officials. In some instances, situations of economic, social or political crisis may provide an opportunity to harness real internal support. “Never let a good crisis go to waste.”
- ❑ At the heart of any coalition for change must be a political champion or group of champions who are willing to take risks to advance the reform agenda.
- ❑ Reform initiatives need to be sensitive to what is politically acceptable and feasible, and adjust accordingly. Many successful efforts follow a process of trial and error, with short feedback loops, where certain small interventions are tried, tested and then adjusted.

Promoting equity and using evidence in setting policy – Granting exemptions to land-based taxes and fees may be good politics, but these policies are rarely based on sound economic reasoning, targeted social policy and empirical evidence.

- ❑ Good exemption practices based on land use follow three principles:
 - Carefully articulated policy objectives
 - Clear steps taken to limit the scope of the exemption to the stated objectives
 - Periodic review of the exemptions and the evidence to assure that the objectives are being achieved
- ❑ The land and property tax system typically lacks the precision needed to effectively meet specific social objectives at a reasonable cost. It is often more feasible to provide tax relief through the income tax system than directly through a land-based tax

exemption. Further, if informal settlements are included in the land and property tax system, many of the residents will voluntarily come forward to pay the tax.

- ❑ Exemptions to promote economic development rarely work as intended. The importance of taxes in business location decisions is generally overwhelmed by considerations such as agglomeration, transport, market size, workforce availability, energy costs, etc. The best course of action for local jurisdictions is to:
 - Improve the quality of public services, especially transport, utility reliability and education
 - Enforce the rule of law, especially as it relates to the registration and protection of land and property rights
 - Minimize taxpayer compliance costs

Options for addressing long-standing problems in local governance infrastructure – Some challenges affecting land-based finance systems are outside the land and property tax system. These often include a lack of administrative capacity, incomplete land registration and inadequate physical addresses coupled with unreliable mail delivery.

- ❑ Improving administrative capacity:
 - Change often comes in response to a crisis or the threat of a crisis. The need to mobilize revenue has often proved to be the “point of entry” for improving revenue administration and public service more broadly.
 - Rather than seeing taxation as a fundamentally coercive act by the state, land-based taxes and fees constitute a contract between taxpayers and the government.
- ❑ Improving land and property registration:
 - Effective land-based finance requires a comprehensive understanding of all the properties that should be on the tax rolls, including those yet to be officially registered. This “discovery” process

EXECUTIVE SUMMARY

has two phases: initial development or completion of the cadastre, and ongoing maintenance.

- Completing the fiscal cadastre may require a field survey of land and property. Land surveys for the fiscal cadastre can be much simpler and can be completed much more quickly than land registration projects intended to resolve all legal conflicts.
 - Managing the fiscal cadastre and keeping it up to date is an ongoing process that always requires attention.
- Improving physical addresses and unreliable mail delivery - the challenge exists on two fronts:
- Uniquely determining and identifying the location of each land parcel. There is technology to address this problem.
 - Reliably delivering communications to that location

4: WHERE TO BEGIN WITH LAND-BASED FINANCE

This Guide attempts to:

- Introduce basic land-based finance concepts and principles
- Provide guidance on how to assess the challenges and opportunities present in the local environment, and

- Encourage identification of specific policy objectives that can be addressed through land-based finance instruments

A crucial next step is to identify and work with those senior political officials who will champion change. From that point, progress will proceed on three paths:

- The identification of a lead agency and key actors
- Initiation of a public engagement and information campaign, and
- (Potentially) legal reforms

Each path will involve multiple actors and multiple considerations. Development of an action plan will assist in achieving the desired outcomes.

Action plans include these steps:

- Elaborate more fully the intended courses of action
- Determine the tasks required to move the implementation forward
- Determine the required resources
- Identify possible gaps and weak links
- Agree on coordination mechanisms
- Agree on indicators and monitoring mechanisms

PART 1

INTRODUCING LAND-BASED FINANCE



KEY POINTS IN PART 1

What is land-based finance?

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Challenges, cautions and common impediments in land-based financing

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- ❑ Pressures to give away the tax base through exemptions and special treatment
- ❑ Inadequate "infrastructure" in the supporting environment



Part 1: Introduction

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

INTRODUCING LAND-BASED FINANCE

Local governments generate revenues by applying a variety of taxes, fees and other charges. Common examples include:

- ❑ User charges for clean water or solid waste disposal
- ❑ Franchise fees assessed on businesses for the opportunity to operate within the jurisdiction
- ❑ Fees assessed for specific services such as granting permits or issuing certificates
- ❑ Local Value Added Tax (VAT) charged on goods sold and often collected in conjunction with the national VAT

While these and other sources make important contributions to local resources, there is one other taxable base that exists in every locality, but all too often is overlooked or underused: land.

1.1. WHAT IS LAND-BASED FINANCE?

Land can contribute to local finance either through one-time charges levied when specific land-related events trigger the charge, or through annually recurring taxes. For example, the Municipality of Medellín, Colombia, charges land developers a fee, payable in land, to provide for public improvements required in conjunction with each development. Another example is the transfer tax or stamp duty levied in Madagascar when a land title transfer is registered.

Annual taxes can be tied to either the market value or physical attributes of the land and, often, permanent improvements such as buildings. For example, Tanzania assesses each landholder an annual ground rent and also taxes each building based on its value. Jamaica, on the other hand, taxes the value of land each year, but not the value of buildings or other improvements.

The key feature of a land-based finance instrument is a charge tied to some physical or financial attribute of land, or to a public action that affects the land. The

physical attribute may be as simple as land area or as sophisticated as a detailed description of land area, location, productive potential and proximity to public services. Financial attributes may be the land's value in the open market, the degree of benefit it receives from a public action, or the value to the landholder of a change in approved land use.

“The key feature of a land-based finance instrument is a charge tied to some physical or financial attribute of land, or to a public action that affects the land.”

When community leaders consider options for securing additional resources, developing revenues based on land and land-related improvements should be close to the top of the list. Land and land-based production have been taxed by governments for thousands of years; typical rates in ancient Egypt were 10 per cent of the annual production from land.

Whether intentional or not, Alexander the Great followed what are today widely accepted principles in public finance (see Box 1):

1. Broaden the tax base as much as possible. Alexander did this through conquest. Today, the same objective is pursued by both limiting exemptions and by expanding the range of land and land-related transactions included in the base.
2. Lower the tax rate while still generating sufficient revenue.
3. Invest in public improvements and services that directly benefit taxpayers and are visible to taxpayers, and then make clear the connection between taxes paid and benefits received.

INTRODUCING LAND-BASED FINANCE

Box 1: Property taxes under Alexander the Great

As Alexander the Great (356 B.C. – 323 B.C.) moved through Persia, India, Egypt and other parts of his world, he left administrators with explicit instructions on how to implement land and property taxes. ... Prior to his conquest, the people were very heavily taxed and the collected money typically went to the treasury of the king, not to public improvements. Alexander's tack was to substantially cut taxes and use half of the raised funds for public improvements (water systems, roads, ports, etc.) while keeping the remaining half for his treasury. Therefore, the people not only paid fewer taxes while receiving more benefits for their taxes, but they were also far less likely to revolt against his administrators.³



3 Carlson, Richard H. (2005). A Brief History of Property Tax. *Fair & Equitable* (February, 2005), p. 4.

Local leaders across the globe are today revisiting land-based funding options as they seek to ensure stable and adequate financial resources for their communities.

Land-based finance approaches and methods vary extensively across countries and cultures. A handful of basic concepts are adapted and implemented in widely different ways as local leaders creatively adapt to local

needs, constraints and priorities. Such adaptation is essential if the land-based tools used are to be successful and sustainable. Table 1 provides a very brief description of the most commonly used instruments. For additional details and case studies, refer to *Leveraging Land: Land-based finance for local governments* available on the Global Land Tool Network website (gltn.net).

Table 1: Common land-based finance instruments

Instrument	Description
Recurring land value tax	<ul style="list-style-type: none"> Recurring tax based on an estimate of the value of land or on land attributes
Recurring building value tax	<ul style="list-style-type: none"> Recurring tax based on the value of immovable improvements or on the attributes of the improvements
Betterment levies and Special Assessments	<ul style="list-style-type: none"> Charges assessed in connection with specific infrastructure improvements Limited to recovery of actual costs incurred Can be collected once (betterment) or over time (special assessment)
Developer charges	<ul style="list-style-type: none"> Charges assessed in connection with development approval, including rezoning Can be paid in cash, in land or in kind
Land value increment tax	<ul style="list-style-type: none"> Tax assessed as a percentage of the increase in land value due to public actions such as rezoning or general market trends
Sale of development rights	<ul style="list-style-type: none"> Payments received in exchange for permission to develop or redevelop land at higher density or changed land use Rights can either be sold at auction or at fixed price Rights may be transferable to other locations or resold
Sale of public land	<ul style="list-style-type: none"> Payment received in exchange for freehold title to public land
Lease payments and premiums	<ul style="list-style-type: none"> Payment received in exchange for right to occupy and benefit from public land Permitted land use is specified Terms vary from 2 to 99 years
Transfer taxes and stamp duties	<ul style="list-style-type: none"> Charge assessed for recording the transfer of a land title from one private party to another Can be either a fixed fee or a percentage of the value of the land and property being transferred

1.2. THE ADVANTAGES OF LAND-BASED FINANCE

Land has a number of advantages for local leaders as a basis for raising a significant share of the revenues necessary to meet local needs. For the sake of simplicity, the different land-based finance instruments have not been separated here nor are their individual advantages described, but the overall benefits of this group of financing tools are simply identified.

Land-based taxes and fees are difficult to avoid

Land has a fixed location and is immovable. This is important because “fixed and immovable” means that collecting a fee or tax tied to land will not alter its future location. A local tax on income or retail sales may alter household decisions on where to live, work or shop, but a tax based on land or property will not change the location of that land. While the tax may influence the ownership and usage of the land, it has no effect on location. This immobility in the tax base makes land and property an attractive revenue base.

In addition, improvements and changes in land use tend to be highly visible and readily discovered by local officials.

Land-based instruments tend to promote transparency and accountability in local government

Because land-based revenue instruments tend to be highly visible, they also promote transparency and accountability in local government. Taxpayers are more attentive and engaged when the tax bill is more visible and transparent. Taxpayers are also more willing to pay their taxes when they see the benefits of improved infrastructure and services in their own community and neighbourhood. In this way, well-administered and communicated land-based finance instruments can promote good governance and responsible citizenship

at a local level. Of course, its visibility can also often make the land and property tax an unpopular mechanism which can incite significant political resistance. Ongoing communication with the public is therefore important.

Land-based taxes promote effective, compact and productive land use

As with any other valuable and scarce resource, how land is used depends in part on its price. Price in this instance refers both to the cost of acquiring land and to the cost of holding the land. Speculators acquire land and often hold it in the hope that land prices will increase, especially if holding the land is costless. Implementing an effective land tax (as opposed to a tax on both land and buildings) increases the cost of holding land and nudges landowners to either use their land productively or sell it. At the same time, if there is an on-going cost to holding land, residential and commercial land and property owners will use only as much as they need and are willing to pay for. The combined result is that urban development will be more compact as, on balance, people use less land and all land is used more productively.⁴

Land-based taxes and fees strengthen local administrative capacity

To realize the potential of local administration, local governments must be assigned specific administrative functions and control over the resources needed to carry out those functions effectively. Local administrators have greater familiarity with building and development activities in the city. Local authorities are often tasked with a host of administrative and regulatory responsibilities related to land management. If they are also equipped with taxing authority, they can more effectively regulate building permits, business licences, land-use plans and other related functions.

⁴ Banzhaf, H. Spencer and Lavery, Nathan (2010). Can the land tax help curb urban sprawl? Evidence from growth patterns in Pennsylvania. *Journal of Urban Economics*, 67(2), pp.169-179.

INTRODUCING LAND-BASED FINANCE

Land-based taxes and fees are fair

Land-based taxes and fees are often considered to be “benefit taxes”, meaning those who own or control land that receives greater benefits from public actions and urban services will also pay more in taxes and fees (if the charge is based on land value). Some authors argue that land-based revenues can be progressive in nature as ownership is generally concentrated in upper income groups.⁵

Land-based taxes and fees can be pro-poor through improved tenure security and expanded civic engagement

If the linkages between land-based charges, tenure security and service improvements are carefully designed and clear, such charges can promote security and engagement on the part of vulnerable groups. In turn, more secure land rights and visible public investment will encourage private investment and greater levels of participation in civil society.

1.3. LAND-BASED FINANCE AROUND THE WORLD

The accumulated evidence worldwide supports several observations and conclusions regarding municipal finance in developing countries⁶:

5 Land-based charges may still constitute a significant burden for low-income groups. Consequently, many governments create programmes to reduce or even eliminate land-based taxes for the poorest households. Unfortunately, the remedies that exist to relieve the burden on the poor through the land tax system often undermine the efficiency of the administration of the tax and should be used with caution.

6 See for example: Farvacque-Vitkovic, Catherine and Mihaly Kopanyi (2014). *Municipal Finances: A Handbook for Local Governments*, Washington, D.C.: World Bank; Bahl, Roy and Richard M. Bird, (2018). *Fiscal Decentralization and Local Finance in Developing Countries: Development from below*, Cheltenham, UK: Edward Elgar Publishing; Ingram, Gregory K. and Yu-Hung Hong (eds.) (2010). *Municipal Land Revenues and Land Policies*, Cambridge, MA: Lincoln Institute of Land Policy; McCluskey, William J., Gary C. Cornia and Lawrence C. Walters (eds.) (2013). *A Primer on Property Tax: Administration and policy*, Chichester, UK: Wiley-Blackwell.

- ❑ In virtually all developing countries, sub-national governments, especially municipalities, rely on a combination of central government transfers, user charges and local taxes.
- ❑ It is widely accepted that taxes and charges related to land are generally underused and often unsystematic in developing countries.
- ❑ Even if they were more aggressively employed, land and property taxes are unlikely to provide sufficient revenue to fully finance major social expenditures such as education, health care and social assistance.
- ❑ Nonetheless, a low-rate, uniform land and property tax has an important role to play in financing local governments, whether rural or urban.
- ❑ Other “land-based” subnational taxes and charges—for example, betterment taxes and even transfer taxes to a limited extent—may be both feasible and, in moderation, desirable.

Consequently, land-based taxes and charges can and should be greatly improved, but they will always constitute only part of the bundle of revenues that local governments require in order to meet the burgeoning demand for services and infrastructure.

Although it is generally agreed that land-based taxes should be the fundamental source of revenue for subnational governments, such taxes typically account for less than 1 per cent of Gross Domestic Product (GDP) and less than 4 per cent of all tax revenues in developing countries.

Table 2 summarizes the findings from a recent International Monetary Fund (IMF) survey of 64 countries.⁷ The table reports average national revenue from land and property taxes as a percentage of GDP

7 Norregaard, John (2013). *Taxing Immovable Land and property: Revenue potential and implementation challenges*, IMF Working paper WP/13/129, Washington, D.C.: International Monetary Fund.

INTRODUCING LAND-BASED FINANCE

and as a percentage of total general taxes collected. Land and property tax practices appear fairly similar across regions for those regions with at least 13 countries included in the sample. However, the really important variations are masked when the data are presented in this format.

Many of the countries included in the sample are classified by the World Bank as “high income” countries. When the data are broken down by income level, as shown in Table 3, a very different picture emerges. As country income levels increase, so too does reliance on land and property taxes, both as a percentage of GDP and as a percentage of total general taxes.

Table 2: Land and property tax revenue by region

Region	Number of countries	Average % of GDP	Average % of total general taxes
Africa	3	0.20	3.34
Americas	13	0.73	6.12
Asia	13	0.76	6.64
Europe	33	0.75	5.39
Oceania	2	1.78	8.23
Total Sample	64	0.75	5.78

Source: Norregaard (2013).

Table 3: Land and property tax revenue by country income level

World Bank income level	Number of countries	Average % of GDP	Average % of total general taxes
High Income	34	1.78	7.36
Upper middle	19	0.94	4.87
Lower middle/Low	11	0.44	2.50

Source: Norregaard (2013).

Even income does not tell the whole story. Countries make fiscal choices for a variety of historical and political reasons. Policy instruments such as land-based taxes are adapted to local contexts in all countries.

Thus, one country may choose to rely heavily on land-based taxes and fees while another in a very similar economic position may choose to rely more on other sources. Consequently, any aggregation and cross-country comparison is inevitably an oversimplification. Nonetheless, the broad pattern shown in Table 3 indicates that as country income levels increase, reliance on land and property as a revenue source does as well.

This pattern is due at least in part to another important consideration: the quality of governance. The World Bank has, for several years, compiled data on six dimensions of governance at the country level.⁸ While there is a degree of correlation between the six dimensions, the overlap is not perfect. However, for each dimension, countries are scored and given a percentile rank.

One of these dimensions is government effectiveness and captures perceptions of:

- the quality of public services,
- the quality of the civil service and the degree of its independence from political pressures,
- the quality of policy formulation and implementation, and
- the credibility of the government’s commitment to such policies.

Table 4 reports the degree of reliance on land-based taxes by government effectiveness ranking. The table makes clear that as government effectiveness increases, so too does reliance on land-based taxes and fees. Here again the increased reliance is both as a percentage of GDP and as a percentage of total general taxes collected.

What is not clear from tables 3 and 4 is the direction of causality, if there is one. Are well governed and wealthy

⁸ Kaufmann, Daniel and Aart Kraay (2017). World Governance Indicators. Available at: <http://info.worldbank.org/governance/wgi/#home>

Table 4: Land and property tax revenue by government effectiveness rank

World Bank Government Effectiveness Percentile Rank	Number of countries	Average % of GDP	Average % of total general taxes
90-100	18	2.10	8.36
70-90	15	1.14	5.89
50-70	14	0.98	4.86
< 50	16	0.67	3.58

Source: Norregaard (2013); Kaufmann and Kraay (2017). *World Governance Indicators*

countries more likely to rely on land-based taxes because of greater administrative capacity? Or are countries that rely more on land-based taxes and fees more likely to be well governed because the resources needed for quality governance are available? Or is there a positive feedback loop with steps to improve governance leading to increased revenue, leading to economic growth and demand for better government services, leading to efforts to further improve governance, etc.? Definitive determinations merit further study, but there is some evidence to suggest that developing the revenue system can be the point of entry for broader capacity development.⁹

... developing the revenue system can be the point of entry for broader capacity development.

Developing countries seeking to improve land-based finance often pursue a revenue target of about 1 per cent of GDP and 5 to 6 per cent of total general taxes. Whether such a goal is attainable will depend on recognizing and overcoming common challenges and impediments.

1.4. CHALLENGES AND CAUTIONS

Land-based finance tools come with certain challenges which affect their suitability in different contexts. Writing in 2008, two well-respected economists with substantial experience in international public finance observed:

*Many developing countries have strengthening subnational—local and regional—governments as one item on their development policy agenda. Students of public finance have studied the subject and practitioners in developing countries have installed many different versions of subnational government tax. Still, there is no general consensus about what works and what does not.*¹⁰

Part 3 of this Guide provides a more detailed discussion of common challenges and impediments often encountered by those seeking to expand or implement land-based finance. Before considering strategies for overcoming such challenges, it is important to first have a clear vision of the opportunities and capacities that exist in the current environment. Part 2 provides guidance on how to systematically assess these opportunities.

9 Kaldor, Nicholas (1963). Will underdeveloped countries learn to tax? *Foreign Affairs*, 41, pp. 410-419.

10 Bahl, Roy and Bird, Richard M. (2008). Subnational taxes in developing countries: The way forward. *Public Budgeting & Finance* 28 (4), pp. 1-25.



