

100 Years of Financial Contribution in Colombia. Value Capture that finances Public Investments.

The Potential of Land-Based Financing Instruments for Comprehensive Slum Upgrading

Event type:

Dynamic discussion with case experiences

Organisers:

Cities Alliance, Network of Researchers on Housing and Habitat of the Americas (RIVHA), St Gallen Institute of Management in Latin America - University of St.Gallen

Date and Time

Thursday 21 of October 2021 at 15h Bogotá - CDMX| 17h São Paulo (1h 30min)

Updated Concept Note

Summary

Through the exploration of experiences of using land-based financing tools to finance urban infrastructure (either in tax or contribution format), which have been used or proposed, the session seeks to debate the potential role that these tools have or could have for integrated slum upgrading in the global south, with a central focus on the past and potential role of the betterment capture; proposing high-impact and sustainable alternatives and interventions that allow substantial progress towards comprehensive improvement in the territories. This, leveraging the momentum in terms of visibility of precarious settlements because of the COVID-19 pandemic and the need for comprehensive interventions that consider the characteristics of each territory.

1 Slums and the importance of neighbourhood upgrading

The growth of informal settlements represents one of the most important challenges in Latin America and the Caribbean (LAC) and other regions of the global south. After a decrease between 2000 and 2014, the number of people living in these types of settlements has increased in recent years. Currently, it is estimated that more than one billion people across the globe reside in informal settlements¹. These individuals make important contributions to the development of cities and society, including contributions to the micro and macroeconomics; however, they live in precarious conditions, with a lack of basic infrastructure and public services, in risk areas and far from the opportunities that cities offer (UN-HABITAT, 2020; United Nations, 2018).

Since the beginning of 2020, the Covid-19 pandemic has made visible and exacerbated these living conditions that render people vulnerable or exclude them economically, socially, and environmentally. One of the main measures to face the pandemic has consisted of social distancing and the use of housing as a safe place; however, for the vast majority of people living in informal or precarious settlements, their houses and neighbourhoods have not functioned as safe spaces for different reasons, including overcrowding, lack of water supply and disconnection (*Meeting on Housing and Economic, Inclusive, Equitable and Sustainable Reactivation: Technical Note, 2021*). Despite these multiple difficulties, it should be noted that the pandemic has also made it possible to glimpse the creative organisational and multilevel governance capacities of local actors in many precarious settlements for the formation of networks of solidarity and care to face the pandemic (Duque Franco et al., 2020).

In this context, neighbourhood upgrading programs and projects, which have been recognized and promoted as an adequate response to address informal settlements problems, emerge more than ever as pertinent and urgent alternatives, which need to be deployed in combination with innovative solutions for adequate, affordable and sustainable housing.

According to the Report on the State of the Art of Housing and Urban Habitat in LAC (UHPH, 2021) the essential elements for implementing comprehensive neighbourhood upgrading processes include (i) addressing the structural causes of informality, access to land and urban inequality for successful and lasting results, (ii) articulating programs and projects with national urban and territorial policies to guarantee long-term processes and (iii) precisely define investments, costs and financing models for precarious and informal settlements upgrading.

In addition, the meetings of the Global Community of Practice on Slum Upgrading² allowed to identify three key elements. First, the adoption of integrated (basic infrastructure, housing provision, land, housing finance, spatial planning, social economy), incremental and affordable approaches, through the identification of strategic entry points, prioritising interventions and developing various solutions and processes. Second, the deployment of upgrading interventions, considering a city-wide perspective, influencing city planning and confronting the legacies that contribute to the development of informal settlements to prevent their formation. Finally, the development of

¹ The estimates contribute to an overview of the challenge; however, it does not provide a complete understanding of it. There is a lack of more reliable and accurate data, as well as consensus on terminology to better understand the magnitude and complexity of the challenges around informal and precarious settlements.

² Two Urban Thinkers Campus were carried out on slum upgrading in Africa and Asia.

upgrading interventions in combination with preventive alternatives, generating a plurality of modes of access to housing and land.

