Urban infrastructure in Sub-Saharan Africa – harnessing land values, housing and transport

Sub-Saharan Africa property development overview with implications for land-based financing

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Executive summary

Introduction

This report is a Sub-Saharan property development overview undertaken as part of the 'Urban infrastructure in Sub-Saharan Africa – Harnessing land values' project for the UK Government – Department of International Development, with a view to increasing knowledge of property development modalities and associated practice with regard to land-based financing.

A case study approach was adopted whereby team members working on the larger project were asked to select relevant 'mini' case studies of property developments where they had experience. Within a limited budget, a total of 29 mini case studies were undertaken in 22 of the largest cities in Sub-Saharan Africa, in 16 countries, covering as many development circumstances as possible. The case studies were based on published documentation, internet searches, interviews (where possible) and existing team knowledge, and explore the characteristics of each development in terms of the planning, the access to land, the development rights granted, the funding mechanism, and the type of infrastructure required and constructed.

The implication of the adopted definition of 'land-based financing' (see main body of the report), the is that the property developer and/or owner, in additional to the internal infrastructure land and buildings that is conventionally part of a property 'package', pays for other 'external' infrastructure through some mechanism. If the developer pays for costs that would normally be covered by the City or State, then land-based financing is taking place to some extent. On the other hand, if any of the conventional development package is paid for by the city, then subsidisation is taking place. The concept is illustrated in the following diagram.

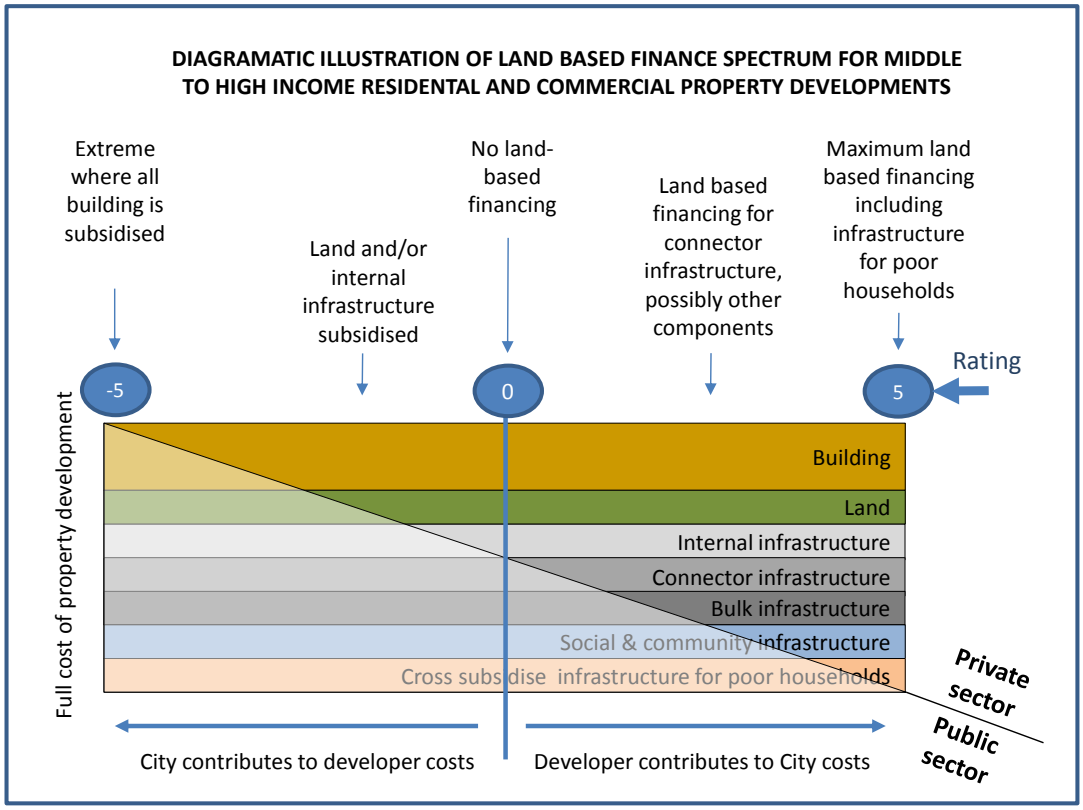


Figure i: Diagram illustrating land-based financing concept in relation to property components

Findings

The nature of property developers

There is considerable range in the developer types reflected in the sample. In the greatest number of developments, a private developer undertook the complete development. However, there are some examples of the State undertaking the entire development, as well as a variety of partnerships between the public and private sectors. In many cases an 'umbrella' developer acquires rights to the site and provides infrastructure and then sells off serviced land to smaller-scale 'subsidiary' developers.