PART 2

SEARCHING FOR
OPPORTUNITIES

KEY POINTS IN PART 2

Policy makers should carefully weigh and inventory four key dimensions of the local environment:

- ❑ The legal environment, both in terms of current practice and the climate for potential changes
 - Any particularly relevant advantages or weaknesses in the current legal structure and institutions related to land should be identified
- ❑ The administrative capacity of government agencies that may be called on to administer any new policies
 - Any particular strengths or vulnerabilities in administrative agencies that may play a role in implementing or improving a land-based finance instrument should be identified
- ❑ The historical and cultural context within which the new policy will need to function
 - The opportunities and threats presented by the local culture and history related to land, land rights, land use and compliance with government fees, charges and taxes should be identified
- ❑ The condition and maturity of land markets
 - The nature and maturity of local land markets should be assessed

Carefully and accurately detailing the existing strengths and weaknesses, and the desired goals, will drive both the alternative policy actions considered and the criteria used to evaluate and choose between alternatives.

Overcoming legal bottlenecks

- ❑ Laws should set standards and define procedures and approaches, but not specify methods.
- ❑ There will always be a need for oversight to assure transparency and accountability. This requirement implies that multiple levels of government will likely need to be involved with land-based finance.

Assessing administrative capacities

The objective of revenue administration is to:

- ❑ Adequately fund needed infrastructure and public services
- ❑ By timely collecting the correct amount of taxes and fees from the intended target group
- ❑ While minimizing administrative costs for government and compliance costs for taxpayers.

Determining the way forward in adopting, adapting and implementing a land-based finance instrument requires careful consideration of the level of administrative resources required and where those resources are located within the government.

Land administration

- ❑ The central role for land administration in the context of land-based finance is the identification of those who will incur the tax obligation and connecting those entities to specific land plots.



Part 2: Seeking opportunities

- Priorities
- Legal bottlenecks
- Administrative capacity

Land and property valuation

- ❑ Every jurisdiction seeking to successfully implement and sustain a tax on land and property faces similar challenges and must successfully carry out a common set of tasks. At the same time, land-based finance instruments differ widely on one key dimension: the approach taken to determine the value of land and property for tax purposes.
- ❑ The approaches taken differ in their data requirements, administrative complexity, equity across taxpayers and the degree to which revenues keep pace with economic growth.

Rate setting and timing

- ❑ Best practice internationally suggests that the range of acceptable rates will be set at the national or regional level. Within this range, local governments set the final rate based on local needs and spending priorities.
- ❑ To secure public support and compliance, it is important to inform and engage the public in setting the spending plan and establishing the final tax rates.
- ❑ Revenue generation policy cannot be designed in isolation from other, often competing, goals. It is essential to recognize that any full or partial exclusion from the tax system will necessarily increase the tax burden on remaining taxpayers.
- ❑ An informed public will support and comply with taxes that are reasonable and devoted to visible public projects and services valued by the population.

Billing functions

- ❑ The key point is that taxpayers must be notified in a reliable and timely way.
- ❑ Taxpayer questions and appeals must be received and processed promptly and fairly.

Collection functions

- ❑ The evidence is strong from a variety of jurisdictions that compliance improves markedly when the taxpayer's cost to comply is reduced. This can be done by increasing the options available for paying the tax at banks, utility offices, through mobile phones, etc.
- ❑ The collection function also includes pursuing those who avoid paying their obligation when due. Sanctions must be applied fairly and within the parameters set forth in law, but they must be applied where called for.

Best practice from many jurisdictions suggests that while the majority of the land-based finance systems may be administered at the local level, there should be a regional or national agency responsible for oversight, evaluation and reporting on local performance.

SEARCHING FOR OPPORTUNITIES

While the number of potential land-based finance instruments is not large, countries implement many variations on these tools around the world and it is essential to recognize that instruments that work effectively in one context may not be feasible in another, or they may require substantial adaptation to be useful in another context. In considering the potential of any instrument and identifying needed adaptations, policy makers should carefully weigh and inventory key elements along four dimensions of the local environment:

- ❑ The legal environment, both in terms of current practice and the climate for potential changes
- ❑ The administrative capacity of government agencies that may be called on to administer any new policies
- ❑ The historical and cultural context within which the new policy will need to function
- ❑ The condition and maturity of land markets

Searching for opportunities through this assessment and inventory will greatly improve the quality and likely success of the policies adopted.

2.1. TAKING INVENTORY AND ESTABLISHING PRIORITIES

Matching potential instruments to the local need requires an understanding of local needs, capacities and weaknesses. Understanding local capacities as they relate to land-based finance requires a careful assessment and inventory of the local environment which is likely to reveal both weaknesses and strengths. Adapting land-based finance instruments to meet local needs involves building on existing capacities and overcoming weaknesses.

When developing or improving a land-based revenue system, it is important to bear in mind four observations gleaned from a variety of international experiences:

1. While in the process of improving the system, the best strategy may involve second-best approaches as steppingstones towards a complete and adequate system. For example, physical land characteristics such as location and size, or market-assisted valuation information may be reasonable substitutes for actual land sales data until such data become available.
2. It is essential to develop or use well-managed institutions to administer land revenue, including maintaining records in one agency, using the right collection machinery and gathering reliable sales transaction data.
3. Accurate and current land information, including physical descriptions and valuation, is critical to a successful land-based revenue system.
4. The land-based revenue instruments play a key role in strengthening subnational finance, promoting rural development and ensuring an equitable distribution of the tax burden.

“The best strategy may involve second-best approaches as steppingstones towards a complete and adequate system.”

Consequently, the inventory proposed here should include identification of:

1. Any particularly relevant advantages provided by, or weaknesses apparent in, the current legal structure, legal institutions and legal practices related to land, land administration, land-use planning and existing land-based revenue instruments
2. Any particular strengths or vulnerabilities in administrative agencies that may play a role in implementing or improving a land-based finance instrument.
3. The opportunities and threats presented by the local culture and history related to land, land rights, land

SEARCHING FOR OPPORTUNITIES

use and compliance with government fees, charges and taxes.

4. The nature and maturity of local land markets across the spectrum of land uses, geographies and economic levels.

It may seem that the needs are painfully clear. However, effectively matching land-based finance instruments to those needs requires a careful articulation of the problems to be addressed. As the noted business scholar, Russell Ackoff, once observed, we fail more often because we ask the wrong question than because we get the wrong answer. Carefully and accurately detailing the problems to be addressed and the goals to be pursued will drive both the alternative policy actions considered and the criteria used to evaluate and choose between alternatives.

“We fail more often because we ask the wrong question than because we get the wrong answer. Carefully and accurately detailing problems and goals will drive both the alternative policy actions considered and the criteria used to evaluate and choose between alternatives.”

A local government may have a number of goals it seeks to achieve through land-based revenues. Such goals can often be supported and funded in whole or in part through land-based revenue instruments.

- ❑ **Broaden the current tax base:** The current tax regime may place too heavy a burden on too small a segment of the population, and local leaders may seek to improve fairness and lighten individual burdens by increasing the number of taxpayers.
- ❑ **Recover the cost of providing public goods:** When the cost of public services cannot be recouped

through user charges, those costs must be paid for via taxes. Often a local government has specific services it wants to provide and seeks a method to cover the costs of these services.

- ❑ **Recover the cost of providing public investments in infrastructure:** Public investments in infrastructure are essential for improving urban conditions and often result in substantial increases in private wealth through land values. Local governments need a method for recovering the costs of such public investments.
- ❑ **Encourage efficient land use:** In a rapidly urbanizing world, communities need to encourage the efficient use of land; well-designed land-based instruments can help to do this.
- ❑ **Improve equity:** In many instances, vulnerable populations in urban areas lack adequate access to land. Well-designed and administered land-based revenue instruments can help to expand the availability of land and housing while providing funding for improving equitable access to services.
- ❑ **Provide public compensation for the private use of public land:** In many countries, the public is either the sole owner of land or at least a major landholder. Granting private access and use of public lands is common, but should be priced appropriately to reflect both the right of exclusive use and the cost of public services.
- ❑ **Value sharing:** Public action often results in substantial increases in private wealth. Whether it is through public investment in infrastructure, granting permission for land use, or simply increased demand due to increased population, the public should be able to share in the increased wealth.
- ❑ **Recover the cost of required supervision of private construction:** Private development must be publicly supervised in order to assure that such development is consistent with public goals and meets accepted health and safety standards.

SEARCHING FOR OPPORTUNITIES

❑ **Fund the land registration system:** Land registration systems are key components of the management and tenure security system of local land and must have adequate funding to stay current.

provide additional context for the inventory and search for opportunities.

2.2. OVERCOMING LEGAL BOTTLENECKS

Public finance experts have identified a number of criteria that can be used to evaluate revenue policies and Box 2 lists the most common. Goals and criteria

Every nation has relatively individual legal traditions. While many derive from common historical sources, local adaptations over the years have produced

Box 2: Revenue policy evaluation criteria

Common tax evaluation criteria considered in relation to any tax include the following:

- ❑ **Independent and autonomous revenues:** In order for a government to be able to reliably budget resources, the government needs control over its revenues and flexibility in adjusting revenues to meet community needs. While other levels of government may determine the legal environment and range of acceptable rates, governments need to be able to raise or lower revenues at least at the margin in response to local needs.
- ❑ **Adequate and stable revenue:** In order to facilitate effective budgeting, own-source revenues should be sufficient to meet basic expenditure needs and should be largely reliable.
- ❑ **Immobility of base:** Locally imposed taxes should be levied on a tax base that cannot be easily relocated to avoid the tax.
- ❑ **Benefit principle:** The taxes paid by a given taxpayer should correlate with the benefits received from government by that taxpayer.
- ❑ **Ability to pay:** The taxes paid by a given taxpayer should take into consideration a taxpayer's income capacity and ability to pay.
- ❑ **Compliance costs:** The costs borne by taxpayers to understand the tax, calculate their tax obligation and pay the tax should be kept to a minimum.
- ❑ **Ease and cost of administration:** The costs incurred by government to administer the tax, including assessment, notification and enforcement, should be kept to a minimum.
- ❑ **Transparency:** Tax policy should be clear to both administrators and taxpayers, including the method used to calculate the tax obligation, the amount of tax due, along with all payment and enforcement provisions.
- ❑ **Political acceptability:** Tax compliance is in direct proportion to the public's understanding and willingness to pay the tax. Political support from community leaders and the public is essential.
- ❑ **Horizontal equity:** Similarly situated taxpayers should pay a similar tax.
- ❑ **Minimal economic distortions:** There should be relatively few changes in consumption or investment decisions made by taxpayers in response to tax policy. Any changes that occur should be minimal.

Neither land-based taxes and fees nor any other taxes strictly adhere to all these criteria in practice. Some trade-offs exist in all tax policy decisions and taxpayer's perceptions differ dramatically depending on circumstances and attitude. Policy designers must also harmonize land-based charges with other taxes and fees to assure that the overall burden placed on residents and businesses is consistent with national policy parameters.

SEARCHING FOR OPPORTUNITIES

important localized variations and a few common themes have emerged that have been endorsed by the international community of nations.

In 2012, the United Nations General Assembly reaffirmed by resolution the international commitment to the rule of law. That resolution recognizes that

“... all persons, institutions and entities, public and private, including the state itself, are accountable to just, fair and equitable laws and are entitled without any discrimination to equal protection of the law.”¹¹

In addition to accountability and equal protection, this “rule of law” concept requires that laws be publicly disseminated and consistent with international human rights norms and standards.

It is also important to recognize the “levels” and inter-relationships between legal levels. Nearly every country has a written constitution which serves as the most definitive national law. Constitutions are intended to be relatively permanent and changes generally require extraordinary majorities within the legislative body and/or a national election. They are often also the most general of all the levels in their provisions.

Constitutional provisions are then interpreted by the legislative body and enacted through statutes and laws. But such laws are frequently not specific enough to be effectively administered. Consequently, administrative

agencies are empowered to draft regulations that flesh out the statutory provisions and provide the details needed for actual implementation. (See Box 3)

Box 3: Land-based finance in Colombia

By national statute, Colombia has authorized the use of a broad array of land-based finance tools for local governments. However, to implement any given instrument, each municipality must adopt a local ordinance authorizing the use of that instrument, and also develop local regulations to guide the relevant administrative agencies.

In a setting with national and subnational governments, the legal framework for permissible land-based finance instruments may be established by the national constitution and statutes, but the subnational governments must implement the instruments through local ordinances and regulations.

In general, laws should set standards and define procedures and approaches, but not specify methods. Because methods can change as local capacities and technologies change, methods should be spelled out in regulations that are more readily updated.

To avoid confusion and potential conflicts, the key administrative capacities for implementing land-based finance should be identified and their organizational location specified in law.

To the extent possible, legal decisions should be made at the lowest level, both in location within the government structure and within the legal structure. Regulations are preferred to statutes, and statutes are preferred to constitutional provisions.

In addition, no legal system can completely address every eventuality. Often, opportunities exist that are simply not contemplated in the law. (See Box 4)

¹¹ UN General Assembly, Declaration of the High-Level Meeting of the General Assembly on the Rule of Law at the National and International Levels : resolution / adopted by the General Assembly, 30 November 2012, A/RES/67/1, (para.2), available at: <https://www.refworld.org/docid/50c5e6e02.html> [accessed 16 January 2020]

SEARCHING FOR OPPORTUNITIES

Box 4: The law as a continuum

In considering potential changes in land-based taxes and fees, it is important to recognize what legal regimes do and what they do not do. Legal systems often specify and defend specific human rights, such as the right to control land and property without fear of arbitrary seizure or encroachment by other parties including the state. Legal systems also prohibit certain types of action or activities such as property and violent crimes. Legal systems also establish specific institutions and procedures for creating or modifying laws, for enforcing existing laws, for adjudicating disputes and prosecuting crimes and for selecting government officials.

On the other hand, no legal system is fully comprehensive. Debates about whether the list of human rights includes all such rights are common. Legal systems may specifically prohibit some acts, but they cannot provide a comprehensive list of approved acts. Legal systems establish institutions and procedures, but they cannot foresee future needs in a society. Ultimately, the peace, security and prosperity of a community must rely on the conscientious actions of individuals.

This very broad view of law suggests that legal systems can be thought of as defining a continuum of actions. At one pole lies those acts which are specifically prohibited, including both crimes and violations of human rights. At the other pole lies the relatively small set of acts which are required in a society, such as obtaining a medical licence or paying taxes. Figure 1 provides a visual representation of this continuum.

The point is simply that when assessing the legal aspects of land-based finance it is important to consider all three elements along the continuum. Legal requirements and prohibitions are very important. But so is the range of actions not currently contemplated in the law. While attending to the specific prohibitions, the balance of the continuum often provides a fairly broad range for creative development and adaptation of land-based finance instruments.



There will always be a need for oversight to assure transparency and accountability. This requirement implies that multiple levels of government will likely need to be involved with land-based finance.

There will always be a need for oversight to assure transparency and accountability. This requirement implies that multiple levels of government will need to be involved with land-based finance.

The instrument may be largely administered at a local level, but a more central agency should be assigned oversight and performance review responsibilities to

assure that the instrument is implemented efficiently and effectively.

The combination of law and regulation should address the policy issues inherent in land-based finance. Land-based finance laws should define key policy variables including:

- What is taxable
- What is meant by taxable value
- The range of allowable tax rates
- When the tax payment is due

The law should also assign administrative responsibilities to specific departments or agencies and define how the resulting revenues will be distributed. It should also spell out the collection process and the range of sanctions permitted in pursuing tax avoiders.

The Legal Inventory

Assessing the strengths, weaknesses, opportunities and threats regarding the legal aspects of land-based finance involves a careful and thoughtful inventory of current law and practice. It may be that some version of a particular land-based instrument has been implemented at least on a limited basis (say, as it relates to farmland, but never in cities). It may also be that existing legal language is sufficiently broad to allow for an expansion of current practices or a re-interpretation without changes.

The following questions are intended to be suggestive as the local legal inventory is conducted. The objective of the inventory is to identify both needed legal changes and existing legal opportunities for change in current practice.

- ❑ If there is a written constitution, what does it enable or limit regarding land-based taxes, fees and charges? (See Box 5)

Box 5: Examples of constitutional provisions

Taiwan: Private property rights are secured, but all incremental changes in land value are specifically owned by society as a whole.

Mexico: The right to communal ownership of land for traditional communities is affirmed.

Ghana: Communal land (“stool and skin land”) ownership and governance are laid out.

- ❑ What laws, statutes and regulations are already in place regarding taxes, fees and charges applied to any type of land or land use?
 - How standardized are these laws, etc., across levels of government and jurisdictions?
 - How uniformly are they enforced?
 - Which agencies within government currently administer these laws, etc.?
 - How transparent is this administration?

- How well does the public accept and comply with each?
 - How much revenue do these laws, etc., currently generate?
 - Who receives and uses the funds collected?
- ❑ What does this inventory suggest about opportunities for action?

2.3. ASSESSING ADMINISTRATIVE CAPACITIES

As noted previously, land-based finance involves a number of key administrative functions ranging from adequate land administration processes to actually collecting any taxes or fees levied. This section identifies the key functions and provides guidance on the assessment of capacities for each.

The goals of administration are straightforward but can easily be lost in the practical details. The objective is not, or at least should not be, to maximize revenue. The objective is to

- ❑ Adequately fund needed infrastructure and public services
- ❑ By timely collecting the correct amount of taxes and fees from the intended target group
- ❑ While minimizing administrative costs for government and compliance costs for taxpayers.

In sum, determining the way forward in adopting, adapting and implementing a land-based finance

“Determining the way forward in adopting, adapting and implementing a land-based finance instrument requires careful consideration of the level of administrative resources required and where those resources are located within the government.”

instrument requires careful consideration of the level of administrative resources required and where those resources are located within the government. If the administrative resources do not currently exist, they must either be developed or acquired if the overall effort is to be successful.

2.3.1 Land administration

Applying a tax, fee or charge to “land and property” requires a good deal of clarity about exactly what will be taxed. There are several options for the precise definition and the final selection will be determined by the policy goals being pursued and practical administrative limitations.

Tangible and intangible, real and personal property

— Most jurisdictions limit land-based assessments to tangible, real property, meaning land and permanent improvements such as buildings. However, there are clearly other types of property, such as business inventories, motor vehicles, other movable machinery and equipment, office equipment and fixtures, even securities and bank deposits. Typically, land and permanent improvements are referred to as immovable or real property. Motor vehicles, inventories, machinery and equipment and the like are referred to as personal property. Intangible property can be owned and transferred between parties, but it has no physical substance.

Conceptually, if these other properties are also included in the definition of property to be taxed, the final tax rate needed to achieve a given revenue target could be significantly lower.

Broadening the concept of property to include some or all of these other tangible and intangible categories may be attractive, though doing so significantly increases the administrative challenges and has the potential to create unfortunate incentives for taxpayers. Adding

moveable equipment or business inventories requires the ability to track and value such property. Taxing equipment, inventories, securities or bank deposits gives taxpayers the incentive to change their behaviour in order to minimize the tax when they would not have done so otherwise. (See Box 6 for an example.) To simplify administration and minimize changes in taxpayer behaviour, most developing countries focus on tangible land and permanent improvements, and charge either landowners, occupants or both.

Box 6: Puerto Rico inventory tax

In 2017, Puerto Rico was devastated by two hurricanes. A lack of building materials on the island greatly hindered rebuilding efforts. In the years prior to the storms, Puerto Rico imposed a heavy tax on business inventories and as a result, building supply companies had minimized their inventories in order to avoid the tax. This behavioural response had serious consequences for the people and businesses of Puerto Rico.