2 Land-based financing and land-value capture

Considering the importance of adopting the aforementioned approaches and promoting the implementation of integrated slum upgrading programs and projects, it is essential to develop financing mechanisms, since resources are limited in Latin America and the Caribbean. As if that were not enough, traditional financing (credits and subsidies) for the acquisition of housing has produced undesirable results: poorly located houses, with lack of infrastructure, and without access to the opportunities of cities. Therefore, a new look is required not only on financing mechanisms but also on land management. In the region as in other parts of the world, in recent decades “financing through the recovery of capital gains” or “land-based financing” has gained strength, which allows the financing of public investments through the recovery of increases in land value (UHPH, 2018).

According to Alterman (2012), value capture instruments can be divided into macro regimes (such as land bank and land readjustment), direct value capture and indirect value capture. Direct value capture instruments are redistributive and can be divided into two groups: capture of the unearned increment and capture of betterment. In the first “the value rise is not linked to a specific government decision but rather to general economic or community trends”, while in the second “the value rise is due to a specific government decision is directly caused by specific types of land-use regulatory decisions or by the execution of public infrastructure”. In turn, capture of betterment can be subdivided into contributions for improvements based on the development of rights (change in value due to a planning decision), and those based on infrastructure (change in value due to the approval or execution of infrastructure).

Indirect value capture instruments seek to “generate income (or substitutes in kind) for specific public services” and tend to be implemented at the local level. The objectives of these instruments “tend to be more pragmatic and less ideological than the objective behind either the macro or the direct capture instruments” and are born differently. While direct capture instruments are established from the top down, indirect capture instruments tend to be adopted from the bottom-up (Alterman, 2012).

2.1 Experiences in Colombia and Brazil

The use of the capture of betterment has not been extensively developed in the region, and particularly in the context of financing neighbourhood upgrading. However, there are some relevant initiatives.

In Colombia the “contribución de valoración” (CV) (i.e. capture of betterment) has been used mainly to finance road infrastructure and in some cases water and sanitation infrastructure. The application of the CV in Colombia has followed three models that differ both in the method and in the approach with respect to the distribution of the contribution. The Bogotá and Cali models (the latter in the process of being established as a model) “are more similar to a general tax to cover the cost of the works distributed (in Cali and Barranquilla), established in relation to the proximity to the work and

the capacity to pay according to the use of the property ”; whilst, the Medellín model "is closer to the Participation in Capital Gains from public works" (Borrero, 2013).

Regarding the experience in Medellín, it is worth highlighting the creation in 1964 of the Revolving Fund for the revitalisation of neighbourhoods lacking public services; this with the aim of providing financing for neighbourhood upgrading through the capture of betterment. Within this framework, the planning office oversaw preparing detailed projects, budgets, censuses, and socioeconomic investigations for the development of works and the distribution of the tax through the valuation system. This mechanism was applied permanently for approximately 30 years, allowing mainly to provide roads and lighting in the vast majority of precarious neighbourhoods in the city (Agreement N37 of 1.964).

Table 1 Neighbourhood Revitalisation Fund in Medellín

The contribution of betterment appeared in Colombia in 1821; however, it was established in Medellín in 1938 when Medellín's growth intensified. The Neighbourhood Revitalisation Fund was established through Agreement N37 of 1964 and was later reformed with Agreement N9 of 1979 and Agreement N15 of 1986. The financing scheme stopped working in the early 1990s.

Agreement N37 1964 established the Neighbourhood Habitation Fund and stated that it would have two sources of resources: the contribution of betterment charged to property owners and holders, and contributions from the municipality. The latter had to include the resources defined by the Council (Sale of the Olaya Herrera Airport), and reimbursements equivalent to the value invested in the previous year, plus 20% more. The destination of the Fund's resources was specific, and it had a separate account and accounts from municipal resources.

The studies and projects that aimed to improve neighbourhood environments were carried out by municipal planning. The public companies of Medellín, which provide public services, were in charge of studies for the construction of aqueduct, sewerage and energy networks. With the contribution of betterment that could be collected in a period of up to 120 months, green areas, platforms, lighting were financed.

