

Development Action Group's Value Capture Programme

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INTRODUCTION

Twelve years after the advent of democracy and ten years since the adoption of the South African constitution, South Africa continues to face enormous developmental challenges. Although significant progress has been made in improving previously excluded communities' access to infrastructure and services, the rate of poverty, inequality, homelessness and landlessness remain unacceptably high. Growing urbanization due to large-scale migration from rural to urban areas has resulted in the urbanization of poverty. Economic growth and a booming land and property market have failed to realize significant benefits for the poorest sector of the country and have instead produced further inequality, marginalization and exclusion. In recognizing the inability of the market to effectively address these developmental challenges, the Development Action Group has embarked on a programme aimed at supporting the state to intervene to ensure that the needs of the urban poor are met through capturing value derived from the booming land and property market. A brief overview of the current development context is summarised below before discussing the main elements of the value capture concept and outlining the major objectives and activities of DAG's value capture programme for the period April 2007 – March 2010.

BACKGROUND AND CONTEXT

Increasing Poverty and Inequality

The South African government has made significant strides since 1994 in addressing some of the major developmental challenges facing the country. Good progress has for example been made in improving people's access to electricity, clean water and sanitation. Despite these gains though, a huge backlog in social service delivery still remains. The after effects of the history of colonization and racial segregation still permeate the South African landscape in the form of abject poverty, inequality, homelessness, increasing informality and landlessness for the majority of the country's population.

The number of poor people in South Africa living on less than \$1 dollar¹ a day has risen from 9.4% of the national population in 1995 to 10.5% in 2002. In 2005, South Africa's gini coefficient² was in excess of 0.7, a high rating positioning South Africa as one of the most unequal countries in the world (State of the Cities Report, 2006: 45).

The scale of poverty and inequality in South Africa is evident in the number of people living in inadequate shelter. According to the latest State of the Cities Report there are 2.4 million households living in informal settlements in South Africa (2006: 27). In an effort to reduce the large housing backlog the South African government produced 1.6 million houses since the introduction of democracy in 1994. Typically these new housing developments are however located on the margins of the city, resulting in urban sprawl and de-densification. This places a huge financial burden on the state to provide networked infrastructure and new service connections to these outlying, peri-urban areas. These poor locations also have important environmental costs due to the demands on water resources, sewerage networks and road networks. This threatens environmental sustainability as increased traffic congestion, for example, results in rising levels of emissions and greater use of fossil fuels (State of the cities report, 2006: 62).

Unequal access to land for the majority of the population continues to be a major challenge for the country. By mid-2003 only 2.3% of agricultural land had been redistributed through South Africa's land redistribution programme. As a result the 87%-13% division of land in favor of white citizens of South Africa brought about by the 1913 Land Act remains effectively unchanged. Securing adequate finance has been identified as one of the key factors impeding the success of the government's land redistribution programme³.

¹ This is the international poverty line

² The gini coefficient is a measure of income inequality where a rating of 0 denotes perfect equality and 1 absolute inequality.

³ Van den Brink (2004) "The Land Question in South Africa: The Challenge of Transformation and Redistribution"

Women and children are disproportionately affected by poverty, inequality and inadequate delivery of services and infrastructure. The poverty rate amongst female-headed households (60%) in South Africa is double that for male-headed households (Everatt, 2003: 78). A lack of access to adequate housing, water, sanitation, electricity and other basic services adversely affect women's quality of life. In addition to the associated health and safety risks, it also significantly diminishes their economic opportunities because women bear the brunt of the responsibility for domestic work and the reproduction of the family unit.

Unabated poverty, inequality and perceptions by the poor of the slow service delivery pace coupled with the tardiness of the land redistribution programme have created a mood of discontent and growing tension at grassroots level. Cross (2006) notes that since 2005, protest action erupted in eight hundred communities across the country. These eruptions belie the pos-apartheid gains and speak to a threat to South Africa's young democracy. In response, the South African government has introduced several policies and other initiatives to address the enormous development challenges still facing the country. These programmes include for example "Breaking New Ground: A comprehensive plan for the development of sustainable human settlements", the "Integrated Food Security Strategy", the Accelerated and Shared Growth Initiative (AsgiSA), etc. and are all reliant on the same limited resource pool. It is clear however, that government will need to access to considerable increased resources in order to secure our democracy and effectively respond to the scale of needs of South Africa's poor. The value capture concept addresses how this has been achieved in other nations and can be applied in South Africa.

A Booming Land and Property Market

As poverty deepens, the South African residential property market has seen exceptional growth since 2000. Between 2000 and 2005, house prices increased by an average of 20% per year. In 2004 alone, house prices increased by 32.2%, although it slowed down somewhat in 2005 when reduced but nonetheless significant growth rate of 22.9% was recorded. During the first six months of 2006 growth of 15.3% was experienced (ABSA, 2006). The resultant increase in housing prices has put home ownership out of reach of the majority of the population increasing the burden on the state.

Land prices also increased substantially over the last few years. The average price increase on nominal residential land was 17.3% during the second quarter of 2006, compared to 22.9% in the first quarter (ABSA, 2006). Scarcity of suitable land for residential development is likely to continue forcing the price of land up in the near future. Simultaneously, land speculation has been and is likely to remain an important causal factor in the significant increases in land prices. The investment potential of land has reached critical peaks, especially highly-sought-after coastal land. On the Western Cape West Coast, buyers of "raw" land have realised profits of up to 1000% after holding on to land for as little as six to eighteen months (Business Report, 2005). Land and property speculation has become a lucrative investment tool for those wishing to make money quickly and effortlessly.