Land only, improvements only, or both? — There are good reasons to concentrate on land as the foundation for the tax or charge. Land control tends to be concentrated in the hands of a society’s better-off households. As a result, land taxes often fall most heavily on those with the greatest ability to pay.

A second reason to focus on land is that taxing land tends to discourage speculation and hoarding of land and increases the supply available to the general population. It also encourages more efficient and compact land use and reduces sprawl.

A third important reason derives from the recognition that land value is socially created. Land in the centre of an urban area is more valuable only because more people are willing to compete for control of those land plots. Competition and demand create value and lead to increased value. Since social dynamics create land

value, thoughtful observers (including economists) have argued for over 200 years that land should be taxed to provide for the common good.

There are also sound reasons that many countries apply land-based taxes to permanent improvements. Here again, the value of permanent improvements tends to be correlated with ability to pay and a tax on improvement value tends to assign more of the tax burden to those best able to afford it.

Another very important consideration derives from the benefit principle. The accompanying Box 7 briefly describes this principle. To the extent that improved properties receive a greater share of public services, a tax on buildings and other permanent improvements can serve as a benefit tax.

Box 7: The Benefit Principle

A widely accepted principle in public finance, it states that those who receive the benefits from public services should pay for those services, either through direct user charges or through taxes proportionate to the benefits received. For many public services, it is difficult to assess user charges. In some cases, if the service is provided at all, it is provided for the entire neighbourhood or community (for example, street lighting). In other cases, the benefits extend beyond the direct recipients of the service (for example, public education). When a user charge cannot be collected directly from service recipients, a broad-based tax can be levied to fund the service. Similarly, if the benefits are concentrated, the charge or fee may also be concentrated. For example, development fees assessed at the time a land use change is approved. Ideally, the tax or fee paid by a given taxpayer will be proportionate to the value of services received.

Existing or new land and property value? — One of the key distinguishing features among land-based finance instruments is whether the tax applies to existing land and/or property, or to newly created value resulting from some public action.

Taxing existing land and property value can be done through annually recurring taxes or through one-time charges. Such taxes and charges can apply either to an entire community or to specific neighbourhoods that will benefit from service and infrastructure improvements.

Public actions that affect land values include granting permissions to:

- Convert agricultural land to a more urban use,
- Redevelop residential properties at higher densities, or
- Convert residential land to a commercial or industrial use.

Each such action increases the attractiveness and demand for the land and therefore its market value. Private landowners will receive the bulk of this new value in the form of higher profits, but it is both reasonable and appropriate for the public to share in some portion of the gain.

Finally, land values in growing urban areas change because of market dynamics, independently of any specific public action.

The central policy question is whether the tax targets existing land and property on the one hand, or changes in value tied to public actions and changing market conditions.

The following table summarizes the policy dimensions involved in defining what is taxable. The examples given are only common examples and other examples are provided later in the Guide. This Guide focuses on land-based instruments and does not discuss taxes and charges levied on personal property or intangible property.

SEARCHING FOR OPPORTUNITIES

Table 5: Policy dimensions of land-based finance

Type of property			Example Land-based Instruments applied to	
			Existing value	Change in value
Tangible	Real	Land	Recurring land tax	Land value increment tax
		Improvements	Recurring building tax	Development density bonus charge
		Both	Transfer tax or stamp duty	Betterment charge
	Personal	Recurring tax	Not normally done	
Intangible			Wealth tax	Generally taxed through the income tax

Land administration functions

Strong land administration practices support a number of public functions ranging from protecting land rights and providing security of tenure, to enabling quality land-use planning and urban development. The central role for land administration in the context of land-based finance is the identification of those who will incur the tax obligation and connecting those entities to specific land plots. The list matching land to taxpayers is known as the fiscal cadastre.

“The central role for land administration in the context of land-based finance is the identification of those who will incur the tax obligation and connecting those entities to specific land plots.”

The fiscal cadastre need not be identical with the legal cadastre (sometimes called the “Land Book”). Effective land-based finance does not require the resolution of all competing legal claims. The expectation is that the two cadastres will eventually be merged into a single land registry that is used by planners, emergency response teams, the courts, tax administrators and the public. But in the short to medium term, the fiscal cadastre should include a complete list of all land plots and an indication of who the parties are that will be responsible for any tax obligation.

In some contexts, the responsible party may be the landowner, but this need not be the case. If all land is owned by the government, held in common or simply informally occupied, the responsible party may be the leaseholder or the occupant. If tax administrators have difficulty locating landowners, it is not uncommon to collect the tax from the occupant or the party that benefits from the land use. (See Box 8 for an example.) The occupants can then recover their payment from the landowner if appropriate.

Box 8: Recurring residential taxes in France.

There are two residential land and property taxes in France, called the *taxe d’habitation* and the *taxe foncière*. The *taxe d’habitation* is payable by the *occupier* of a French residential property, who was occupying the property on January 1st. Even if the property was empty, if it was ‘capable’ of occupation, the tax is still payable. The *taxe foncière* is payable by the *owner* of a French home. If the property is occupied by the owner, both taxes are paid by the owner.

Both the fiscal cadastre and the property registry may also include information on the nature of land rights. In many jurisdictions, simply occupying land does not include the same range of land rights. As noted in the UN-Habitat/GLTN *Social Tenure Domain Model*, different forms of land tenure can be acknowledged and registered. These various tenure arrangements do not all have the same value in the marketplace and therefore may not be treated the same way in the

land-based finance system. It is important therefore that the fiscal cadastre record as precisely as possible the nature of the tenure and land rights of the responsible parties.¹² (See Box 9.)

Box 9: Land titling in Thailand.

Thailand recognizes five different land titles. In addition to freehold title deeds (*Chanote—Nor Sor 4 Si*), the Thai system includes:

- ❑ Nor Sor 3 Kor—The land in question has been measured and documented by the Land Department. Such land can be sold, transferred or mortgaged. This title can be converted to Chanote title with a petition if there is no opposition to the petition.
- ❑ Nor Sor 3 Sam – The land has not been measured by the Land Department, so exact boundaries are not defined.
- ❑ Nor Sor 2 Song—Entitles the holder to occupy and use land for a temporary time period. The title can be sold and transferred by inheritance.
- ❑ Sor Kor 1 Nung—This document is a notification of possession of land and entitles the holder to occupy and use the land for farming. It may be transferred by inheritance.

Most countries have some form of land registration and may even maintain distinct fiscal and legal cadastres. In many instances however, the listings are incomplete and do not include all of the land (and improvements if relevant). Cadastral systems also vary depending on whether land is owned privately, by the state or communally. In some instances, one agency may maintain land lease records, but may not make these records readily available to tax administrators.

¹² For additional details, see Enemark, Stig, Bell, Keith Clifford, Lemmen, Christiaan and McLaren, Robin (2015). *Fit-For-Purpose Land Administration*, FIG and World Bank, FIG Publication No. 60.

Land administration inventory questions

These questions are intended to guide the evaluation of the current land administration system(s).

- ❑ How extensively is private ownership of land recognized within the country and culture?
- ❑ How complete is the land rights registration system? Is there more than one? If so, are they compatible?
- ❑ How many different recognized types of land tenure are there?
- ❑ How secure is tenure for the typical household?
- ❑ How effective are the courts in enforcing private land and property rights?
- ❑ How energetic are local authorities in enforcing land occupation and land use requirements?

2.3.2 Land and property valuation functions

The amount of tax due is a function of the value of the taxable base and the applicable tax rate. Unlike most other taxes and fees, determining the value of the taxable base for land-based taxes and fees can be technically challenging. Land is unlike other goods that are sold for clearly identified prices. Determining the value of a plot of land and attached buildings is much less clear, especially if the land and buildings have not been sold in the market for decades or ever. Even if there is a reported transaction, verifying that the reported transaction price is reasonable requires data and expertise. While there are simpler valuation methods based on the characteristics or size of land and buildings, valuation functions still require adequate staff time and knowledge.

The simplest land-based tax or fee is based on the physical attributes and location of the land and property. This could be simply a flat fee for each new building plot created when an agricultural plot is converted to more urban usage. Or it could be a fixed fee per square metre of land area.

SEARCHING FOR OPPORTUNITIES

While this approach is simple to administer, equity can be improved if more property-specific information is taken into consideration. Collecting additional information requires additional resources and increases administrative complexity.

Given the number of properties that need to be processed, it is likely that a computerized “mass appraisal” system will be needed. This further increases the demands placed on the administrative agency.

In the most sophisticated valuation systems, detailed information is maintained on each plot of land and each building or other permanent improvement. Changing market conditions are routinely monitored. Market transactions are used to estimate statistical models relating market value to land and property attributes, and these models are then used to estimate the market value of each individual property in the system.

The database of attributes and taxable values should be publicly available and is often posted on the Internet. The objective in making this information available to the public is to assure taxpayers that they are being treated fairly. Whatever the standard for value and whether or not values are made available to the general public, taxable values must be updated regularly to assure equity and maintain revenue buoyancy.

“The database of land attributes and taxable values should be publicly available and is often posted on the Internet.”

How will taxable value be determined?

Many countries implement some form of land-based tax system, but one of the key dimensions on which these various efforts differ is in the methods used to

determine taxable value. Unlike the taxable value of a retail sale which is set by the sales price, the taxable value for most land-based instruments must be estimated by tax authorities.

Every jurisdiction seeking to successfully implement and sustain a tax on land and property faces similar challenges. The land and property to be taxed must be identified along with the parties responsible for paying the tax. Tax obligations must be accurately calculated for each property on the tax rolls. Notice of the tax obligation must be provided to the responsible parties. Questions and objections from taxpayers must be fielded and addressed in a timely manner. Tax proceeds must be safely collected and accounted for. Tax avoiders must be appropriately pursued. All of these tasks are common to every successful land-based finance system.

Land-based finance instruments differ widely on one key dimension: the approach taken to determine the value of land and property for tax purposes. Some of the differences observed are related to the history of the particular jurisdiction. Some reflect differences in administrative capacity. All of the approaches can be successful in generating stable revenue.

“Land-based finance instruments differ widely on one key dimension: the approach taken to determine the value of land and property for tax purposes.”

The approaches differ in their data requirements, administrative complexity, equity across taxpayers and the degree to which revenues keep pace with economic growth. Table 6 identifies the principal approaches to real property valuation seen around the world. The table also summarizes the main differences on the four dimensions just listed. It should also be recognized that

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Table 6: Land and property valuation approaches in use around the world

Method used to determine taxable value	Data requirements	Administrative complexity	Equity		Revenue buoyancy	
			Horizontal	Vertical		
Non-Market Approaches						
Land area only	Uniform rate applied to land area occupied	Low	Low	High	Low	Low to none
Area-based assessment	Same value constant per square metre (land and/ or floor area) within each location zone and land use category	Low	Low	Land: High Buildings: Low	Low	Low
Value banding approach	Same tax for each property within a range of values	Moderate	Moderate	Moderate	Moderate	Low
Cadastral value approach	Average market value per square metre by zone and land-use class	Moderate	Moderate	Moderate	Low to moderate	Moderate
Market-Based Approaches						
Cost approach	Cost of buying land and constructing the building less depreciation	Moderate to high	Moderate to high	Moderate to high	Moderate to high	Moderate
Comparable sales approach	Value compared to recent sales of similar properties	High	High	High	High	High
Income approach	Capitalized annual income that can be generated by the land and property	Very high	Very high	High	High	High
Annual rental value	Annual rent that could be collected for leasing the land and property	High	High	Moderate to high	Moderate to high	High

nearly all of these approaches can be applied to land only, to constructed improvements (e.g., buildings) only, or to both land and buildings.

As noted in Table 6, the approaches to value are commonly divided into two groups. First, there are approaches based on non-market considerations such as the physical attributes of the land and property and its location. The second group assumes an active real estate market and bases value on current market conditions.

In general, non-market approaches require less information on each individual property and are therefore easier to administer. Because they do not

provide a great deal of differentiation between properties, they also tend to be less equitable in allocating the tax burden. Finally, because they tend to be based on fixed attributes that rarely change, these approaches do not normally keep pace with changes in the economy. In order to maintain revenue growth commensurate with economic growth, tax rates must be adjusted regularly.

There are many examples of countries that use non-market approaches. Countries that use land and/ or building area as the basis for taxation include Chile, India (some states), Israel, Lithuania, Namibia, Poland, Romania, Saint Lucia, Trinidad and Tobago, and Ukraine. The systems in these countries are not

SEARCHING FOR OPPORTUNITIES

all identical by any means, but they are all based on the physical attributes of the land and property and its location. Value banding has proven to be successful in the United Kingdom for valuing residential properties and Latvia has been very successful in using a cadastral valuation system administered by a central agency.

Market-based approaches are more familiar to landowners in Western, industrialized countries since most systems in these jurisdictions are based on some concept of market value. These approaches are employed in the United States, most of Western Europe and much of Latin America. The intent of market-based approaches is to levy the tax as a percentage of the current market (or estimated future) value of the land and property. To the extent that tax assessors keep their values up to date, the tax base will grow (or shrink) with the level of economic activity in the community. They also have the advantage that properties valued the same in the marketplace will pay the same tax, while more (or less) expensive properties will pay a different tax. To be effective in following market changes and changes in general economic conditions, market values should be revised frequently, at least every three to five years.

When applied through recurring annual taxes, these approaches employ the standard valuation methods used by professional appraisers around the world, but they do so in the context of “mass appraisal”; the distinction is in the number of valuations that must be carried out. Private fee appraisers value single properties (or perhaps a fairly small set of properties) at a cost of hundreds of euros per property, or more for commercial properties. Property tax valuation teams must value hundreds to millions of properties within a very limited amount time at a tenth the cost or less per property. The only reasonable way to accomplish the task is to use statistical models to approximate market valuations.

Markets are very discriminating and value location and building attributes quite differently across properties. For example, two seemingly identical apartments in the same building may differ markedly in price because one has a view of the beach and ocean while the other overlooks a parking structure and adjacent buildings. Proximity to public infrastructure, such as highways or public school facilities, also has a significant effect on market value. A market-based mass appraisal approach must identify the principal land and property attributes that differentiate properties, value each attribute and then estimate the overall market value of each property based on its attributes.

There are three standard market approaches to value: cost, comparable sales and income. As indicated in Table 6, each is an attempt to approximate an arms-length market transaction in which a willing buyer and willing seller agree on a price. The cost approach takes the view that no buyer would pay more for land and property than what it would cost to buy comparable land and construct a similar building (less age-based depreciation). The comparable sales approach is based on the claim that no arms-length buyer would pay more for land and property than what other similar and comparable properties are selling for. The income approach views all properties as investments that generate income; buyers (and sellers) will value the land and property based on the discounted present value of expected future cash flows.

In most mass appraisal settings, all three approaches are used but not for all properties. Using the comparable sales approach requires enough sales transaction data to be able to build statistical models relating land and property attributes to sales prices. Because of the data requirements, the comparable sales approach is used most commonly by tax assessors with residential properties. (Jamaica is an interesting example of a country that uses a comparable sales approach to value

all land. All buildings are exempt in Jamaica.) Because there are generally fewer sales transactions and income data may be limited, the cost approach is frequently used for commercial and residential properties when sales transaction data are limited. Large complex properties (e.g., electric utilities) are often required to submit land and property tax returns each year and provide tax assessors with the data needed to use an income approach to value. In principle, any combination of the three approaches could be used on any property, but in a practical mass appraisal setting, only one or at most two approaches are used unless the taxpayer appeals.

The final approach listed in Table 6 is the annual rental value approach. This valuation approach is prevalent in countries that have historical ties to the United Kingdom. In this approach, value is determined by the rental market, and land and property are taxed based on the current rental value (less typical expenses). This approach is still used in the United Kingdom for non-residential properties and it is widely used in former British colonies such as Hong Kong, some parts of India and several African countries.¹³

Valuation function inventory questions

The valuation function clearly requires expertise and resources. The following questions are intended to guide the assessment of the administrative capacity to carry out regular valuations. If the expertise and resources do not currently exist to support the land-based finance instrument of choice, it may exist in another agency or in the private sector. Alternatively, it may need to be developed.

- How many private licensed land and property appraisers (valuers) are there in the country?
- How many licensed appraisers (valuers) work for

the government? Which agencies or departments do they work for?

- What is the level of descriptive detail maintained by government agencies on each individual land plot and related improvements? Does this vary by land use?
- How mature are real estate markets across the jurisdiction and at all market levels (high end, middle income, low income, agricultural, commercial, industrial)? (See Box 10)
- How numerous are real property sales and how available are data on the transaction details?

Box 10: What constitutes a “mature real estate market”?

- An active market in which land and property are traded,
- Financing institutions and mechanisms are available to assist prospective buyers,
- Institutions to facilitate real estate transactions are available and reliable, and
- Land and property transfers are properly recognized and recorded.

2.3.3 Rate setting and timing

Setting the final tax rate is generally a political balancing process constrained by legal limitations and public acceptance on the one hand and revenue needs on the other. The challenges associated with raising sufficient revenue in a manner that is transparent and publicly acceptable can be daunting.

Setting the final tax rate is generally a political balancing process constrained by legal limitations and public acceptance on the one hand and revenue needs on the other

¹³ For a comprehensive review of land and property taxation in Africa, see Franzsen, Riël and William McCluskey, eds., 2017, *Property Tax in Africa: Status, challenges, and prospects*, Cambridge, MA: Lincoln Institute of Land Policy.

SEARCHING FOR OPPORTUNITIES

Best practice internationally suggests that the range of acceptable rates will be set at the national or regional level. Within this range, local governments set the final rate based on local needs and spending priorities. To secure public support and compliance, it is important to inform and engage the public in setting the spending plan and establishing the final tax rates.

When should land and property be taxed?

As suggested in the previous subsection, an important policy consideration is how often land and property should be taxed. The most obvious distinction is between a recurring tax, such as an annual tax on land and buildings, and one-time charges. Recurring taxes are assessed as of a specific date each period, though the actual tax obligation may not be finalized until several months after this date. For example, the tax obligation may be based on land and improvements in place on July 1st of each year. Tax administrators then have several months to finalize valuations, receive appeals, set final tax rates and deliver final tax notices.

There are two main advantages of recurring taxes. First, the number of properties (the base) is much broader. By taxing a larger set of properties, the tax rates needed to achieve a given revenue target can be much lower. The tax burden will also be more equitably distributed. A second advantage is that the tax generates stable on-going revenues that can be used to fund public services and repay public debt.

The major disadvantage of recurring taxes is simply the administrative burden associated with identifying land and property holders, determining the tax obligation, delivering the tax notice and actually collecting the tax.

Typically, with one-time charges, there is some triggering taxable event. This triggering event may occur when land and property changes hands through sale or other land and property transfer. Or it may occur when some public

action is taken that affects the land and property, such as approval of an urban extension or redevelopment area.

The advantages of one-time charges are also significant. Perhaps most obvious is the triggering event. When land and property changes hands or when development approvals are sought, public agencies typically have the attention of the parties involved. Assessing and collecting the tax as part of the registration or approval process greatly simplifies the collection process.

A second advantage is that one-time charges can generate very large payments to the government. For example, if public lands are sold or leased, the sales price or the up-front lease premium can be substantial. These resources can then be used to fund larger infrastructure projects without the need for public borrowing.

The major disadvantage of one-time charges is that they occur only occasionally, when there is a triggering event that comes to the attention of tax administrators. In a given year, most properties are not sold, do not go through a redevelopment approval process, or experience some other triggering event. Without such events, the landholders pay no tax with the result that one-time taxes and charges tend to be applied to a fairly narrow set of properties and revenues grow and shrink rapidly with changes in the economy.

A second disadvantage is that while one-time charges may generate significant revenue for infrastructure investment, they provide no on-going resources to maintain the infrastructure or pay for on-going service needs.

