



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

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

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HS Number: HS/007/20E

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Acknowledgements

UN-Habitat and GLTN wish to acknowledge the following individuals who agreed to review this work, and thank them for their valuable critique and suggestions: Enrique Silva and Martim Smolka (Lincoln Institute of Land Policy); Jean-Francois Habeau (FMDV, UCLG); Barbara Scholz (GIZ); Sebastian Kriticos (University of Oxford, London School of Economics); Abel Schumann and Matteo Schleicher (OECD); and Siraj Sait (University of East London).

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Editing: Victoria Quinlan

Layout: Eugene Papa (UNON, Publishing Services Section, Nairobi)

Sponsors: The Swedish International Development Cooperation Agency and the Swiss Agency for Development and Cooperation

Printing: UNON, Publishing Services Section, Nairobi, ISO 14001:2004 certified

Cover Photographs: ©UN-Habitat/Lawrence Walters and Jean du Plessis

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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

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*.

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