It is clear that a market-oriented, trickle-down approach will not address South Africa's development challenges and its service delivery crisis. The scale of this crisis calls for bold, decisive initiatives and the state's strategic intervention in the market to make it work better for the poor. Without increasing the available resource pool, the constitutional right to adequate housing and services is perpetually postponed and thus rendered worthless. It is therefore absolutely necessary that the state intervenes in the workings of the market economy to generate greater resources through the use of value capture instruments. These interventions should be aimed at redistributing some of the value derived from the booming land and property market and at protecting and securing the rights of the poor in the city.

THE VALUE CAPTURE CONCEPT

Value capture refers to a process by which all or a portion of increments in land value attributed to public and "community" interventions are recouped by the public sector. Value typically is created through changes in land use regulations, installation of infrastructure, and/ or from growth of the population and income of the whole society which would create a demand for land thereby increasing the price of land (Doebele, 2001). Value Capture is thus the means by which governments attempt to recapture increases in the value of land not created by the investment or labor of the landowner. Mechanisms to capture value include conversion of the additional value into public revenues such as taxes, fees or through the development of infrastructure to benefit the poor.

Value capture mechanisms can be used to control urban sprawl, reduce the perverse effects of land speculation, and to cope with growing informality in land markets. Smolka and Amborski (2000)

identify three main motivations for the introduction of value capture instruments in North America and Latin America:

- Value capture to finance infrastructure
- Value capture to control land use
- Value capture to deepen land value taxation

Value capture policies can be divided into two main categories, *fiscal* tools such as taxes and fees aimed at generating additional revenue for a municipality or local government and *regulatory* instruments such as exactions and other development charges, incentive zoning through the provision of density bonuses and inclusionary zoning.

The creative and innovative utilization of value capture mechanisms can provide additional resources which can assist the state in meeting its constitutional obligation in terms of the progressive realisation of the socio-economic rights of all its citizens. Through using planning and regulatory instruments more consciously value capture initiatives can also be used to influence more equitable and sustainable development.

Value capture initiatives have a long history in Canada and the United States of America, as well as several European and Latin American countries. Development charges for example, are widely used and have formed a significant component of the revenue base in various municipal areas in Toronto for over forty years. Revenue generated through development charges were used to finance up to 90% and 70% respectively of all capital expenditures in two of the highest growth municipal areas in the province of Ontario during a three-year period in the 1980's (Smolka and Amborski, 2000: 6). In Colombia, despite some shortcomings, a valorization charge called the "*Contribución de Valorización*" was an important source of public finance for many Colombian cities during its seventy year long history (Furtado, 2000). In 1968 this instrument financed 45% of all local public expenditures in Medellin and 16% in Bogotá (Smolka and Amborski, 2000). Value capture instruments have also been used with success in Asian countries like Korea, Singapore, Hong Kong and Thailand as a means to capture value and to curb land speculation⁴.

In the South African context value capture mechanisms thus represent an appropriate and effective means to address the growing pressures on the state to improve service delivery and address growing poverty and inequality. South African politicians and public officials often consciously apply their minds to ensuring that the greatest value is derived from the sale or use of state owned land and property but the notion of value capture as targeted intervention is absent from South African planning discourse and few mechanisms are presently implemented and fewer still with an explicit pro-poor agenda.

DAG'S VALUE CAPTURE PROGRAMME

In recognizing the potential which value capture initiatives hold for government to access much needed resources which can be utilized for the provision of infrastructure and services to the poor and to significantly transform the urban landscape. The overall goal of DAG's Value Capture programme is to see the state implement value capture as an intervention in the land and property market in order to access additional resources with which to finance urban development in the interests of the poor.

DAG will:

- establish a body of information and knowledge about the value capture concept and its application in other contexts through a range research activities including documenting relevant good practice;
- introduce value capture into the discourse of researchers, policy makers and practitioners to create awareness of the potential and pre-requisites for successful value capture initiatives in South Africa through publishing our research and establishing public debate on the use of value capture instruments at local authority, provincial and national government levels through targeted

⁴ For a more detailed discussion of value capture instruments and their application in different countries see: Doebele, W (2001) "Value Capture around the World in The Legacy and Works of Henry George". Lincoln Institute

⁴ See Brown-Luthango, M (2006) "Capturing Unearned Value/Leakages to Assist Market to Work for the Poor". Paper prepared for the Urban Landmark Institute. Development Action Group

dissemination, annual seminars, one conference and a training course which targets government officials

- lobby for the introduction of value capture mechanisms through the development of strategic alliances and the formulation of a partnership with at least one municipality to implement value capture mechanisms (thus providing a case study for other municipalities to learn from) so that the practice of capturing increases in land value can be tested and the local context and can eventually become embedded in South Africa.

International experience shows that the successful implementation of virtually any value capture initiative depends on a well-functioning and efficient administrative system (Smolka and Amborski, 2006). This would for example entail building capacity at local government level to streamline the property tax system through regular assessments and updates of the valuation roll and effective administration and collection procedures.

CONCLUSION

One of South Africa's most significant challenges is the growing inequality despite the country's healthy economy. Infrastructure development and service delivery to the poorest of the poor rate high on the agenda of every sphere of government but limited resources make a piece-meal approach almost inevitable. Value capture provides a real opportunity for the state to turn economic growth, particularly in the booming land and property market, into new revenue streams which can generate real benefits for the poor.

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