Many jurisdictions have been successful in combining recurring taxes and one-time charges. It is common to find a recurring annual tax on land and buildings, along with one-time development charges or betterment levies. (See Box 11.)

“Many jurisdictions have been successful in combining recurring taxes and one-time charges. It is common to find a recurring annual tax on land and buildings, along with one-time development charges or betterment levies.”

Box 11: Two useful examples

Taiwan (Republic of China) has for many years employed an array of land-based charges and taxes. There is both an annual land tax and an annual “house” tax on buildings. In addition, local jurisdictions assess one-time charges to fund infrastructure improvements and when land and property changes hands, the increment in value since the last land and property transfer is taxed as well. For more details on the Taiwanese system, see the case in *Leveraging Land: Land-based finance for local governments. A Reader*.

Another useful example is Hong Kong. All land in Hong Kong is leased from the government. Obtaining a lease requires a substantial up-front “lease premium” payment along with annual lease payments. In addition, Hong Kong assesses a recurring tax on land and buildings. Again, for additional details see *Leveraging Land: Land-based finance for local governments. A Reader*.

How many rates will be used?

Determining whether or not all land uses should be treated the same can be a challenge. From an administrative standpoint, they should be. However, many countries elect to make a distinction between agricultural, residential and commercial land uses. The choice is often to exempt agricultural land at least partially and to tax commercial activity more heavily than other land uses.

Farmers are often politically more influential than their numbers or economic contributions would suggest they should be. But exempting agricultural land

altogether ignores the reality that these regions often need infrastructure investments such as improved roads and stable supplies of electricity to support farming activities.

The quandary comes when a region seeks to protect agricultural uses of land at the urban periphery. The market value of such land is often much higher than its value in agricultural production. One common practice is to continue to tax such land as productive agricultural land until it is actually converted to an urban use.

Commercial and industrial uses are frequently taxed differently than other land uses. Some countries have extensive land-use classification systems that make fine distinctions between different types of commercial use. Such classification systems are rarely justified and add immensely to the administrative complexity of the tax system. Public finance economists argue that there is no economic justification for taxing commercial and industrial activities more heavily than residential land and property.

At the other extreme, there is also very little justification for exempting such properties. Urban leaders are often tempted to grant exemptions on commercial and industrial activities in an effort to stimulate investment and spur economic growth. Such exemptions should be granted only after a careful assessment of the overall fiscal impact of the industry in question on the community and based on specific performance criteria. For the most part, such exemptions fall short in achieving their growth-related goals and serve only to shrink the overall total of taxable land and property.

In addition to considering distinctions between land-use categories, policy makers must also consider distinctions between taxpayers. Not all taxpayers have the same economic capacity to pay land-based taxes and charges. The poor, pensioners and veterans are all

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categories of taxpayers that policymakers often try to shield from the full burden of land and property taxes and charges. While some protections may be both socially appropriate and politically expedient, it is rarely good policy in the long run to completely exempt such groups. Paying even a small tax encourages public engagement and helps build stronger communities.

This discussion highlights the fact that revenue generation policy cannot be designed in isolation from other, often competing, goals. Whether it be economic development or the protection of vulnerable social classes, policymakers must determine how the land-based financial instruments will be targeted as they determine the rates to apply to different properties. At the same time, it is also essential to recognize that any full or partial exclusion from the tax system will necessarily increase the tax burden on remaining taxpayers.

Revenue generation policy cannot be designed in isolation from other, often competing, goals. Policy makers must recognize that any full or partial exclusion from the tax system will necessarily increase the tax burden on remaining taxpayers.

The default policy position should always be to maintain a broad tax base so that tax rates can be kept as low as possible while still achieving revenue targets. Some social protections will almost certainly be incorporated into the fiscal system, but these should always be designed with an eye on the increased burden placed on the remaining taxpayers.

The final tax or fee rate is set by first determining the spending needs and available revenues from other

sources. The land-based rate is set to balance the funding equation. This highlights the need to balance perceived needs with revenue capacity. An informed public will support and comply with taxes that are reasonable and are devoted to visible public projects and services valued by the population.

An informed public will support and comply with taxes that are reasonable and devoted to visible public projects and services valued by the population.

Rating setting functions inventory questions

Given the linkage between budget development and land-based rate setting, the inventory questions relate to both functions.

- Does the administrative capacity exist to estimate revenue needs with reasonable accuracy?
- Where within the government does this capacity reside?
- Is there an appropriate political process in place to annually adjust tax rates to meet projected revenue needs?

2.3.4 Determining who will pay the tax: billing functions

Once the base for a land-based instrument is estimated and the rate set, it is necessary to calculate the final tax or fee, notify the affected parties and resolve any questions or appeals that emerge. The process of calculating the amount due and notifying the affected parties can be straightforward for some types of instruments. For example, if a developer seeks approval to change the land use for a given plot of land, the developer will contact the appropriate city staff. The staff can then calculate any development charges due and promptly notify the developer. If, on the other hand, the finance instrument is an annual tax on land

and property value, the process can be more difficult in some contexts. Generating and delivering the tax notices may require door-to-door visits by city staff or contractors. The resources required will, again, vary by country and instrument.

The key point is that taxpayers must be notified in a reliable and timely way, and taxpayer questions and appeals must be received and processed promptly and fairly.

“The key point is that taxpayers must be notified in a reliable and timely way, and taxpayer questions and appeals must be received and processed promptly and fairly.”

Who will be taxed?

The determination of who will be obligated to pay any implemented land-based fee or tax is not always obvious. At first it may seem clear that landholders or at least developers should pay the charges, but this is rarely, if ever, the case.

First, there is the challenge of identifying landholders, whether owners or occupants, and maintaining a list or cadastre of all land plots, and most often, the improvements on those plots. This is no small undertaking and has often delayed not only land-based finance instruments but a whole range of urban planning efforts.

Delays are particularly pronounced if developing the fiscal cadastre also implies resolving all legal conflicts over boundaries and ownership. A number of countries have successfully implemented land-based financed instruments using a fiscal cadastre that includes basic information but makes no attempt to resolve legal

conflicts. Ideally, the legal and fiscal cadastres will eventually merge, but this is not essential in the short to medium term.

Billing functions inventory questions

The inventory questions for the billing function assess three considerations: the capacity to calculate the tax obligation, the options for reliably delivering tax notices and the capacity to field inquiries and taxpayer appeals.

- ❑ Where within the government is there the capacity and skill necessary to calculate tax obligations and produce tax notices?
- ❑ How reliable and comprehensive is the postal service?
- ❑ What other options exist for delivering tax notices in a timely manner? (E.g., utility companies, hand delivery, etc.)
- ❑ What is the capacity of relevant government agencies to receive and respond to inquiries and appeals from taxpayers? Where within the government does this capacity exist?

2.3.5 Determining who will collect the tax and receive the revenue

All of the political and administrative work in designing a land-based revenue system is worth little if efforts to actually collect the revenue fall short. Collection functions require a reliable and secure process for receiving and accounting for funds.

Encouraging compliance is a two-prong effort. First, the evidence is strong from a variety of jurisdictions that compliance improves markedly when the taxpayer's cost to comply is reduced. This can be done by increasing the options available for paying the tax at banks, utility offices, through mobile phones, etc. If it is logistically easy to pay the tax or fee, and if the connection between what is paid and visible benefits received is clear, compliance will be significantly improved.

SEARCHING FOR OPPORTUNITIES

“The evidence is strong that compliance improves markedly when the taxpayer’s cost to comply is reduced.”

The second prong involves effectively pursuing those who avoid paying their obligation when due. Sanctions must be applied fairly and within the parameters set forth in law, but they must be applied where called for. Pursuing tax avoiders requires access to both administrative sanctions and penalties and well as to effective and timely support from the courts. Even with adequate legal grounds for applying sanctions, lack of support from senior political leaders and the courts can limit the effectiveness of collection efforts.

In addition to explicit legal remedies, some countries have found social stigma and pressure to be effective as well. In some cases, simply publishing the names of those who have not paid is sufficient deterrent to those who might otherwise withhold payment. However, in some cultures such publicity is considered an invasion of privacy. Some jurisdictions have found delivering letters to non-paying households reporting the percentage of households in the neighbourhood that *have* paid is helpful in encouraging those who are slow to pay. Creatively applying social pressure can contribute significantly to improving collection.

The key is to combine ease of compliance, clear links between payments and community benefits, the certainty of legal sanctions for non-payment and the creative application of social pressure. When this combination is present, collection rates are very high.

Who will benefit from the revenue generated?

The policy issues discussed so far have centred around the design of the land-based instruments themselves, but there are also questions about how the revenue

“The key is to combine ease of compliance, clear links between payments and community benefits, the certainty of legal sanctions for non-payment and the creative application of social pressure.”

generated will be allocated. As noted previously, land-based finance instruments are considered to be ideal sources of local revenues. Most public finance specialists prefer to maximize flexibility in how the resources are used by assigning the revenue to the general operating budget of local governments.

However, it has proven to be easier to garner public support for land-based taxes and charges when the public is given a very clear and specific indication of how the resources will be used. The previous example of developer charges is a good case in point; developers are much more willing to pay such charges when they know the funds will be used to invest in infrastructure that will directly benefit their project.

Another example would be an annual land tax or betterment charge levied on informal settlements. It may seem that residents in informal settlements would be unlikely to pay such a tax, but the evidence is exactly the opposite. Residents in such settlements are willing to pay if the tax is modest and the resources are invested in improvements within the settlement. If, in addition, paying the tax provides documentation that can eventually lead to improved tenure security or a formal recognition of their right to occupy the land, they are even more willing to pay.

A second dimension of this issue relates to the allocation of the resources between levels of government. In a handful of countries, the annual land and property tax is

a national tax. These countries have tended to struggle with the administration of the tax because the agencies involved often lack the local knowledge of changing land uses essential for updating and maintaining the fiscal cadastre.

On the other hand, if land-based instruments which rely on current information about land and property markets are selected, local governments may find it difficult to adequately staff the valuation functions needed.

One solution is to divide administrative responsibilities across levels of government and agencies. However, this implies that the resources generated should also be allocated across levels and agencies sufficient to fund the functions carried out at each level.

Which level(s) of government and which agencies will administer the tax?

Related to the question of how the resources are allocated is the issue of administration. As noted, the capacity necessary to effectively and efficiently administer any given instrument may be located, if it currently exists at all, in different agencies and different levels of the government.

- ❑ Public works engineers may be best able to estimate the impact and public costs of new developments, while the permissions for such developments may be processed by planning departments.
- ❑ Regional or central agencies may have the resources necessary to maintain the fiscal cadastre, while cities and even neighbourhoods are best suited to discover changes in land use.
- ❑ As noted, the valuation function may require specialized expertise that is not available in most local governments.

The point is simply that a key policy consideration is whether the administrative capacity exists to effectively

implement the land-based instrument. And if it does exist, where in the array of agencies are the capacities located?

How will the performance of the tax be monitored and assessed?

A final consideration is how the performance of the system will be evaluated and by whom? This is not a secondary consideration. There is no point in implementing a land-based finance reform if the cost of administering the system and the compliance burden placed on taxpayers is nearly as large as the revenue generated.

Further, best management practice requires that the various components of the land-based finance system be monitored, and the quality of administration assessed. There are standard metrics developed in the international community for making such assessments. The policy consideration is who within the government will have responsibility for monitoring and assessing performance, and how public will these assessments be?

Best practice from many jurisdictions suggests that while the majority of the land-based finance system may be administered at the local level, there should be a regional or national agency responsible for oversight, evaluation and reporting on local performance.

Best practice from many jurisdictions suggests that while the majority of the land-based finance system may be administered at the local level, there should be a regional or national agency responsible for oversight, evaluation and reporting on local performance.

SEARCHING FOR OPPORTUNITIES

Collection function inventory questions

The collection function inventory questions assess the capacity to process payments and the ability to pursue tax avoiders.

- ❑ Which agency has the capacity to receive and record tax payments?
- ❑ What options exist for using on-line or mobile phone services for payment processing?
- ❑ What options exist for using banks or other commercial entities to receive tax payments?
- ❑ What capacity do agencies have to receive and promptly credit payments to the appropriate taxpayer account?
- ❑ What capacity exists to identify and pursue tax avoiders?
- ❑ What sanctions are considered politically acceptable?

2.3.6 Summary of land-based finance functional components

The legal and administrative components fit together into a system as summarized in Figure 1. Policy and

administration interact to yield the final revenue. Without a sound legislative framework, administrators will be hampered in their efforts. Even more common though is the existence of an adequate legal framework that is undermined by ineffective administration.

Administration in land-based revenue systems is critical.

To understand more clearly the importance of effective land-based finance administration, consider the following example. Suppose that in a particular city, only 80 per cent of the land is included in the fiscal cadastre. The law defines a valuation standard, but the city's values are out-of-date, with the result that aggregate taxable value is 90 per cent of the legal standard. Finally, the city's collection efforts are mediocre and only 70 per cent of the billed charges are actually collected. The overall result is that the system generates only 50 per cent of the revenue that it should ($0.8 \times 0.9 \times 0.7 = 0.504$). Administration in land-based revenue systems is critical.

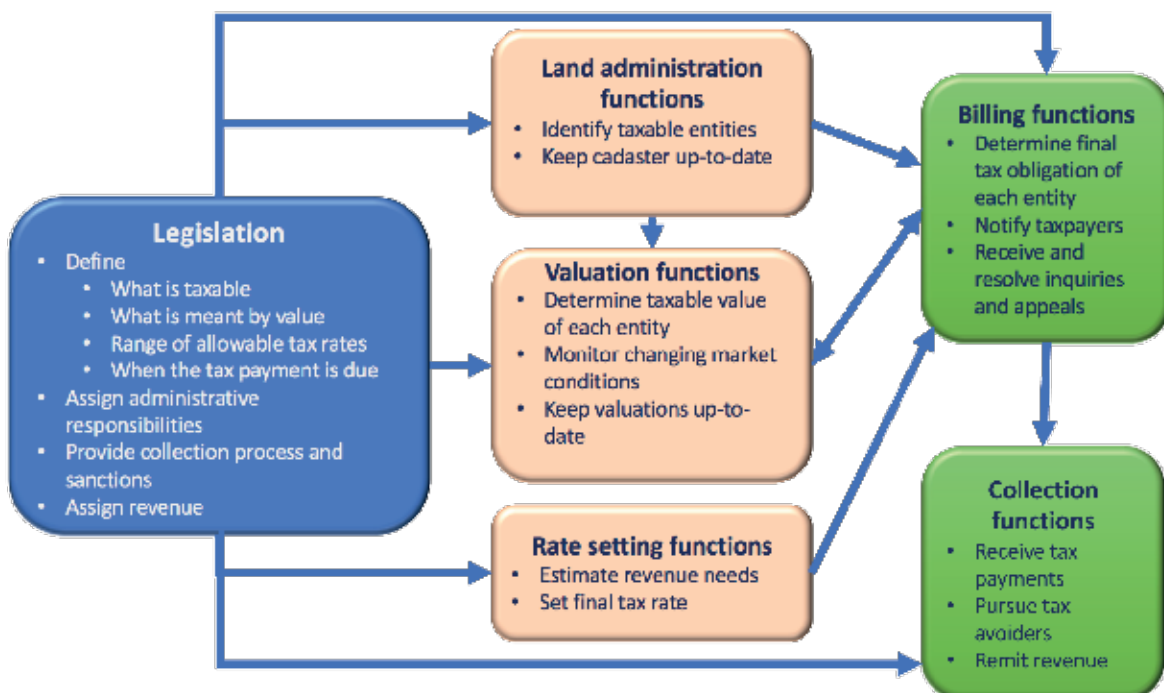


Figure 1: The Land-based Revenue System

PART 3



ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

KEY POINTS IN PART 3

Anticipating and addressing challenges in the current environment

This part identifies four major challenges and impediments to effective land-based finance and offers strategies for addressing each.

Building public support – Keys to building public support for land-based finance initiatives include:

- ❑ Public engagement and participation: Essential in building and sustaining public trust.
- ❑ Transparency and accountability in public finance: Requires both clarity in how resource allocation decisions are made, and systematic public reporting of revenues collected, expenditures made, and outcomes achieved.
- ❑ Effective communication: Creates a narrative explaining the need for additional funding, the benefits to be achieved and the equitable distribution of the tax burden.
- ❑ Adaptation to the local context: The central elements of any of the land-based finance instruments must be adapted to the local context, the local history and the local culture.

Building political will – Resistance to the introduction or expansion of land-based finance can come from within the political institutions themselves. Managing internal resistance and building political will are thus paramount and require concerted action.

- ❑ Forging political will: Creating sustainable support requires the creation of a new narrative, a change in the perception of officials. In some instances, situations of economic, social or political crisis may provide an opportunity to harness real internal support. *“Don’t let a good crisis go to waste.”*
- ❑ Forging a coalition: At the heart of any coalition must be a political champion or group of champions who are willing to take risks to advance the reform agenda.
- ❑ Adapting step-by-step: Reform initiatives need to be sensitive to what is politically acceptable and feasible, and adjust accordingly. Follow a process of trial and error, with short feedback loops, where certain small interventions are tried, tested and then adjusted.

Promoting equity and using evidence in setting policy – The range of approved exemptions often undermines the effectiveness and performance of land-based finance instruments.

- ❑ Exemptions based on land use: Good exemption practices based on land use follow three principles:
 - Carefully articulated policy objectives
 - Clear steps taken to limit the scope of the exemption to the stated objectives
 - Periodic review of the exemptions and the evidence to assure that the objectives are being achieved
- ❑ Exemptions based on social condition: The land and property tax system typically lacks the precision needed to effectively meet specific social objectives at a reasonable cost. It is often more feasible to provide tax relief through the income tax system than directly through a land-based tax exemption. Further, if informal settlements are included in the land and property tax system, many of the residents will voluntarily come forward to pay the tax.



Part 3: Addressing challenges

- Public support
- Political will
- Exemptions
- Supporting infrastructure

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

- ❑ Exemptions to promote economic development: The importance of taxes in business location decisions is generally overwhelmed by considerations such as agglomeration, transport, market size, work force availability, energy costs, etc. The best course of action for local jurisdictions is to:
 - Improve the quality of public services, especially transport, utility reliability and education
 - Enforce the rule of law especially as it relates to the registration and protection of land and property rights
 - Minimize taxpayer compliance costs

Options for addressing long-standing problems in local governance infrastructure – Some challenges affecting land-based finance systems are outside the land and property tax system. These often include a lack of administrative capacity, incomplete land registration and inadequate physical addresses coupled with unreliable mail delivery.

- ❑ Improving administrative capacity: Observations drawn from research and practice.
 - Change often comes in response to crisis or the threat of crisis. The need to mobilize revenue has often proven to be the “point of entry” for improving revenue administration and public service more broadly.
 - Rather than seeing taxation as a fundamentally coercive act by the state, land-based taxes and fees constitute a contract between taxpayers and the government.
- ❑ Improving land and property registration: Effective land-based finance requires a comprehensive understanding of all the properties that should be on the tax rolls, including those yet to be officially registered. This “discovery” process can be divided into two phases: initial development or completion of the cadastre and ongoing maintenance.
 - Completing the fiscal cadastre may require a field survey of land and property. Land surveys for the fiscal cadastre can be much simpler and can be completed much more quickly than land registration projects intended to resolve all legal conflicts.
 - Managing the fiscal cadastre and keeping it up to date is an ongoing process that always requires attention.
- ❑ Improving physical addresses and unreliable mail delivery: The challenge exists on two fronts.
 - Uniquely determining and identifying the location of each land parcel. There is now a technology to address this problem.
 - Reliably delivering communications to that location.