Role of the City and State

The case studies illustrate the City and State playing a variety of roles, from acting as the developer, to having no role at all. It can be speculated that an appropriate role would be for the City or State providing bulk, connector and social infrastructure (without necessarily financing it), avoiding subsidy of land to commercial and middle to high income residential developments and facilitating large scale developments as a partner to private developers. South Africa, Ethiopia and Côte d'Ivoire are examples. Further, the City or State provides the means to achieve cross subsidy from mid to high income residential and commercial developments to low income residential developments. For this to take place a surplus obviously needs to be generated from mid-high income households and businesses. Land-based financing is one way of generating this surplus (not found in the 28 cases studies). Where the City and State have a reduced role, it is mostly because they do not have the capacity to engage more actively. There were nine examples of the City and State (primarily the State) intervening in the market and subsidising the provision of land, internal infrastructure, and possibly housing.

Accessing land

A range of different mechanisms of accessing land were observed, from acquiring land – or the right to develop it – at full cost, to having land fully subsidised. Land may be subsidised by City or State through transferring land to the developer below market price, or through allowing rural land to be purchased and developed without payment for the additional value added when it is zoned for urban use. This implies, forgoing money which the City could use for infrastructure provision.

Gaining planning approvals

The point at which the City (or State acting for the City) and developer reach agreement on the use of land, development rights and building plans is the point at which the land-based financing arrangement can be formalised. This is dependent on the capacity of the City (or State). However, the mini case studies have not shown any significant findings in this regard. It is possible that this is not a major problem in practice. Only two of the mini case studies identified particular concerns around delays in land use permission. In most cases the Coty or State actively promoted the developments and expedited the approval processes.

Bulk and connector infrastructure

The results show that two thirds of all the cases the developer provides all or some of the bulk and connector infrastructure, which is a considered a land-based financing mechanism typically referred to as an 'in-kind' contribution. However, the 'value' of this arrangement to the City may be reversed if there is a subsidy on the land. In the case of public sector developers or partnership-type developers it can be difficult to be specific about whether the City or State is providing the infrastructure as part of their obligations as an authority or as a developer.

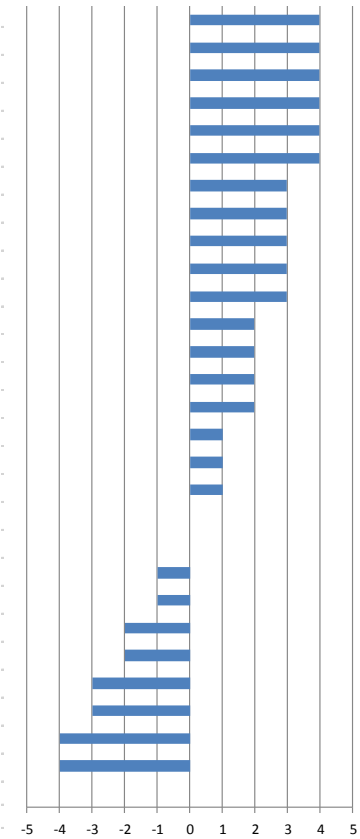
Development finance

In the majority of cases the developer raises their own finance, presumably through equity or long term debt, often from international sources. In Angola there is the unusual situation of developers having access to finance more readily through backing of oil companies or through government guarantees. The State in Côte d'Ivoire, Mozambique, Cameroon, and Benin also assisted developers raising finance in other ways.

Land-based financing

A summary of the land-based financing ratings for the case studies is shown below.

Country - City	Project name	Level of land based financing
Angola Luanda	Luanda Sul / EDURB	4
DRC Lubumbashi	Kiswishi	4
Ghana Accra	Gold Coast City	4
Nigeria Ibadan	Central abattoir	4
Rwanda Kigali	Gacuriro Estate Phase I	4
Senegal Dakar	Urban Pole of Diamniadio	4
DRC Kinshasa	La Cité Du Fleuve	3
Ethiopia Addis Ababa	Senga Tera	3
Ethiopia Addis Ababa	Casainches	3
Kenya Nairobi	Tatu City	3
Nigeria Lagos	Carlton Gate Estate	3
Ghana Accra	Accra Mall	2
Ghana Kumasi	Kumasi City Mall	2
South Africa Johannesburg	Pennyville	2
Zambia Kitwe	Mukuba Mall	2
Kenya Nairobi	Two Rivers	1
Nigeria Owerri	Owerri Mall	1
South Africa Durban	Cornubia	1
Mozambique Maputo	Vila Olímpica	0
Zimbabwe Harare	Budiriro	0
Cote d'Ivoire	Abidjan Golf Resort	-1
Cote d'Ivoire	L'opération les floraisons	-1
Rwanda Kigali	Gaposho Estate Ph I & II	-2
Uganda Kampala	Akright Satellite City	-2
Benin Cotonou	Arcon Ville	-3
Cameroon Yaoundé	Olembe housing project	-3
Cameroon Douala	Sawa Beach	-4
Angola Luanda	Kilamba	-4



In the majority of cases the land-based financing rating is positive, indicating that developers contribute to bulk and connector infrastructure in some way. In all cases these contributions took the form of in-kind contributions whereby the developers constructed the bulk infrastructure themselves. It is notable that none of the case studies scored a 5, which is the point at which the developer contributes to social and community infrastructure and cross-subsidises low income housing as well. At the opposite end of the spectrum, a number of West African case studies indicate subsidisation of the developer (Cote d'Ivoire, Benin and Cameroon), while the Kilamba case study from Angola is also an example of a highly State-subsidised development.

