Summary: Session 1. Land-based Financing

Key Messages from Presentations
The presentations were led by a thematic one on LBF, followed by two cases of the application of LBF in Korea and three cases from participants. The key messages from the presentations were:

Thematic Presentation: “Land-based Financing: Public Infrastructure and Social Services in Developing Countries” presented by Prof. Yu-Hung Hong, Director MIT STL Lab

- Land-based financing (LBF) is an option for governments to generate revenues from private land by sharing the gains accrued in land value through public or private actions with the land owners. Typically, governments focus on development of technology and capital. The potential of land value for development finance as well as equity is not exploited. Prof. Hong emphasized the need to appreciate land-value “sharing” as opposed to land value “capture”.
- Pre-conditions for land-based financing are governance structure, land registry, etc.
- Three types of land-based fiscal approaches and their application at different scales (project, district, regional and national): tax-based, fee-based and incentive/collaborative based. In recent decades, there has been an increase in programs that use the incentive-based LBF tools. Such mechanisms engage the land owners and developers in negotiations on their shares of the land value increments. Such collaborations are an encouraging trend.
- Challenges:
  - It is difficult to calculate how much of accrued land value benefits should be shared.
  - Governments resist taxation because it makes them unpopular

Korean Case 1: “The Development Gains Restitution System in South Korea: Focusing on Development Charges” presented by Hyungchan Lee, Head of Land Policy Research Center, KRIHS

- Development Gains Restitution System for efficient land use and expanding public investments for balanced regional development
- The restitution tools are applied at all development stages, from land use planning, land development, land acquisition and land disposal stages
- A systematic Development Charge System has been instituted to redistribute land value gains. Korea has seen good success in collections of developments charges: 60-100%


- A collaborative approach to efficiently use large land holdings for planning goals that is supported by legislation
- A systematic negotiation process through a negotiation committee: site selection, negotiation and execution
- Case illustrations using the pre-negotiation systems on the Seoul Bus Garage, Hongik Univ. Station, Yongsan Tourist Bus Terminal, Gangnam GBC site

**Participant Presentations**

**Colombia**: Metrovivienda presented their projects on housing using PPP

**Kenya**: Planning powers have devolved to county governments. Challenges include: political interference, inadequate budget, technical competence, low public awareness impede land management.

**Ethiopia**: In Addis-Ababa, LBF tools include annual lease of previously transferred land, real property tax and land related service charges.

**Group Discussions**

**Project 1: improving water and sewer system in one middle income neighborhood**

Solutions: All groups came up with variations of betterment levies with other non-tax based LBF mechanisms. Challenges identified include:

- estimation of true costs of externalities, like pollution, is hard to do
- betterment levies can create inequities by creating special zones

**Project 2: constructing a main segment of an inter-state highway**

Solutions: Land banking/ LR, sharing tax revenues, user charges like tolls, gasoline tax. Challenges include: inter-jurisdictional cooperation. How can one convince the other cities to work together? Possibility of a consortium to manage the working of the inter-state highway.

**Session Take-away**

- LBF projects must be coordinated with the strategic goals and objectives of the city master plan in order to control transfer of externalities to locations outside the project. LBF tools depend on land prices and since land prices fluctuate, we need to ensure that flexibility in density bonus etc. are balanced with the master plan objectives.
- A portfolio of LBF tools can be combined with non LBF mechanisms to achieve different development goals