3.1. COMMON CHALLENGES AND IMPEDIMENTS

Decision makers seeking to improve or expand the use of land-based finance instruments should recognize that these instruments often encounter challenges and impediments to their use. Were it not so, they would be more widely used around the world. The challenges

and impediments limiting the use of land-based finance can be grouped into four categories:

- ❑ Lack of public support, especially from local elites
- ❑ Lack of political will and commitment to good governance
- ❑ Pressures to give away the tax base through exemptions and special treatment
- ❑ Inadequate “infrastructure” in the supporting environment

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

Lack of public support

In many countries, the single most unpopular tax is the annually recurring tax on land and property. One-time charges for development fees or land-value sharing assessments are not far behind. Two major reasons account for this unpopularity. First, these are frequently the most visible taxes. Consumption taxes such as the VAT are paid in small amounts, are generally not listed separately on the purchase invoice, and taxpayers have no clear understanding of the amount they pay over the course of the year. Land-based taxes and fees on the other hand are levied as lump sums, notices are delivered once a year and, even if payable in instalments, are highly visible to taxpayers.

A second important reason for the lack of public support is that taxpayers often do not see any connection between what they pay in taxes and the benefits they receive in terms of public services and infrastructure. The perception is that land-based taxes are paid, but the money flows either to wasteful projects or, even worse, to public officials for their private gain. It can be difficult for taxpayers to compare the relative fairness of alternative taxes, especially if they see no connection between taxes paid and benefits received.

These two objections are particularly salient for local elites who often are large landholders. These elites are the most likely to organize and mobilize opposition to any proposed changes in policy that will result in higher taxes for them. Land-based revenue instruments are particularly unpopular with ruling and elected officials, who often own a disproportionate amount of land. As a result, land-based revenue instruments are rarely a priority for elected officials.

Good governance and strong leadership

Changes in policies and practices affecting land are nearly always contentious and politically difficult. One factor in particular has proven critical in a variety of

reform settings: political will. It is very unlikely that change will occur at all without strong leadership from senior government officials committed to good governance. Very frequently, land control is concentrated in the hands of either political leaders or elites with strong ties to political leaders. Strategies exist that have successfully overcome this concentration of interests, but not without strong support at the most senior levels of government.

Without question, land-based instruments can be used inappropriately. Examples abound from around the world where poor and vulnerable populations have been dispossessed and removed from traditional lands through land taxes, urban land readjustment or expropriation. The political will to act must be harnessed with the broadest understanding of the long-term public interest and the rights of all landholders.

Exemptions

Two types of exemptions are often applied to land-based taxes and fees. The first exemption type is granted to either protect certain social classes or at least reduce their resistance to the tax or fee. Common examples include large exemptions granted to residential land and property owners, the elderly, pensioners and the poor. Large exemptions to residential owners are generally granted for political reasons, even though residential land and property is generally over 60 per cent of all land parcels in a jurisdiction. Exemptions granted to the elderly, pensioners and the poor are intended to protect the vulnerable. However, if these exemptions are not carefully designed and administered, they can be abused and so can seriously undermine the equity and revenue potential of the land-based finance system.

The second type of exemption often granted attempts to promote economic development. These exemptions extend to business and development firms tax and

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

fee exemptions in exchange for the promise to make large investments in the community and create new employment opportunities. Large corporations are effective at pressuring local leaders in order to obtain land and other tax concessions. There is a very real danger that such exemptions will undermine both equity and revenue potential.

Supporting infrastructure

Effective land-based finance instruments must use other elements of local social and public sector systems. One critical element is the land administration system, which identifies each plot of land and the owner, occupant or other responsible party, and the rights enjoyed by each. The judicial system is often charged with adjudicating and enforcing land rights and competing claims. Some land-based instruments rely heavily on the maturity of land markets and access to land market information. The mail delivery system is often employed to deliver tax notices and other correspondence related to land. These and other elements of the broader society are not generally under the control of tax administrators, but nonetheless pose substantial challenges to effective tax administration if this social “infrastructure” is not functioning at a fairly high level.

In addition, the capacity of local governments may be limited. In some cases, national policies limit the range of local action. In other settings, past practices such as over reliance on central government funds have stunted the development of local fiscal capacity. Whatever the root cause, local governments may have limited resources available to pursue new land-based finance initiatives.

Without strong leadership, sustained use of land-based finance instruments is unlikely. Even with strong support at the most senior levels of government, the other major challenges must be confronted and overcome. The balance of Part 3 offers strategies for addressing each of these potential challenges.

3.2. BUILDING PUBLIC SUPPORT

One of the most important dimensions to bear in mind in leveraging land-based finance is the need to build political support and momentum. The introduction of land-based finance instruments will inevitably affect people differently and there will be winners and losers. The more powerful the losers the more refined the implementation strategy will have to be. Generally, it makes sense to think about political resistance outside the institutions of government (the public) and resistance within government institutions themselves. Ultimately the measures taken to overcome that resistance will depend on the nature of the forces aligned against changes in the usage of land and land-based finance more specifically.

Concerns about a potential political backlash often constrain and limit the use of land-based finance in financing urban and peri-urban development. As noted previously, taxes on land are especially unpopular because they are so visible and the connection between taxes-paid and benefits-received is so often unclear. Public dissatisfaction with local government performance is also common. In fact, the public is often deeply suspicious of government revenue schemes, fearing that levies collected will simply “disappear”. In some instances, the problem is therefore as much the overall perception of the government as the specific land-based taxes themselves. Overcoming public resistance to land-based tax changes may therefore also require improved public financial management and improved governance more broadly.

Overcoming public resistance to land-based tax changes may require improved public financial management and improved governance more broadly.

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

Public resistance has the potential to derail an intended plan to use land-based finance. The degree of threat will differ substantially from case to case. It will depend on the intensity of the public resistance and the ability of concerned actors to mobilize and collaborate effectively. However, even when the conditions are not in place for effective public resistance to tax reform, officials may wish to avoid risks. An unwillingness to engage with the threat of public resistance may lead to internal resistance within government agencies and frustrate efforts to implement land-based finance reforms.

Without public understanding and support, sustained use of land-based finance instruments is unlikely. Taxpayers will actively seek to avoid the tax and future leaders will actively seek to reduce or even repeal the use of these instruments. For this reason, it is important for government officials to consider one or a combination of potential approaches to overcoming public resistance and building public trust.

Without public understanding and support, sustained use of land-based finance instruments is unlikely.

Public participation

Public engagement and participation are essential in building and sustaining public trust. Including the public in decision making around community priorities, budget allocation and the design of the tax system is important. Public engagement gives voice to the public, communicates a sense of empowerment and informs the public about community financing needs. The public needs to understand the urgency of change, how they will personally be affected by the change (what it will cost them) and how the community will benefit from the change (what visible improvements can be expected).

There are at least five different reasons why public officials should seek public participation in making land-based revenue decisions. (See Box 12) Not every participatory process needs to address all five purposes. Indeed, it would be difficult to design any participatory process that could accomplish all five. The point is that all five are very valid and legitimate purposes to reach out to the public.

Box 12: The purposes for seeking public participation

- ❑ **Discovery**—public officials should seek the aid of the public in searching for understanding of community problems, developing alternatives to address those problems and identifying the criteria that should be used to choose between alternatives.
- ❑ **Education**—public officials should strive to educate the public on community issues and proposed alternatives, including land-based finance options for funding.
- ❑ **Measurement**—public officials need to assess public opinion regarding possible alternatives, including land-based finance alternatives
- ❑ **Persuasion**—once a preferred alternative has been identified, public officials should strive to persuade the public toward the recommended option, including explaining how new funding initiatives will work and how the projects funded with new revenues will benefit the local community.
- ❑ **Legitimization**—public officials should comply with public norms or legal requirements for assuring public ratification of policy choices.

If a variety of processes can be employed, each emphasizing a different purpose, it is likely that public trust will increase along with public willingness to accept new taxes and fees. A community that has a track record of engaging with the public on other

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

issues has a head start in implementing land-based revenue changes. If previous experience in this area is limited, greater resources and attention may need to be devoted to building this capacity.

Transparency and accountability

Transparency is essential in building and maintaining public support for land-based finance instruments. If the public sees no local benefit from taxes paid, or if the connection between taxes paid and infrastructure and services is obscure, tax compliance will suffer. Transparency in public finance requires both clarity in making resource allocation decisions and systematic public reporting of revenues collected, expenditures made, and outcomes achieved. Transparency and accountability thus require more than public participation. They require that the public have access to public financial information in an accessible format and the ability to sanction inefficient and inappropriate behaviour of public officials.

“If the public sees no local benefit from taxes paid, or if the connection between taxes paid and infrastructure and services is obscure, tax compliance will suffer.”

Effective communication

Improving the public perception of government also requires an effective and sustained communication strategy and process. This strategy should define how changes in the land taxes will benefit the public and how they will be fairly administered and enforced. It is crucial to create a narrative that communicates the need for additional funding, the benefits to be achieved and the equitable distribution of the tax burden. The new narrative should be forward-looking and focus on building consensus around the need for improved services and infrastructure. To the extent possible,

this narrative should be shared widely with the public through a variety of channels (print, radio, television, etc.) and should be delivered by both community opinion leaders (e.g., tribal leaders, religious leaders, talk show hosts, etc.) and public officials.¹⁴

“The new narrative should be forward-looking and focus on building consensus around the need for improved services and infrastructure.”

Adaptation to local context

Revenue policies should be consistent with local and community values. Ultimately, public expenditures should promote the attainment of well-being as envisioned in those values. It is therefore essential that the central elements of any land-based finance instruments be adapted to the local context, in other words, designed and administered in a way that is “fit-for-purpose”.¹⁵ Local history and culture define the local context. Some aspects of the adaptation may be simply cosmetic, such as calling a land-based finance instrument a “fee” rather than a “tax.” Other adaptations may require more complex changes as the tax design is adjusted to adapt to unique local norms. Depending on the contextual realities, adaptation may also entail staging or phasing planned reforms depending on how much change is politically feasible in a given period.

3.3. BUILDING POLITICAL WILL

Another source of resistance that may thwart the introduction or expansion of land-based finance can

¹⁴ See also Morse, Susan C. (2013). “Narrative and Tax Compliance”. *FinanzArchiv: Public Finance Analysis* 69(4): pp. 469-486.

¹⁵ Enemark, Stig; Bell, Keith Clifford; Lemmen, Christiaan and McLaren, Robin (2015). *Fit-For-Purpose Land Administration*, FIG and World Bank, FIG Publication No. 60.

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

come from within the political institutions themselves. In addition to the relative share of land controlled by local elites and government officials, some may argue that land-based finance will deter large investments from taking place. This last issue is particularly relevant where local officials employ developer exactions or similar levies on the private sector to offset and fund the additional public resources required by private real-estate development or urban redevelopment.

Failure to address the potential for internal resistance to reform will likely derail attempts to successfully leverage land-based finance. Without political will and effective leadership, small surmountable legal hurdles can quickly turn into protracted legal disputes as elites attempt to stall the political process. Without political support, reforms are also likely to be overturned and reversed in times of crisis. More frequently still, lack of political support undermines the new processes and prevents proper implementation and enforcement. Managing internal resistance and building political will are thus paramount and require concerted action along the lines outlined below.

Forging political will

The political will to pursue change is essential, but building political will can be a challenge. Where political interests do not align with a specific land-based finance instrument, creating a commitment to reform is difficult. The people who benefit from the current environment are generally not keen to support change to that system. Creating sustainable support requires the creation of a new narrative, a change in how officials perceive their roles and responsibilities.

Creating sustainable support requires the creation of a new narrative, a change in how officials perceive their roles and responsibilities.

Advocates must help detractors see that the status quo is not in their long-term best interest. See Box 13 for an example.

Box 13: Mayor Antanas Mockus

Antanas Mockus was elected Mayor of Bogotá, Colombia, in 1995 (population 6.5 million). At the time, “the city was choked with violence, lawless traffic, corruption and gangs of street children who mugged and stole. It was a city perceived by some to be on the verge of chaos.” (*Harvard Gazette*, 11 March 2004) Under Mockus’ leadership, water usage in the city dropped 40 per cent, the homicide rate fell 70 per cent, traffic fatalities dropped by over 50 per cent, drinking water was provided to all homes (up from 79 per cent in 1993), and sewerage was provided to 95 per cent of homes (up from 71 per cent). His approach was radical. “The first time I ran for mayor, people thought I was joking when I suggested raising taxes. They couldn’t believe a candidate proposing more tax, but at the local level it worked.” “I was elected twice, in fact, on a platform to increase taxes.” He helped the public see the connection between taxes paid and the quality of life in their city, and he delivered on that connection. At one point, he asked residents to voluntarily pay an additional 10 per cent in taxes and 63,000 taxpayers did.

Bringing about such changes in perception will depend on:

- ❑ The political and historical strength of entrenched positions
- ❑ The legitimacy and credibility of the alternatives offered
- ❑ The social organization and inter-relationship of the actors

Where in ordinary situations the odds might seem to be stacked against the creation of a narrative around the need for introducing a land-based finance instrument, a situation of economic, social or political crisis, or the occurrence of a shock (whether through conflict or disaster) may provide an opportunity to harness real internal support. The saying “*never let a good crisis*

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

“go to waste” certainly applies here. Crises create short windows of opportunity during which agents can re-examine the context, identify necessary changes and explore alternatives. It can trigger a reflective shift in the collective consciousness toward the merits of existing mechanisms and pave the way for innovative solutions, including land-based tax reform.

Political support for change is not necessarily stable. Shifting political tides at both the national and local level can have repercussions for local reform efforts. Box 14 provides an example from Sierra Leone.

Forging a coalition

At the heart of any coalition must be a political champion or group of champions. See Box 13 for an example. An essential task in the reform effort therefore is to identify the senior political champions for change. These champions need to have political stature and be willing to take risks to advance the reform agenda.

“An essential task in the reform effort is to identify the senior political champions for change.”

Successful champions will build coalitions with other community leaders. Such coalitions come together for a variety of reasons. The maxim “politics makes for strange bedfellows” is a long-acknowledged truism. Box 15 outlines some of the strategies that have proven effective in building political coalitions in a variety of contexts. Not all of these strategies will be relevant in any given context, but they suggest that, with strong leadership, effective coalitions are often feasible.

Senior government officials, however, are very busy individuals with multiple responsibilities. It is unlikely that these champions will also have the time to provide the day-to-day leadership necessary to bring about change. Making progress with design and

Box 14: Variations in political support for tax reform in Sierra Leone

In 2004, Sierra Leone (population 5.4 million) re-established 19 local councils and granted them authority to collect annual property taxes. Property tax reform efforts began in four councils in 2006: Makeni, Bo, Kenema and Freetown. All four councils experienced increased revenue, but the level of success varied sharply and sustaining the change proved difficult over time. The reasons for these variations also provide insights into factors that can affect political support.

- The relationship among economic elites and political leaders
 - If there is less cohesion among local economic elites, authorities are more likely to pursue enforcement policies against those elites
- The extent and character of ethnic diversity
 - If ethnic diversity reduces elite cohesion, it facilitates tax reform
- The relationship between local and central political parties
 - When the political party in power at the local level differs from the party in power at the national level, local officials have a strong incentive to seek greater revenue autonomy, and are more likely to support effective land and property tax reform
- The extent and character of local-level political competition
 - In councils with periodic turnover in the governing party, local leaders have a greater incentive to deliver effective service improvements. Land and property tax reform can provide the increased revenue to fund improved services

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

Box 15: Strategies for building political coalitions

- ❑ Look for common ground and shared end goals
- ❑ Look for agreement on methods, even if there are differences in desired goals
- ❑ Identify common “enemies”
- ❑ Identify potential trade-offs and opportunities for compromise in unrelated areas
- ❑ Seek agreement on initial steps, pilot implementations and demonstration projects
- ❑ Identify existing practices that can be adapted and/or repurposed

implementation will require drawing on all coalition partners and relevant agencies to assemble a team to lead the implementation effort. Different actors will bring different capacities to the reform movement and will occupy different functional roles. While some provide access to essential data and resources, others bring expertise and awareness of the problem, while yet others can act as connectors or motivators, unifying and expanding the movement. Successful institutional change is underpinned by a broad coalition drawn from a number of stakeholder groups, where different actors occupy different but equally necessary functions. Whether building supporting coalitions among other leaders and across agencies, adapting and designing the actual land-based finance instruments, or initiating an appropriate public information campaign, identifying an effective change leadership team is critical to bringing about a successful land-based finance implementation.

Adapting step-by-step

Often essential in creating a political coalition is the need for a certain flexibility with regard to the specific content of the land-based finance reform. Reform initiatives need to be sensitive to what is politically acceptable and feasible and adjust accordingly. There is little purpose

Successful institutional change is underpinned by a broad coalition drawn from stakeholder groups. Identifying an effective change leadership team is critical to bringing about a successful land-based finance implementation.

in pressing for changes that elites cannot absorb. Unfortunately, reforms often overlook contextual realities that determine how much change is possible, stubbornly insisting on the importance of adhering to best practice requirements. In reality however, best practices need to be adjusted to the specific local context, and a part of that context is the political landscape. Reformers are well advised to follow a process of trial and error, with short feedback loops, where certain small interventions are tried, tested and then adjusted. This process is likely to yield hybrid solutions that blend ideas from within and without the reform movement. Ultimately, this more experimental and flexible reform approach is more likely to overcome internal political resistance.

Reformers are well advised to follow a process of trial and error, with short feedback loops, where certain small interventions are tried, tested and then adjusted.

Common arguments against land-based taxes and fees

Powerful interests opposed to land-based taxes and fees often put forward similar arguments. Two such arguments reoccur frequently. First, such policies, it is claimed, will discourage private investment and, second, land-based taxes and fees will drive up costs and hurt the poor.

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

It is true that in those cases where the government has attempted to confiscate all development rights (e.g., the United Kingdom), landholders have simply withheld their land and lobbied for a change in policy. Even in those cases where a tax of 40 per cent or more was implemented on increments in land value (e.g., Colombia), the rate of development has slowed appreciably. But poorly conceived and implemented policies do not make the arguments valid.

Policy makers must distinguish between landowners, developers and land occupants in designing land-based finance policies. Different land-based instruments will affect each group differently.

- ❑ Some instruments will affect landowners and will effectively lower the value of land without changing the net cost of development.
- ❑ Other instruments will affect current owners and occupants by both increasing their tax burden and improving the services received. Whether the value of the service improvements outweighs the fee increase is a political decision. The international experience is that in many instances those affected are willing to pay the additional fees in exchange for the community improvements.
- ❑ Still other instruments will affect land developers directly by imposing fees to offset the community costs of the new development. But if those community investments also benefit the new development, developers are often willing to share a portion of their profits in order to secure authorization for their project and the related community improvements.

The point is simply that these common arguments fail to consider carefully the incentives that landowners, developers and land occupants face, and the dynamics of land markets. When all the costs and benefits are tallied, well-designed land-based finance instruments intended to spread those costs and benefits equitably

without being confiscatory will not produce the predicted calamities. On the contrary, land-based finance can stimulate development, improve public services and increase the supply of land available to the poor.

3.4. PROMOTING EQUITY AND USING EVIDENCE IN SETTING POLICY

Land-based finance systems often include special exemptions. The range of exemptions granted constitute a set of policies that often undermine the effectiveness of land-based finance instruments and contribute to the generally poor performance of these instruments. Whether full or partial, exemptions fall into three categories:

- ❑ Those based on land use
- ❑ Those based on the social condition of the landholder
- ❑ Those granted to promote economic development and encourage private investment

In nearly all cases, granting exemptions to land-based taxes and fees may be good politics, but these policies are rarely based on sound economic reasoning, targeted social policy and empirical evidence.