Conclusions

The mini case studies indicate that there is a substantial degree of land-based financing taking place, largely in the form of developer in-kind contributions. While in some cases a once off fee, charge or tax is levied associated with the issuing of

property development rights, there was no evidence studies that this was used to fund infrastructure. Instead this money appeared to either cover only administrative costs, was used to finance operating costs, or went to the State and not to the City. Ethiopia is the only example of funds for infrastructure being raised through the sale of a land or development right, in this case through the land lease system.

The bulk and connector infrastructure provided through in-kind contributions may often be driven by the immediate needs of the property development and not be included as part of an integrated infrastructure system for the city as a whole. This has implications for the poor in that the infrastructure for these 'islands' is unlikely to serve poorer areas.

In opposition to the principles of land-based financing, there are many examples where the State subsidises commercial or high income property developments, primarily through making land available well below market value or even at zero cost to the developer. The typical argument for doing this is that this promotes economic growth. Although it may be too early to tell, there is also little evidence that the economic benefits of the developments that are being supported result in revenues to cities that can then be used for infrastructure to serve the poor. If this is not happening, and in a situation where city economies and property values are escalating rapidly benefiting the relatively well-off, the lack of application of land-based financing to these developments is a lost opportunity.

1 Introduction

This report is submitted to the Department for International Development (DfID) by the African Centre for Cities as a draft report as part of the Implementation Phase of the 'Harnessing land values' project for the UK Government – Department of International Development (ACC, 2015a).

Purpose of this report

The project includes a literature review on land-based financing and infrastructure finance with a first version of this completed as part of the Inception Phase. The intention is for this to be updated as part of the Implementation Phase of the project. This update is in progress. However it has become evident that the available published literature does not provide a satisfactory picture of what is happening with land-based financing in Sub-Saharan Africa; there is published experience relating to South Africa and Ethiopia but little else. Therefore, it was decided to undertake a study of individual property developments in the region with a view to increasing knowledge of property development modalities and associated practice with land-based financing. This report is a summary of findings from this study.

Methodology

As part of this project a separate scan of land-based financing potential, based on published data, was also undertaken for a selection of 31 cities in 22 Sub-Saharan African countries. The data and results are located in a website referred to as 'Africa Land and Infrastructure Scan' (ALICS) (ACC, 2015b). In looking to improve the understanding of property development in the region, it was decided to use the ALICS countries and cities, as far as possible.

The approach was taken to rely on the knowledge of team members working on the DFID 'harnessing land values' project as far as possible. The team was supplemented with additional team members for West and Central Africa. The team were asked to select 'mini' case studies of property developments where they had experience. The aim was to get about ini case studies covering as many cities and property development circumstances as possible.

The key questions that each mini-case study sought to answer were:

a) Planning: is the development aligned with City plans? Has the City approved it as part of its planning and land use management system? If not, what level of planning was undertaken?

b) Land access: How was land accessed? Who owned or controlled it and how did the developer gain the rights to use it?

c) Development rights: Is the nature of the development, including land and buildings aligned with City zoning schemes? Alternately is it consistent with City land use policy?

d) Funding: What funding has passed from the developers and/or property owners to the City or State associated with gaining rights or providing infrastructure? Can this be fitted into one of the LBF instruments described in the Interim Report? If not to the City or State, did funding pass to any others who control land or right in the area? Are there numbers which can be attached to this?

e) Infrastructure: What infrastructure is in place? Who provided the infrastructure? Is it adequate for the property development?

The term 'mini' for the case studies has been used as the budget for this work and the time available to do it was limited: only two and half days of research time was allocated to each case study. Within this time the research team was asked to document their existing knowledge of the developments, gather any published information on the project, undertake one or two interviews if possible and write up a report of no more than 5 pages. The reports were reviewed and additional information added, where possible.

Limitations relating to this research

It is recognised that the selection of mini case studies has been subjective. Firstly the selection of cities was based on the experience the research team has in the cities of Sub-Saharan Africa. Secondly the selection of projects to be assessed depended to a large extent on how well known the project is. In the case of the split of projects between residential, commercial and mixed use developments, the intention was to have some diversity without being prescriptive.

It is also important to recognise that the information in the mini case studies has not been verified. The researchers undertaking the individual case studies have had to take the limited information available to them without being able to cross reference this. However, it is notable that the research team comprises experienced urban development professionals and, therefore, considerable reliance has been made on the judgement of these people in interpreting the information on the identified projects.

Notwithstanding the limitations expressed above, it is considered that this set of mini case studies represents a valuable resource and, between them, they have formed the basis for the overview of what is happening with property development in Sub-Saharan Africa.