With Agreement N9 of 1979, the municipality's reimbursement amounted to the amount invested in the previous year, plus 25% more, which allowed the Fund to grow; however, with the 1986 reform, the municipality only had to repay 50% of the amount invested in the previous year. It is noteworthy that by this date most of the streets in Medellín were already paved.

Source: Presentation of Juan Guillermo Gómez Roland

In Brazil, the City Statute regulated the onerous concession of the right to build (for its acronym in Portuguese OODC), which establishes “the collection of compensation for the increase in density or building capacity of urban land above the basic utilisation coefficient granted (basic CA)” (Maleronka & Furtado, 2014). Another experience is the Certificates of Additional Construction Potential (Cepacs) in São Paulo within the framework of Urban Operations, which are instruments that are applied to an area of the city for which “a public intervention project is developed with the objective of providing or improving urban infrastructure and facilities in order to make them compatible with the desired densification for said area”. Obtaining resources is done through the granting of building rights; However, unlike the resources generated by the OODC that can be applied in precarious areas,

in the case of Cepacs, the resources are used within the area of the urban operation (Sandroni, 2014).

In the case of Brazil, it is also important to mention the Special Zones of Social Interest (ZEIS), a land policy instrument included in the City Statute, which consists of “the inclusion in the zoning of cities of land and large areas of land destined to the implantation of housing of social interest, in empty areas, preferably inserted in regions equipped with infrastructure” (Rolnik, 2014). The ZEIS can be seen as instruments to establish a programmatic public policy for the comprehensive upgrading of settlements of social interest and generate territorial gains which tend to be internalised by the different agents. An important case has been that of Belo Horizonte, considered an 'outlier' in Brazil due to its administrative continuity, pioneering spirit and legal-institutional creativity adopted over time.

Other experiences in LAC include the Caño Martín Peña Land Trust in San Juan de Puerto Rico created by very low-income communities to enable a comprehensive development plan in the Caño Martín Peña district. It is a "community land trust" that seeks "to carry out the necessary development in the District," ensuring "land tenure and protect the community against displacement" (UHPH, 2021). Likewise, in Trenque Lauquen, province of Buenos Aires (Argentina), a contribution instrument for improvements has been implemented since 2009. This experience is particular because "the Trenque Lauquen government decided to extend the taxable event of the instrument to other types of public intervention, basically to administrative decisions that, by modifying urban parameters, also increase land prices"(Duarte & Baer, 2014). This experience may be of interest to small or medium-sized municipalities with few capacities and technical resources to implement surplus value recovery instruments.

At a global level, mention can be made of the case of the Dharavi development in Mumbai, where inhabitants registered before 1995 were entitled to “have new housing provided free of charge in the same area as part of any redevelopment project” (UN-Habitat, 2021). Consequently, the financial resources generated by the development and sale of land have been used for the construction of housing for the poor and infrastructure.

2.2 To reflect

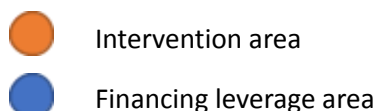
As shown in the review, the contribution of betterment is rarely discussed in the context of slum upgrading. The examples put together for this concept note can only shed partial light on a complex topic. Betterment levy, like any value capture tool, can be located on a land tenure continuum: while the practice focuses on formal markets and freehold titles, it is worth exploring what the conditions are for land value capture tools with informal land markets and to what extent they are compatible with neighbourhood upgrading programs, considering that other value capture tools have been applied with some success to leverage the financing of infrastructure provision basic education and other public works in slums.

To situate these examples and guide our discussion, we propose a basic framework that places the strengths and limitations of the contribution of betterment within a broader range of options. This considering the following key components: (i) type of value capture tool (since not all presentations are charges for betterment), (ii) type of land value growth (triggered by what change); and (iii) type of land (need for a nuanced understanding of formal - informal), (iv) distinction between the area

where finances are leveraged and the areas where interventions are carried out, since it seems that some land value tools offer a geographical separation.