Granting exemptions to land-based taxes and fees may be good politics, but these policies are rarely based on sound economic reasoning, targeted social policy and empirical evidence.

3.4.1 Exemptions based on land use

Governments often grant exemptions to land-based taxes and fees for specific land uses. Good exemption practices based on land use follow three principles:

- ❑ Carefully articulated policy objectives

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

- ❑ Clear steps taken to limit the scope of the exemption to the stated objectives
- ❑ Periodic review of the exemptions and the evidence to ensure that the objectives are being achieved

This section discusses just three common examples to illustrate these points.

Agricultural land

One of the most common examples of exemptions based on land use is agricultural land. The political reality in many countries is that farmers have much more political power than their numbers or share of the economy would indicate. Nonetheless, there may be good reasons to treat agricultural land differently than urban land. First, the burden that large agricultural land parcels place on government services may be relatively low. Perhaps even more important, there may be a desire to protect productive farmlands, and local food security, from pressures to convert the land to a more urban use.

In many settings, completely exempting agricultural land from land taxes is common. While this may be politically expedient, it ignores the fact that agricultural landholders need effective public services. Excluding farmland from the revenue system curtails local government's ability to provide road improvements, electricity, water, etc., to farmers.

A common alternative is to value farmland for tax purposes based on its agricultural production capacity rather than its market value. Determining production potential and value requires an independent assessment by university or government agricultural experts. If the charge being considered is a one-time charge for infrastructure improvements such as improved irrigation, the total cost is allocated based on the likely improvement in agricultural production value.

Agricultural land should be included in the land-based revenue system. There may be reasons for discounting the burden placed on such land, but such reasons should be carefully articulated. The exemptions should be reviewed regularly to verify they are still appropriate and the policy objectives are being met.

Government owned properties

Government-owned properties constitute a second category of properties nearly always exempted from land-based finance charges. In the case of properties owned by foreign governments, such as embassies, the reason for the exemption is generally reciprocity: the two countries agree not to tax each other's holdings. Within the country, national governments are generally immune from local taxation, but it is not clear why this should be the case.

National governments often have large land and property complexes in urban centres. Such facilities contribute significantly to urban congestion and the cost of urban services. They may well be essential for the efficient functioning of higher levels of government, but they also impose significant costs on local governments to provide needed services.

In many countries, even if the legal system precludes direct taxation of government properties, higher levels of government recognize the burden their facilities place on local governments and agree to make regular "payments in lieu of taxes" to offset these costs. Whether through direct inclusion in the land-based revenue system or through payments-in-lieu-of-taxes, governments should spread the cost of providing services to government properties across the broader population, rather than concentrating them on a particular city's residents. Policy makers should avoid blanket exemptions for government-owned land and property unless there are compelling justifications offered and any exemptions granted should receive regular reviews.

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

Charitable, religious and educational properties

A third class of properties very frequently exempted include charitable, religious and educational institutions. Here the argument seems to be that the community is better off because of the contributions made by these institutions. Indeed, the argument goes, the importance of their contributions exceeds the value of any taxes they would have paid. Without in any way denigrating or diminishing the value of these institutions, this is an instance when it is critical to distinguish between ownership and use.

- ❑ A private university may provide important educational opportunities in a community, but such institutions frequently own other properties that are not central to their educational mission.
- ❑ A church may own commercial or agricultural properties in addition to those used for worship services.
- ❑ A multi-national charity may own an office building and lease part of their space to a for-profit business.

In every instance, it is essential to specify the purpose for which the exemption is granted and assess the contribution of the land and property in question to that purpose. Policy makers and administrators should limit the scope of the exemption to those properties that contribute actively to achieving the stated purpose. In addition, administrators should regularly review exemptions to assess whether the purpose is still relevant and whether the exemptions are achieving their intended purpose.

In every instance, it is essential to specify the purpose for which the exemption is granted and assess the contribution of the land and property in question to that purpose.

3.4.2 Exemptions based on social condition

Taxes have social implications, and land-based taxes and fees are no exception. One of the most basic considerations in designing or evaluating a revenue source is its impact on different economic groups. Box 16 defines three frequently used concepts used to assess taxes and fees in relation to household income.

Box 16: Regressive, progressive and proportional taxes and fees

- ❑ **Regressive tax or fee:** Lower-income households pay a higher percentage of their income for the tax than higher-income households
- ❑ **Progressive tax or fee:** Higher-income households pay a higher percentage of their income for the tax than lower-income households.
- ❑ **Proportional tax or fee:** All income ranges pay about the same percentage of their income for the tax or fee.

At the same time, income is not the only criterion that policymakers consider in evaluating the impact of taxes. Often there are specific vulnerable social groups that a community will seek to protect in some way from the full burden of taxes. Whether it is to pursue greater progressivity or protection for special classes of taxpayers, the policy goals seek to make the tax more “fair” in some sense, and these arguments may apply to taxes on land and property as well.

Groups often considered for such preferential treatment include pensioners, low-income households and even homeowners in general. However, the land and property tax system typically lacks the precision needed to effectively meet specific social objectives at a reasonable cost.

In general, land and property tax administrators know a great deal about land and buildings, and very little

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

Land-based finance systems typically lack the precision needed to effectively meet specific social objectives at a reasonable cost.

about the occupants or owners of those properties. As a result, exemptions granted to protect specific social classes tend to be overly generous and extend benefits beyond the intended social group. For example, a partial annual tax exemption granted to homeowners will almost always benefit well-to-do homeowners more than low-income owners.

The only way to avoid being overly generous is to base the amount of the exemption on the income of the household. This requires that land and property tax administrators collect and evaluate household income data through some type of application process, significantly increasing the administrative burden placed on these officials.

The implication of this observation is that exemptions to provide relief or assistance to specific groups should be designed with great care. Every effort should be made to minimize the additional administrative burdens on tax officials created by such exemptions. It is often more feasible to provide tax relief through the income tax system than directly through a land-based tax exemption.

Dealing with informality

A major challenge facing cities in many developing countries is rapidly increasing informal housing. Such settlements often provide inadequate urban services and almost by definition are not included in any land registration system. In addition, the economic conditions of such households may seem to make it too costly to attempt to include informal landholders in the

tax system. It may be argued that any taxes collected will be less than the cost of registering and collecting the tax, so why bother?

On the other hand, Smolka and De Cesare¹⁶ argue that if informal settlements are included in the land and property tax system, many of the residents will voluntarily come forward to pay the tax or betterment fee. This will be especially true if a formal process exists to grant some type of recognition or legal status to those who have paid the tax. In some instances, paying the tax for several years may even lead to full title registration. Of course, this raises several issues. The instrument selected must be carefully adapted to the local conditions. Not all informal settlements are low income. Implementation of an instrument in other parts of the community may need to be modified for informal settlements. Compensation for registered landowners and long-range planning for both privately held and public lands must be considered. However, the point here is simply that informality alone is not a reason to exclude land from the tax base.

If informal settlements are included in the land and property tax system, many of the residents will voluntarily come forward to pay the tax or betterment fee. This will be especially true if a formal process exists to grant some type of recognition or legal status to those who have paid the tax.

Over the past several years, UN-Habitat and partners in the Global Land Tool Network (GLTN) have, with the shared goal of improved tenure security for all, developed

¹⁶ Smolka, Martim and De Cesare, Claudia M. (2013). Property tax and informal property: The challenge of third world cities". In McCluskey, William, Cornia, Gary and Walters, Lawrence (eds.). *A Primer on Property Tax: Administration and policy*, United Kingdom: Wiley-Blackwell.

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

and packaged a set of 18 land tools (including land-based finance) in an inclusive, accessible format that is highly adaptable to the situation in developing countries and fragile contexts. The GLTN approach to land-based finance is inclusive, pro-poor and gender responsive. This approach promotes methodologies that empower local authorities to collect revenue for delivery of infrastructure and services, and at the same time presents pathways for equity and inclusion of all residents.

Large population segments are often overlooked due to lack of services or lack of recognized land rights. The more that all people, including marginalized groups such as women and youth, enjoy security of tenure, the more they can contribute directly to an inclusive urban development process. GLTN's land-based finance approach is therefore grounded on an inclusive concept of land tenure security, backed up by innovative land tools designed to facilitate this security. A number of complementary tools are in place to facilitate implementation, including the continuum of land rights, Social Tenure Domain Model, Gender Evaluation Criteria and Participatory and Inclusive Land Readjustment (PILaR).¹⁷

3.4.3 Exemptions to promote economic development

Governments at all levels frequently grant tax exemptions or concessions to induce private entities to invest or expand in the community. Land-based taxes and fees are no exception. Businesses might indicate an interest in investing or community leaders may actively pursue them. However, the business asserts that the economics do not work without financial concessions from the government. These concessions range from one-time contributions of free land and/or on-site infrastructure to tax forgiveness or rebates that extend for decades into the future.

¹⁷ UN-Habitat and GLTN (2012). *Handling land. Innovative tools for land governance and secure tenure*. Kenya: UN-Habitat.

Granting concessions and exemptions can be very appealing. Private investment may be critical for improving employment opportunities. From one perspective, the government is not giving up much in granting a tax exemption since the exemption applies to future revenues. In addition, there may be the hope that such concessions will seed further growth from related firms. In any event, there is no question that large firms are skilful in pressuring local officials for concessions. The question is whether granting tax or other concessions is actually effective in promoting private investment.

In seeking an answer to this question, it is helpful to consider the broad range of factors that influence business location decisions. Arauzo-Carod, Liviano-Solis and Manjón-Antolín reviewed 54 empirical assessments of industrial location decisions.¹⁸ Such studies differ markedly in their data sources, analytical methods and even in the definition of particular concepts. Nonetheless, there is some consistency in the findings. By far the most consistent factor positively influencing industrial location is the presence of agglomeration economies: firms tend to locate where there are other similar firms. Other important factors include transport infrastructure, technology and human capital.

The human capital finding is particularly interesting because it points out the trade-offs in location decisions. On the one hand, the evidence suggests that firms tend to avoid areas with higher wages. On the other hand, geographic areas with higher average education levels are more attractive. It appears that firms seek locations with a labour force that is on average more educated and less well paid.

The effect of taxes on location decisions is similarly ambiguous. Because the importance of taxes is generally

¹⁸ Arauzo-Carod, Josep-Maria, Liviano-Solis, Daniel and Manjón-Antolín, Miguel (2010). Empirical studies in industrial location: An assessment of their methods and results. *Journal of Regional Science*, 50(3), pp. 685-711.

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

overwhelmed by considerations such as agglomeration, transport, market size, workforce availability, energy costs, etc., many studies have found that taxes are not a significant factor in location decisions. On the other hand, Arauzo-Carod, Liviano-Solis and Manjón-Antolín point out that there is a body of work showing that foreign direct investment can be influenced by tax policy.

Here again, however, there are trade-offs. Gabe and Bell present evidence that there is a trade-off between taxes and the provision of public goods and services.¹⁹ High tax jurisdictions remain attractive as long as they spend the money on providing high quality public services and infrastructure. Srithongrung and Kriz find that taxes have a negative effect on growth only in the short run while public capital spending has a positive effect in both the short and medium term.²⁰

“There is a trade-off between taxes and the provision of public goods and services. High tax jurisdictions remain attractive as long as they spend the money on providing high quality public services and infrastructure”

Two other considerations are essential in understanding the relationship between local taxes and private sector investment. The first is how the boundaries are drawn. In determining whether to invest in country A or country B, firms consider the full list of factors identified earlier and taxes generally are not as important as other

elements of the location decision. Within a given labour market, however, taxes can make a difference because the larger determinants are very similar within a smaller geographic area.^{21, 22}

A second issue is whether the tax exemptions are targeted on a place or on firms. The evidence is now accumulating that place-based tax exemptions such as *Zones Franches Urbaines* in France do increase investment within the designated zones, but that investment comes by displacing investment outside the zone.²³ Private investment moves from just outside the zone into the zone to take advantage of the tax incentives, but the impact on net new investment is very often limited.^{24, 25}

Rather than an aggressive policy of land-based finance exemptions, a better course of action for local jurisdictions is to:

- ❑ Improve the quality of public services, especially transport, utility reliability and education
- ❑ Enforce the rule of law especially as it relates to the registration and protection of land and property rights
- ❑ Minimize taxpayer compliance costs

19 Gabe, Todd and Bell, Kathleen P. (2004). Tradeoffs between local taxes and government spending as determinants of business location. *Journal of Regional Science*, 44 (1), pp. 21–41.

20 Srithongrung, Arwiphawee and Kriz, Kenneth A. (2014). The impact of subnational fiscal policies on economic growth: A dynamic analysis approach. *Journal of Policy Analysis and Management*, 33(4), pp. 912-928.

21 See for example Jofre-Monseny, Jordi and Solé-Ollé, Albert (2010). Tax differentials in intraregional firm location: Evidence from new manufacturing establishments in Spanish municipalities. *Regional Studies*, 44(6), pp. 663-677.

22 Deskins, John and Fox, William (2010). Measuring the behavioural responses to the property tax. In Bahl, Roy, Martinez-Vazquez, Jorge and Youngman, Joan M (eds.). *Challenging the Conventional Wisdom on the Property Tax*. Cambridge, MA: Lincoln Institute of Land Policy.

23 Givord, Pauline, Rathelot, Roland and Sillard, Patrick (2013). Place-based tax exemptions and displacement effects: An evaluation of the *Zones Franches Urbaines* programme. *Regional Science and Urban Economics*, 43(1), pp. 151-163.

24 Dye, Richard F. and Merriman, David F. (2000). The effects of tax increment financing on economic development. *Journal of Urban Economics*, 47(2), pp. 306-328.

25 Merriman, David (2018). *Improving tax increment financing (TIF) for economic development*, Policy Focus Report PF050, Cambridge, MA: Lincoln Institute of Land Policy.

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

Incentives for private investment

Without question, the recurring tax on immovable land and property creates incentives that influence the decisions and actions of the private business and household sectors. Precisely what those incentives are depends heavily on how the tax is designed and implemented.²⁶ Similarly, other forms of land-based finance also influence investment and land-use decisions.

It is perhaps most helpful to think about a tax on land and a tax on improvements as two separate taxes because they tend to create different incentives for private action. This distinction has been recognized and discussed by political economists since the days of David Ricardo and John Stuart Mill. More recently, it has been acknowledged by noted economists such as Milton Friedman and explored in the pages of respected periodicals such as *The Economist*.²⁷ Economic theory argues that property taxes based on the value of permanent improvements such as buildings will discourage investment in such improvements, but taxes on land will encourage private investment. The reasoning behind this conclusion is explained clearly by Cohen and Coughlin.²⁸

“A tax on land and a tax on improvements are two separate taxes, and they tend to create different incentives for private action”

Essentially the argument is that taxes on buildings will discourage investment in those buildings. Developers

26 Kenyon, Daphne A., Langley, Adam H. and Paquin, Bethany P. (2012). *Rethinking property tax incentives for business*. Cambridge, MA: Lincoln Institute of Land Policy.

27 *The Economist*, Why Henry George had a point. 1 April 2015.

28 Cohen, Jeffrey P and Coughlin, Cletus C. (2005). An introduction to two-rate taxation of land and buildings. *Review, Federal Reserve Bank of St. Louis*, 87(3), pp.59-374.

will have an incentive to build smaller buildings. Building owners will likely reduce their investments in maintenance and improvements if such investment means higher taxes. Ultimately, the level of investment in buildings will be reduced within the community. This can be a contributing factor in housing shortages in growing urban areas.

Taxes on land produce a very different result. Because land is immovable, increasing the tax on land provides the landholder with an incentive to increase the productivity of the land in order to meet the higher tax obligation. This also reduces the profitability of speculation in urbanized areas because a recurring tax on land increases the cost of holding the land. The result should be more compact and more intense development, minimizing the amount of land used to accomplish a given purpose. More intense development on urban parcels can reduce sprawl while contributing housing units to the urban supply, helping to reduce any housing shortfall.

Deskins and Fox provide an excellent summary of the empirical literature on the behavioural effects of the annual land and property tax.²⁹ These authors make the important point that in addition to considering the incentives created by the land and property tax, it is just as important to consider how the revenues are used. A tax paid that never translates into noticeable impacts in the community is likely to induce a very different response from a tax that is visibly invested in community improvements.

Deskins and Fox note the strong theoretical arguments in favour of such an approach that separates the tax on land from the tax on buildings. They go on to note

29 Deskins, John and Fox, William (2010). Measuring the behavioral responses to the property tax. In Bahl, Roy, Martinez-Vazquez, Jorge and Youngman, Joan M (eds.) *Challenging the Conventional Wisdom on the Property Tax*. Cambridge, MA: Lincoln Institute of Land Policy.

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

that there is some empirical support for the approach, but there have been very few empirical studies because the required data is very difficult to obtain. There is evidence that a shift from a single tax on both land and buildings to separate taxes (with higher rates on land) may “hasten the speed at which unused parcels of land are developed”.³⁰

3.5. INNOVATIVE OPTIONS FOR ADDRESSING LONG-STANDING PROBLEMS IN LOCAL GOVERNANCE INFRASTRUCTURE

The fourth class of issues that can impede the implementation of land-based finance is a set of concerns that often plague local government more broadly. These include a lack of administrative capacity, incomplete land registration and inadequate physical addresses coupled with unreliable mail delivery. These are key elements in the local governance infrastructure. Limitations in these areas impact not only tax administration, but land-use planning and administration, general government administration and civic engagement more broadly.

These challenges are pervasive in the developing world. A central question then is what strategies exist for addressing each?

3.5.1 Improving administrative capacity

Land-based revenue systems require strong and effective local government administration and collaboration between multiple levels of government. Such administrative capacity is often lacking in local governments, especially in rapidly expanding small- and medium-sized urban areas. Compounding the challenge is the fact that even well administered systems are unlikely to yield enough revenue to finance all priority programmes. In the largest urban centres,

³⁰ *Ibid.*, p. 59.

the generated revenues still fall short of the revenue necessary to fully fund all operations and needs.

It is beyond the scope of this Guide to provide a detailed presentation on how to build administrative capacity for revenue mobilization in local governments. It is possible, however, to offer several observations that suggest a path forward. These observations draw on research and practice from around the world.

First, change often comes in response to crisis or the threat of crisis. Whether it is the devastation left by war as in Somaliland (see Box 17) or Afghanistan, or the crisis of mounting crime and civil decay as in Bogotá (see Box 13), community leaders and residents alike are more willing to embrace change if faced with crisis. In the face of such crises, the need to mobilize revenue has often proven to be the “point of entry” for improving revenue administration and public service more broadly.³¹

This observation is not intended to suggest that local leaders should seek to create a crisis. Rather it is a recognition that conflicts, economic conditions, internally displaced populations and/or rapid growth may already combine to create such a crisis. Local leaders should recognize that out of crisis may grow opportunity for change.

Second, the relationship between the government and taxpayers is critical for organizing and mobilizing revenue. Rather than seeing taxation as a fundamentally coercive act by the state, it is much more productive in the long run to view land-based taxes and fees as a contract between taxpayers and the government.³²

³¹ Kaldor, Nicholas (1963). Will underdeveloped countries learn to tax? *Foreign Affairs*, 41, pp. 410-419.

³² Bräutigam, Deborah, Fjeldstad, Odd-Helge and Moore, Mick (eds.) (2008). *Taxation and State-building in Developing Countries: Capacity and consent*. Cambridge, UK: Cambridge University Press.