Table 2 Basic framework for CV reflection and neighbourhood improvement

Capture type / Tenure	Formal individual Property title	Communal titles	Security tenure	of	Irregular tenure in a) consolidated markets or b) unconsolidated
Bank and land sale					
Land lease					
Land value tax	Colombia				
Assessment improvement / contribution					
Impact fees					
Inclusionary Housing	Brazil-CEPACS			India - Mumbai	
Building rights					



3 Objective and guiding questions

Considering the importance of comprehensive neighbourhood upgrading interventions to help address the deprivation and exclusion conditions of informal and precarious settlements, exacerbated by the pandemic in action, this event aims to debate the role that the contribution of betterment has or might have to finance the comprehensive slum upgrading in LAC and other parts of the global south, and generally land-based financing to prevent, reduce and upgrade slums. This from the past and potential role of the contribution of betterment.

Based on the above, the proposed guiding questions are:

1. Are formal titles/ formalisation (or formal markets) a precondition for value capture to work?
2. Can informal settlement upgrading fees be charged and what are the preconditions?
3. Are betterment contributions or other Land Value Capture tools possible in informal real estate markets?
4. How can community property improvement fees work?

5. Who benefits from upgrade fees?

4 Main elements addressed during the meeting

In general, it was emphasised that the contribution of betterment for neighbourhood upgrading needs to be thought of in relation to what is done in precarious settlements, as well as what is done in the rest of the city.

In line with this, on the one hand it was discussed how the contribution of betterment can be implemented in formal areas in the cities and transfer the collected resources to the informal settlements for their upgrading. In this case, three questions about this practice arose: (i) how to achieve a constant and lasting flow of resources to the precarious settlements? (ii) To what extent those transfers can be made considering that a growing number of formal neighbourhoods are requiring resources for their own needs? (iii) How to diversify sources of resources? Regarding the latter, the creation of funds such as the one implemented in Medellín was mentioned as an alternative.

On the other hand, the implementation of the contribution of betterment in precarious settlements was addressed, recognizing and considering not only the conditions of unequal poverty and exclusion prevailing in informal and precarious settlements; but also, the existence of payments for services, and in general, of monetary and non-monetary appreciation contributions, and of which the generated capital gain is already being individualised by some owners. In this context, the challenge is to improve / enhance and articulate these contributions for implementing comprehensive slum upgrading.

During the debate, the following elements were mentioned as key to reflect on the design and implementation of the contribution of betterment in informal and precarious settlements:

- Recognize and value non-monetary valuation contributions made by people who inhabit informal or precarious settlements.
- Consider that the histories of the neighbourhoods and dynamics are different between those created in the 50s and 60s and those created more recently. Not only are the problems different, but also the organisational capacities and sense of belonging and roots
- Consider the characteristics of the neighbourhoods, including their formation and development processes, since there are differences that can be key to the contribution of betterment. For example, in Brazil, unlike the favelas, irregular plots may potentially be more suitable for some kind of contribution of betterment since the inhabitants bought the lot in which they reside.
- It is vital to examine the profiles and trajectories of the inhabitants. There are marked differences in income configuration, so it is essential to establish weights based on people's ability to pay.
- Encourage the creation of funds that combine different sources of financing, including contributions for improvement.
- Consider that although the charge for the provision of services seems feasible, the financing of public spaces through valuation contributions seems more complicated.
- It must be considered that the implementation of the valuation contribution can become administratively expensive, not very profitable due to the important infrastructure works

(such as macro-drainage works) that are required in precarious settlements, and with little effectiveness due to the low people's ability to pay.

- Valuation contributions can serve to maintain services and public spaces and contribute to expanding new services such as the internet.

In sum, the inhabitants of informal and precarious settlements make monetary and non-monetary contributions of value, and a challenge is how these contributions can be better channelled avoiding the individualisation of the generated surplus value by a few; this, contributing to integrated upgrading processes.

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