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

Box 17: Land and property registration and taxation in Hargeisa, Somaliland

The situation

In 1991, Somaliland declared independence from Somalia after decades of engaging in civil war. Hargeisa, the capital city of Somaliland, with a population of 396,000 in 2005, was bombed extensively in the 1980s, resulting in approximately 40,000 deaths and the destruction of many public records. Additionally, 500,000 people fled Hargeisa for neighbouring countries to avoid conflict, while concurrently displaced citizens from other parts of Somalia began to gather in Hargeisa. This created a significant internally displaced persons population.

After Somaliland had declared its independence and civil war ceased, land became an increasingly critical and divisive issue among current residents and the government. Conflicts concerning land became the primary cause of murders in Hargeisa. Unoccupied land was being claimed by extended family members of those who fled the city for neighbouring countries, while immigrants to the city sought property of their own. Additionally, opportunists placed claim on land to profit on lack of land registration structures in place.

In addition to all land registration files being destroyed in the civil war bombings, the situation was further complicated by varying competing legal systems in the country, ranging from the customary law, Sharia law and other written laws which were also destroyed in the civil war.

In 2001, indicators placed Somaliland among the poorest and least developed regions in the world, with GDP per capita estimated to be USD 200 per year. Hargeisa had a property tax in place but collected only USD 169,062 in 2005, far short of the revenue needed for essential municipal services.

Actions taken

Prior to 2004, Hargeisa attempted to rectify this situation by requiring all landowners to register their land with the government. Poor participation followed as citizens recognized that land registration would result in property taxes. Additionally, the government complicated matters further by not requiring residents to register buildings constructed prior to the war, or buildings that had been recently sold or received via inheritance.

In 2004, Hargeisa's government, in coordination with UN-Habitat, developed a system providing a much needed immediate and temporary solution to the city's land administration challenges. It was recognized that navigating the legal channels necessary to adequately and accurately settle all land disputes would take many years, time the city did not have. Land-based revenue was needed to start solving the underlying problems of land registration and improved services. The solution aimed at taxing occupants of property instead of landowners.

A Geographic Information System (GIS) was used to increase and expand tax revenues. Satellite images were digitalized and confirmed on the ground by surveyors to develop a map of all buildings and land in the city. Accurate building dimensions enabled the government to charge consistent and accurate fees across all land occupants. The development of the fiscal cadastre involved the following steps:

- Acquisition of geo-referenced high-resolution satellite images of the city
- On-screen digitizing of the images to create a map showing all buildings and other features such as roads, rivers, airports, etc.
- Field verification of the spatial database and the collection of property attributes using pre-programmed, handheld computers
- Integration of the field data and satellite information to form the geo-database.

The field verification effort involved visiting each property in the city but collecting only a limited set of variables for each site. The variables included:

- Physical characteristics of the property (dimensions, use, building materials, access to infrastructure)
- Occupier information
- Number of residents living in the building

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

Based on the data obtained, the city was divided into 5 districts, 24 sub-districts and 77 neighbourhoods. Further, the physical characteristics were used to develop 5 property classes. Although the system is currently only being used as a vehicle to collect revenue, it has laid the groundwork for future land registration and tenure security.

Results

Information collected included physical characteristics of the property, the occupier, and the number of residents living in the building. The process took eight months and cost USD 48,500, or USD 0.82 per property, resulting in a cadastre increase from 15,850 to 59,000 properties. The new rate system went into effect in 2007, and by 2008 revenue collections had increased by 248 per cent to USD 588,754. The original revenue estimate was USD 710,000 per year.

One important challenge the city faced was rooting the process in the municipal structure so that it could be sustained over time. The Hargeisa office staff will carry out similar on-screen digitizing projects in other Somali cities.³³

33 Source: UN-Habitat (2008). Better information for better cities. In *Municipal Revenue Generation Through Property Taxation: The UN-Habitat Approach*. Nairobi: UN-Habitat; Abdi, Mohamed, Tani, Safiya and Osman, Nasir (2010). *Contested Urban Land: Approaching land management and land-based conflicts in urban Somaliland*. In Stockbruegger, Jan (ed.). *Local Capacities for Peace: Land-based Conflict Project*. Hargeisa, Somaliland: Academy for Peace and Development; Barry, Michael and Bruyas, Florian (2007). *Land Administration Strategy Formulation in Post Conflict Situations: The Case of Hargeisa, Somaliland*. Strategic Integration of Surveying Services, Hong Kong, 13-17 May 2007.

The elements of the contract include:

- ❑ Taxes are paid in order to enable government to provide services³⁴
- ❑ There are institutionalized and negotiable methods for determining what the tax obligation will be, what collection methods will be employed and how stable taxes will be over time
- ❑ Compliance by taxpayers is quasi-voluntary
- ❑ Taxpayers have a voice in setting tax rates and in determining spending priorities

It is much more productive in the long run to view land-based taxes and fees as a contract between taxpayers and the government

Approaching land-based taxes and fees from this contractual perspective should immediately provide guidance on where to focus attention in improving both

34 For the wealthy, improved service often means better security for property rights. For the less well off, it generally means better public services.

tax administration and local governance more broadly. Again, the need for revenue is an entry point for a range of fundamental reforms. The reform objective is to strengthen the contract between government and residents.

To minimize corruption and abuse, tax officials should be compensated adequately, should be afforded a degree of status and respect within the government structure, and should receive adequate training and development opportunities.

Finally, there are policy guidelines which, if followed, will make the land-based finance instrument easier to administer. These guidelines include:

- ❑ Reduce the need for administrative discretion as much as possible. The calculation of the tax obligation should be by formula or some other approach that minimizes the judgments the administrator must make.
- ❑ Separate the tax assessment and the tax collection functions to the extent possible. Those who determine the tax obligation should not be the same people who receive the tax payments.

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

- ❑ Share responsibility across multiple agencies and levels of government. The expertise required to effectively administer the land-based charge is very likely disbursed in several agencies. Efficient administration will require the involvement of more centralized agencies for specialized tasks and for system oversight.
- ❑ Keep the design of the charge as simple as possible. The level of complexity should match the level of administrative expertise available.
 - Use physical land and property attributes rather than market indicators of value if necessary
 - Avoid multiple classifications of land and property such as distinctions between different types of commercial or industrial land and property
 - Employ only a single tax rate for all land (or land and property) being taxed
 - Minimize the number of exemptions granted

It must also be acknowledged that over-reliance on funds from other levels of government or aid from external entities frequently undermines the administrative capacity of local revenue systems. Funds and aid create more financial capacity for local governments, however, both enable governments to avoid increasing the revenue capacity of the local administrative structure and the need to negotiate and bargain with local residents to determine the appropriate mix of revenue and services.³⁵ Greater levels of self-reliance will increase the strength of the contract and the resilience of the community.

Building administrative capacity takes time and perseverance but focusing on the issues and perspectives identified here can provide a starting point.

35 Bräutigam, Deborah, Fjeldstad, Odd-Helgeand Moore, Mick (eds.) (2008). *Taxation and State-building in Developing Countries: Capacity and consent*. Cambridge, UK: Cambridge University Press.

3.5.2 Improving the land and property registration system

One of the key challenges often impeding the implementation of land-based finance projects is incomplete land and property registration. Effective land-based finance requires a comprehensive understanding of all the properties that should be on the tax rolls, including those yet to be officially registered. This “discovery” process can be divided into two phases: initial development or completion of the cadastre, and ongoing maintenance.

If the fiscal cadastre does not exist or is seriously incomplete, a major effort to bring it up to date may be required, and such efforts frequently involve a land and property survey. This survey process can be less complex than land registration projects that are intended to resolve conflicting legal claims, legally register all properties and issue land titles.

Land surveys for the fiscal cadastre can be much simpler and can be completed much more quickly. They generally begin with aerial photos and remote sensing data from which a digitized map of existing buildings can be generated. These maps are then given to small teams of field workers who visit each plot of land and collect a small number of relevant variables on each parcel. See Box 17 for an example.

The minimal data that should be included in the fiscal cadastre are dimensions and location of the land and buildings, information on the occupants and/or owners, and information regarding building quality. Adding this field data to the digitized information completes the

Land surveys for the fiscal cadastre can be much simpler and can be completed much more quickly than efforts to finalize a legal land registry.

ANTICIPATING AND ADDRESSING CHALLENGES IN THE CURRENT ENVIRONMENT

initial cadastre. The Social Tenure Domain Model is one tool that seeks to recognize and record a range of land and property rights and could be used in such an effort (www.stdm.gltn.net).

However, managing the fiscal cadastre is an ongoing process that always requires attention. Land uses change, buildings are constructed and torn down, and land can be divided, all of which may happen either legally or not. Cadastre managers must implement methods to monitor such changes and update cadastral records accordingly. Again, some changes may be made without legal authorization. As a consequence, such actions may not be reflected in the legal cadastre, but they should be recorded in the fiscal cadastre and taxed accordingly.

Keeping the cadastre current involves information sharing between agencies responsible for issuing building permissions, authorizing changes in land use, and other construction-related local government oversight activities. In addition, local officials should engage in periodic site visits and simply exercise vigilance while moving about the community. Such efforts can be effective at identifying new land uses and construction.

3.5.3 Improving physical addresses and unreliable mail delivery

Uniquely identifying the location of land parcels and subsequently delivering tax notices to the occupants or

owners is often a significant challenge. Even jurisdictions that have assigned unique addresses to each location may find that their system is out of date because of land and property divisions, municipal consolidations, street name changes, etc.

The challenge exists on two fronts: first, uniquely determining and identifying the location of each land parcel and, second, reliably delivering communications to that location. There now appears to be a technological fix for the first challenge (See Box 18) which will also aid in addressing the delivery of communications, including tax notices.

Strategies for reliably delivering communications to landholders must be adapted to local conditions. The first option is to use normal mail delivery if the mail system is comprehensive and reliable. In cases where it is not reliable, it may be possible to partner with or contract with utility companies for the delivery of tax notices in urban areas. If the utilities are used, they may also serve as collection agents.

Other methods include simply publishing tax notices in newspapers and in public gathering places and even hand delivery. Unfortunately, there are no easy solutions for delivery if the mail system and utilities are not viable options.

Box 18: An option for dealing with flawed addresses

Many urban areas struggle with incomplete and inconsistent address systems. Such deficiencies impair not only tax administration and mail delivery, but also critical emergency services.

One technology has emerged that allows anyone to uniquely identify any location with just three English words. The technology is distributed by What3Words (www.what3words.com).

This firm has divided the Earth into a grid of three-metre squares and assigned each grid a unique three-word address. The service can be used with their free mobile app or with an online map. It can also be linked to other apps or websites.

The United Kingdom is using the technology to locate highway and other infrastructure repairs and is actively developing its use in emergency services. A number of countries are using the technology to facilitate efficient postal delivery.

PART 4

WHERE TO BEGIN WITH
LAND-BASED FINANCE

KEY POINTS IN PART 4

This Guide attempts to:

- ❑ Introduce basic land-based finance concepts and principles,
- ❑ Provide guidance on how to assess the challenges and opportunities present in the local environment, and
- ❑ Encourage the identification of specific policy objectives that can be addressed through land-based finance instruments.

A crucial next step is to identify and work with those senior political officials who will champion change. From that point, progress will proceed on three paths:

- ❑ The identification of a lead agency and key actors,
- ❑ Initiation of a public engagement and information campaign, and
- ❑ (Potentially) legal reforms.

Each path will involve multiple actors and multiple considerations. Development of an action plan will assist in achieving the desired outcomes.

Action plans include these steps:

- ❑ Elaborate more fully the intended courses of action
- ❑ Determine the tasks required to move the implementation forward
- ❑ Determine the required resources
- ❑ Identify possible gaps and weak links
- ❑ Agree on coordination mechanisms
- ❑ Agree on indicators and monitoring mechanisms



Part 4: Taking action

- Plan development
- Process

The intent of this Guide up to this point, has been to:

- ❑ Introduce basic land-based finance concepts and principles,
- ❑ Provide guidance on how to assess the opportunities and challenges present in the local environment, and
- ❑ Encourage the identification of specific policy objectives that can be addressed through land-based finance instruments.

Part 1 of the Guide set the scene for land-based finance, explaining its advantages and the circumstances under which it makes the most sense to use land-based finance instruments. Part 2 provided guidance on how to assess local conditions and opportunities. Part

3 identified common challenges and impediments to more extensive use of land-based finance.

Armed now with the specific policy objective in mind and an assessment of current local opportunities, the question remains: What are the next steps? Part 4 provides guidance on the steps necessary for improving or implementing land-based finance.

As noted previously, we fail more often because we ask the wrong question than because we get the wrong answer. Before improving existing, or implementing new, land-based finance instruments, it is essential to have a deep understanding of the local problems that need solving and why they have not yet been

WHERE TO BEGIN WITH LAND-BASED FINANCE

addressed. Once problems are clearly articulated, and often broken down into smaller, more manageable pieces, the potential contribution of land-based finance is easier to identify.

Previously the Guide suggested some of the specific problems which land-based finance may help solve, however, these common problems must be matched with an analysis of local, potentially unique problems. It makes little sense to introduce solutions that are not adapted to the very specific problems of a given location.

“We fail more often because we ask the wrong question than because we get the wrong answer”

Guided by a clear articulation of the problems to be addressed, the learning from the inventories outlined previously and with instrument selection criteria in mind, the way forward includes undertaking the strategies summarized in Figure 2. The approach indicated there assumes that local leaders have developed a fairly clear idea of what changes are desired and the state of

currently available resources. The question remaining is how to accomplish the desired changes?

A crucial next step is to identify and work with those senior political officials who will champion change. From that point, progress will proceed on three paths: the identification of a lead agency and key actors, initiation of a public engagement and information campaign, and (potentially) legal reforms.

Each path will involve multiple actors and multiple considerations. Development of an action plan will assist in achieving the desired outcomes.

4.1. ACTION PLAN DEVELOPMENT

While strategy planning is about what **can** be done, action planning is about what **will** be done. Action plans are issue focused, results oriented, actor-specific and time bound. In action planning, costs, resource commitments, actors and timeframes are defined and detailed. Strategic goals and objectives can generally be attained only through a long process of incremental changes and those increments are staged through realistic action plans.

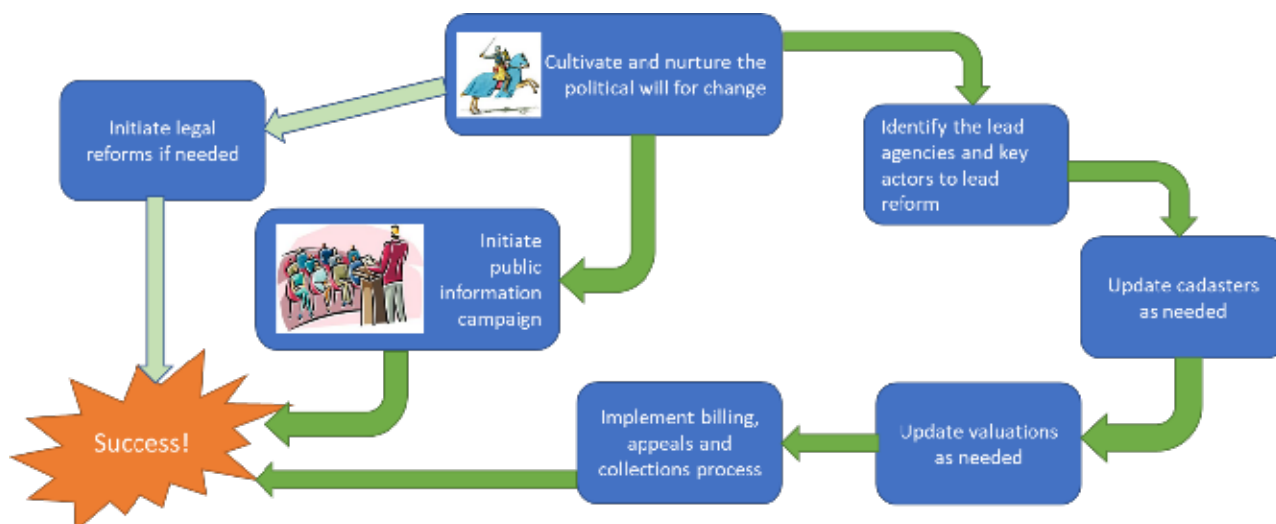


Figure 2: Schematic for the way forward

WHERE TO BEGIN WITH LAND-BASED FINANCE

“While strategy planning is about what *can* be done, action planning is about what *will* be done.”

Action planning for land-based finance involves the following steps:

- 1. Elaborate more fully the intended courses of action**—Even though strategic objectives and land-based finance instruments will have been defined at the strategy formulation stage, further elaboration and consideration of options is usually necessary. This is because the options articulated thus far – being broad and at policy level – will normally not be detailed or concrete enough for implementation. Thus, the chosen option(s) will have to be further elaborated and analysed. For example, from the description of the tasks and functions necessary to implement a given instrument, this step in the action plan will involve assessing
 - a. the current status of each of the tasks and functions in the local context
 - b. the legal requirements and the need for any legal changes at either the central or local level, or both
 - c. the human resource requirements associated with the instrument, including the level of expertise required for each task, where that expertise currently resides, and identification of any gaps or shortages in essential personnel skills and capacities
 - d. the current organizational structure to determine what changes, if any, are required to efficiently and effectively implement the proposed instrumentsThe inventories described previously should provide adequate information to begin this phase of the action plan development. It is likely that additional detailed information will be needed, either through
- the Leveraging Land training program or through more tailored consultation, or both.
- 2. Determine the tasks required to move the implementation forward**—The next important step is to determine the specific tasks involved in realizing the chosen course of action: what needs to be done and, critically, *by whom*. Any course of action is made up of various tasks which may be carried out by different actors (stakeholders) and each task has its own requirements for resources and competence. Disaggregating each course of action into its constituent tasks is therefore important, because it makes it possible to determine what has to be done – and with what resources. An inventory of relevant potential actors can then be taken to see who might offer what, individually and collectively, towards implementation of the action plan. The following questions might help when collecting information about potential actors:
 - a. Who are the potential actors, looking at the local as well as regional and national levels, and looking across the public, the private and the community sectors?
 - b. What implementation instruments (legislative, educational, regulatory, economic, financial, technical, etc.) and resources (finance, information, legal authority, human resources, etc.) do each of them have or control?
 - c. Who among them are the “lead” actors in regard to this issue – i.e., which have a major stake or mandate, or control the resources, or possess the most effective implementation instruments, or have most influence on political and social attitudes and decisions?
 - d. How interested or supportive will they be in the implementation of the initiative(s) under consideration?
- 3. Determine the required resources**—However brilliant a strategy may be, without the financial and other resources required for its implementation it

is unlikely to succeed. To have any realistic chance of bringing about a desired change, action plans must be integrated with the identification and commitment of resources. Of particular importance regarding land-based finance instruments is the political support of senior government officials. This “resource” is essential if laws and policies are to change and changes are to be effectively implemented. Senior support will also be critical in organizing and mobilizing the other financial and human resources that will be required.

4. **Identify possible gaps and weak links**—The work of the preceding stages should help identify possible gaps and weak links, such as:
 - a. tasks for which no clear “lead” actor is identified;
 - b. financial costs for which funding cannot be identified;
 - c. other resource requirements which cannot be mobilized;
 - d. capacity limitations (institutional, organizational); and
 - e. difficulty in obtaining serious commitment from particular actors.

The process of action planning itself requires time and resources and therefore it cannot realistically be continued for too long or carried out in too great detail. To keep the process within reasonable bounds (of time and cost), it is useful to move fairly quickly through the initial stages and then to focus particularly on the gaps and weak points identified. Special effort will be needed to analyse, discuss and negotiate possible ways around or responses to the gaps and weak points; creative energy should be focused on this effort and negotiations should be concentrated here. A resolution of these bottlenecks is required so that a decision may be made about proceeding with the proposed course of action. If the gaps and weakness cannot be adequately resolved, it will be necessary to go back and reconsider, to come up with an alternative course of action.

5. **Agree on coordination mechanisms**—An integral part of the action plan should be an agreed mechanism for coordinating the separate efforts of the various actors in the plan. Especially when there are several different stakeholders involved in the implementation, it is crucial to have a mechanism in place which will provide the necessary coordination. For instance, if for whatever reasons one actor is delayed in implementing a critical part of the action plan, adjustments will have to be made by others, to avoid the danger of the whole effort collapsing. There are many ways this coordination might be done. For instance, the team initiating reform efforts may agree to maintain the coordinating role, with a commitment to certain regular meetings for this purpose. Whatever is decided, it must be clear and explicit.
6. **Agree on indicators and monitoring mechanisms**—An impressive looking action plan can easily go wrong during implementation; there are always uncertainties and unpredictable factors, and even “good faith” commitments can sometimes fail to materialize. Equally, the activities undertaken may turn out to have different consequences from those originally foreseen. For these and other reasons, it is essential to identify key indicators of progress and key milestones. The essential task is to agree at the outset on a set of indicators – elements which can be measured and tracked as implementation proceeds. Although the monitoring system needs to be intelligently designed, it need not be complicated or difficult. On the contrary, the most effective monitoring systems are often those which are simple and easy to operate, with indicators that are easy to collect and analyse. Indicators should look at both inputs (what the actors are doing) as well as outputs or results, impacts and progress. The purpose of monitoring is to provide information for managing the whole process, and so the monitoring system must be closely integrated with the agreed

WHERE TO BEGIN WITH LAND-BASED FINANCE

coordination mechanism (see above). This will allow the stakeholders in the action plan to react promptly and sensibly to difficulties and unforeseen problems.

4.2. LAND-BASED INNOVATION AND REFORM PROCESS

Table 7 provides an example and quick overview of what a generic land-based finance innovation or

reform process might look like. The intent in providing this example is simply to highlight how the process can be conceptualized, divided into phases and key tasks and functions sequenced. An action plan such as the one illustrated would be implemented after having completed the initial efforts to carefully assess and inventory the local environment and formulate the goals to be achieved through an annually recurring tax on land and property. The table is not definitive, but rather

Table 7: A generic land-based finance innovation and/or reform process

Task	Action	Purpose
PHASE I (Common to all land-based finance instruments)		
A	Appoint a lead agency and senior official to champion the land-based finance reform	Gives the green light for the project and signals top-level support for the reform
B	Appoint the project leader	Key appointment to lead the project. Essential for strategic co-ordination of the project
C	Identify funding sources for the reform project	Enables project to begin the work
D	Staff recruited or seconded into the project team	Key appointments to drive the project
E	Development of the project implementation plan, risk assessment strategy and communication/media plan	Critical to take the project forward Identify the most likely challenges (see Part 3)
F	Initiate the media and communications strategy (which will continue throughout the reform process)	To ensure internal and external communication is ongoing throughout the policy development, data collection and implementation processes (See Part 3)
PHASE II (Generic recurring land and property tax process)		
G	Drafting of the land-based finance legislative changes, if needed	Preparation and legal drafting to support the reform
H	Wide consultations on the draft legislation in accordance with government consultation protocols	Identifies key areas of concern Again, see Part 3 for likely challenges
I	Valuation function assigned to an existing or newly created agency to develop valuation standards and begin evaluation and analysis of available market data	Development of assessed values of land and property by location This task hinges on the existence and location of the technical capacities
J	Develop the information technology system to support the land and property database	Ensures that an integrated database system is in place to support implementation
K	Develop the initial land and property database (fiscal cadastre) from available data	A comprehensive list of land and property holders is critical for successful implementation
L	Field work by local governments to gather information on land and buildings coordinated by lead agency	Required to develop the land and property database for each local government
M	Valuation agency provides assessed values to each local government for review and comment	The assessed values will be used by local governments to tax properties within their jurisdiction
N	Valuation agency revises assessed values based on local government comments	Cadastral values must be acceptable to local governments
O	Valuation agency generates taxable values for each property and delivers values to local governments	Valuation agency uses approved valuation methodology to estimate taxable value of each property

WHERE TO BEGIN WITH LAND-BASED FINANCE

Table 7: A generic land-based finance innovation and/or reform process

Task	Action	Purpose
P	Local governments generate and deliver tax notices to taxpayers	Local governments take responsibility for billing and collection
PHASE III (Generic recurring land and property tax process)		
Q	Taxpayer appeal process opens	Taxpayers must have an opportunity to object to their values, but not the tax bill
R	Local governments finalize all taxable values	Appeals should be handled and resolved promptly in most cases
S	Local governments deliver final tax bills	Tax bills must be delivered promptly
T	Land and property tax payments due	Taxpayers should be given a reasonable but not unlimited time to pay the tax; payment methods and locations should make paying the tax as easy as possible
U	Total collections announced publicly along with local government plan for investing the revenue in the community	If taxpayers see the connection between what is paid and tangible benefits in the community, compliance will be much higher
V	Local governments initiate enforcement process for uncollected tax payments	Non-payment of the tax should be costly

provides a starting point for policymakers to design a more appropriate and customized local process. Phase I will apply to nearly all land-based reforms. Phases II and III are more specific for a recurring tax.

4.3. CONCLUDING OBSERVATIONS

This Guide began by noting that one of the significant challenges facing urban authorities in developing countries is the availability of the financial resources necessary to support and sustain urban development. Many urban authorities are seriously under-resourced and hence are unable to meet the ever-growing demand for basic services and new infrastructure as well as the maintenance of existing infrastructure and services. The extent to which urban local government can deliver effective services to citizens, including land services that improve access to serviced urban land and ensure tenure security, is dependent on the resources available to them.

Land-based finance is a flexible set of instruments that can be adapted to a variety of institutional and cultural contexts. Land-based finance aims to enhance the availability of resources for local development. Improved local finances and the ability to improve

local infrastructure and service provision can have far-reaching social and economic benefits. Additionally, land-based finance tends to have fewer negative impacts on private investment than other types of revenue tools and can even have positive spatial and social impacts. This combination of potential financial, economic, spatial and social benefits is the reason land-based finance has become a hot topic internationally in recent years.

Nonetheless, land-based finance is an underused tool in many parts of the world. Among the many reasons for the, four stand out: public opposition, lack of political will, overuse of exemptions and lack of supporting institutional infrastructure.

Leaders considering increasing the use of land-based finance instruments must confront these challenges and must also adapt generic instruments to the local context. This Guide, in conjunction with *Leveraging Land: Land-based finance for local governments*, is intended as both an introduction and initial roadmap for expanding the use of land as a foundation for mobilizing additional local revenues.

WHERE TO BEGIN WITH LAND-BASED FINANCE

Changes related to land are rarely easy or quick and sustainable change requires strong leadership and a fundamental shift in how communities think about land and government. But change is possible and the potential benefits in the lives of everyday citizens are substantial.

If this Guide is successful, readers will come away with a clearer understanding of the potential for land-based finance, the likely challenges that will need to be overcome, and, most important, they will have a clearer vision of the path forward.

Appendix:

LAND-BASED FINANCE
INSTRUMENTS BRIEFLY
DESCRIBED

APPENDIX: LAND-BASED FINANCE INSTRUMENTS BRIEFLY DESCRIBED

The intent of this Appendix is to provide a very quick overview of the major land-based finance instruments in use around the world. A more detail discussion of each can be found in *Leveraging Land: Land-based finance for local government. A Reader*. This summary is presented so that local leaders can make an initial assessment of which instruments are most likely to be relevant for the local context, based on the principles and inventories described in Parts 1, 2 and 3.

Terminology

One of the first issues to consider is simply the name of instrument. While this may seem a small thing, it can be

Box A1: Example of name ambiguity

In many countries, including the United States, there is a common method employed by local governments for sharing in the increased value of land that results when public agencies approve new developments. The very sound argument made is that new developments add to the infrastructure burdens of local governments and those who benefit from the development should contribute to the cost of improvements made necessary by the development. However, calling such a charge “land value capture” or a “tax” would significantly increase political resistance. Instead, the charge is labelled an “impact fee” in the United States and a “community infrastructure levy” in the United Kingdom. Developers resent such “fees”, but the fees are routinely collected and have become standard practice.

of significant political importance. In social climates in which it is politically unacceptable to have *any* change in tax policy that results in higher revenues, it may be more acceptable to label the instrument a charge or fee. Consequently, the same instrument may have different names in different countries. To understand these instruments, it is necessary to remove the wrapping paper and see how the instruments function in practice.

Throughout this guide, the terms tax, fee and charge are used interchangeably, but the local context will determine which term will prove most acceptable.

The land-based finance instruments discussed in *Leveraging Land: Land-based finance for local government* are called by different names in different countries and settings. No attempt is made here to provide a comprehensive list of synonymous names or to cover local variations on the instruments. Rather, the basic features of the instruments are set out in this Appendix and in *Leveraging Land: Land-based finance for local government*. The reader is simply cautioned to be aware that ambiguity in names exists.

Defining and classifying land-based financing instruments

Table A1 summarizes the land-based finance instruments discussed in greater detail in the *Leveraging Land: Land-based finance for local government. A Reader* and training materials. For each instrument, the figure provides

- ❑ A very brief description of what the instrument is
- ❑ The “timing” of the instrument, meaning when the tax or fee is assessed and with what frequency
- ❑ The initial incidence of the tax or fee, meaning who is required to actually pay the obligation

An explanation of the issue of incidence, or who pays the tax or fee, is provided Box A2.

Unfortunately, determining the economic incidence of land-based finance instruments is not always straightforward. A prime case in point is the annual tax on land and buildings. Some economists argue that the owners of land pay the land and property tax in terms of lower land prices when they sell their land. Others argue that the tax is a pure benefit tax and simply reflects the cost of public services. As such, it does not affect the price of land. While this discussion has been going on for years, it has yet to be resolved.

Table A1 reports the statutory incidence. In the discussion of each instrument that appears in *Leveraging Land: Land-based finance for local government*, the economic incidence and social impacts of the instruments are discussed in greater detail.

APPENDIX: LAND-BASED FINANCE INSTRUMENTS BRIEFLY DESCRIBED

Box A2: Tax incidence.

Public finance economists draw a distinction between statutory incidence and economic incidence.

- ❑ Statutory incidence refers to who must pay the tax or fee to the government.
- ❑ Economic incidence refers to who must ultimately bear the economic burden of the tax.

Since the statutory incidence does not describe who really bears the burden of the tax, from a policy perspective, the economic incidence is the more important concept.

Example: A developer purchases additional residential development rights from the city. The statutory incidence of the cost of those rights falls on the developer. But if the developer simply increases the price charged for finished residential flats by the amount paid for the development rights, it is the final purchaser of the flat who bears the economic incidence.

In terms of assessing equity and social impacts, the economic incidence is thus of greater interest than the statutory incidence.

Table A1 provides a summary description of each instrument. Table A2 classifies each instrument based on its relevance for common policy goals. Cells in green represent a match between the instrument and the goal listed at the head of the column. Table A3 sets out the minimum requirements for using each instrument.

APPENDIX: LAND-BASED FINANCE INSTRUMENTS BRIEFLY DESCRIBED

Table A1: Land-based finance instruments

Instrument	Description	Timing	Initial incidence
Recurring land value tax	<ul style="list-style-type: none"> Recurring tax based on an estimate of the value of land or on land attributes 	<ul style="list-style-type: none"> Assessed annually Can be collected in instalments 	<ul style="list-style-type: none"> Either the landowner or the occupant
Recurring building value tax	<ul style="list-style-type: none"> Recurring tax based on the value of immovable improvements or on the attributes of the improvements 	<ul style="list-style-type: none"> Assessed annually Can be collected in instalments 	<ul style="list-style-type: none"> Either the landowner or the occupant
Betterment levies	<ul style="list-style-type: none"> Charges assessed in connection with specific infrastructure improvements Limited to recovery of actual costs incurred 	<ul style="list-style-type: none"> Assessed and collected as a one-time charge 	<ul style="list-style-type: none"> Existing landholders whose land benefits from the improvements
Special assessments	<ul style="list-style-type: none"> Charges assessed in connection with specific infrastructure improvements Limited to recovery of actual costs incurred 	<ul style="list-style-type: none"> Assessed once Collected over a period of time, often as a temporary addition to the recurring land and property tax 	<ul style="list-style-type: none"> Existing landholders whose land benefits from the improvements
Developer charges	<ul style="list-style-type: none"> Charges assessed in connection with development approval Can be paid in cash, in land or in kind 	<ul style="list-style-type: none"> Assessed once Collected as project is approved and completed 	<ul style="list-style-type: none"> Land developers seeking city approval
Land value increment tax	<ul style="list-style-type: none"> Tax assessed as a percentage of the increase in land value due to public actions or general market trends 	<ul style="list-style-type: none"> Can be assessed when land title transfers or when specific public actions result in increased land values Collected when land title transfers or by special billing 	<ul style="list-style-type: none"> Either the original title holder, the new title holder or both if tied to title transfer Existing landholders if by special billing
Sale of development rights	<ul style="list-style-type: none"> Payments received in exchange for permission to develop or redevelop land at higher density or changed land use Rights can either be sold at auction or at fixed price Rights may be transferable to other locations or resold 	<ul style="list-style-type: none"> Collected once 	<ul style="list-style-type: none"> Purchaser of the development right
Sale of public land	<ul style="list-style-type: none"> Payment received in exchange for freehold title to public land 	<ul style="list-style-type: none"> Collected once 	<ul style="list-style-type: none"> Purchaser of the land
Lease premiums	<ul style="list-style-type: none"> Payment received in exchange for right to occupy and benefit from public land Permitted land use is specified Terms vary from 2 to 99 years 	<ul style="list-style-type: none"> Assessed and collected once 	<ul style="list-style-type: none"> Purchaser of the leasehold
Recurring lease payments	<ul style="list-style-type: none"> Payment received in exchange for right to occupy and benefit from public land Permitted land use is specified Terms vary from 2 to 99 years 	<ul style="list-style-type: none"> Recurring payments Payment amount reviewed and updated periodically 	<ul style="list-style-type: none"> Purchaser of the leasehold
Transfer taxes and stamp duties	<ul style="list-style-type: none"> Charge assessed for recording the transfer of a land title from one private party to another Can be either a fixed fee or a percentage of the value of the land and property being transferred 	<ul style="list-style-type: none"> Assessed and collected once 	<ul style="list-style-type: none"> Either the original title holder, the new title holder or both

APPENDIX: LAND-BASED FINANCE INSTRUMENTS BRIEFLY DESCRIBED

Table A2: Land-based finance instruments and land-related policy goals

Land-based finance instrument	Land-related goal				
	Recover the cost of public infrastructure investment	Claim a portion of increased private land value created by public action	Collect a fee for public services proportional to the benefits provided to landholders	Avoid direct expenditures for new infrastructure	Collect a “use charge” for private use of public land
Recurring land value tax	May need to be paired with local borrowing	If the tax rate is high enough			Informal settlements
Recurring building value tax					
Betterment levies					
Special assessments	Requires landholder approval				
Developer charges		If law permits charges beyond those that benefit the site			
Land value increment tax		If local government administers and retains the revenue			
Sale of development rights				If the sale takes place before new infrastructure is installed	
Sale of public land					
Lease premiums	If priced appropriately				
Recurring lease payments			Can be combined with land-use charge		Formal occupancy
Transfer taxes and stamp duties		If tax is high, see land value increment tax	If tax is modest		

APPENDIX: LAND-BASED FINANCE INSTRUMENTS BRIEFLY DESCRIBED

Table A3: Minimum requirements for each land-based instrument

Instrument	Minimum requirements for implementation
Recurring land value tax and Recurring building value tax	<ul style="list-style-type: none"> • Appropriate enabling legal framework • Fiscal cadastre (land registry) that includes all taxable land plots • Appropriate estimate of taxable value • Administrative ability to calculate tax due, deliver bills and collect tax
Betterment levies	<ul style="list-style-type: none"> • Appropriate enabling legal framework • Identification of all land plots whose value is affected by the improvements • Estimated impact of the improvements on the land value of each affected plot • Accurate estimate of the cost of the improvements • Method for allocating the improvement costs to individual plots based on the share of benefit received • Adequate one-time billing and collection system
Special assessments	<ul style="list-style-type: none"> • Same as for betterment levies, plus • Adequate installment billing and collection system • Agreement of a majority of landowners
Developer exactions	<ul style="list-style-type: none"> • Appropriate enabling legal framework • Estimate of the impact of the proposed development on existing infrastructure • Administrative coordination with city planning functions • Method for calculating the amount of exaction due • Adequate billing, collection and project monitoring system
Land value increment tax	<ul style="list-style-type: none"> • Appropriate enabling legal framework • Estimate of the “before” and “after” land values • Administrative capacity to identify when the tax is due • Adequate billing and collection system
Sale of development rights	<ul style="list-style-type: none"> • Appropriate enabling legal framework • Effective control of existing development rights • Demand for additional development rights • Administrative and planning capacity to determine acceptable amount of additional development • Capacity to manage the process of selling additional development rights • Capacity to monitor use and any resale of rights sold
Sale of public land	<ul style="list-style-type: none"> • Appropriate enabling legal framework • Administrative and planning capacity to determine which lands should be privately developed • Capacity to manage a transparent and fair sales process • Capacity to allocate and manage sales proceeds
Lease premiums and recurring lease payments	<ul style="list-style-type: none"> • Appropriate enabling legal framework • Administrative and planning capacity to determine which lands are available for lease • Appropriate estimate of market value of land to be leased • Administrative ability to solicit and negotiate leases • Administrative ability to monitor leases for the duration of the lease • Administrative capacity to allocate and manage lease proceeds
Transfer taxes and stamp duties	<ul style="list-style-type: none"> • Appropriate enabling legal framework • Effective land registration system • Administrative capacity to identify when the tax is due • Capacity to estimate taxable value • Adequate billing and collection system

UN-HABITAT

UN-Habitat helps the urban poor by transforming cities into safer, healthier, greener places with better opportunities and where everyone can live with dignity. UN-Habitat works with organizations at every level, including all spheres of government, civil society and the private sector, to help build, manage, plan and finance sustainable urban development. Our vision is cities without slums that are liveable places for all and which do not pollute the environment or deplete natural resources. For further information, visit the UN-Habitat website at www.unhabitat.org

THE GLOBAL LAND TOOL NETWORK

The Global Land Tool Network (GLTN) is an alliance of international land actors contributing to poverty alleviation and the Sustainable Development Goals through promoting access to land and tenure security for all. The Network's partnership is drawn from rural and urban civil society organisations, international research and training institutions, bilateral and multilateral agencies, and international professional bodies. GLTN takes a holistic approach to land challenges through the development, dissemination and implementation of pro-poor and gender responsive land tools. These tools and approaches contribute to land reform, good land governance, fit-for-purpose land administration, sustainable land management, and functional land sector coordination. For further information, visit the GLTN web site at www.glttn.net

ABOUT THIS PUBLICATION

One of the most significant challenges facing urban authorities in developing countries is finding the funds needed to support and sustain urban development. Without funds, the authorities are unable to meet the ever-growing demand for basic services, maintenance and new infrastructure - including land services that ensure tenure security.

One source of revenue is taxes – specifically land tax - which has proven to be a successful tax base in many countries and is receiving increasing attention in many others. 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.

Together with the UN-Habitat and GLTN training package *Leveraging Land: Land-based finance for local governments*, this Guide contains many examples, strategies and resources that make it an essential tool to meet the challenge of finding locally appropriate solutions for delivering effective services.

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