

Value Capture Policy Framework

1. Need

1.1. The need for value capture is felt highly in India. Multiple government agencies such as Railways, Roads and Highways, Urban Development etc are making capital investments in infrastructure across both urban and rural programs. To scale these investments to a wider population, it is essential that these agencies recover their current investments through value capture. While Indian cities through state urban regulations have been developing and exercising some of VCF mechanisms, these need to be scaled across other agencies including for non-urban programs.

2. Rationale

2.1. Traditionally, direct sale of lands has been relied upon to raise funds, which is a less efficient form of resource mobilization as compared to value capture. Moreover, in the urban areas different methods have been used to capture the benefits accruing to private people, such as impact fee, betterment charges, etc. On the other hand, in the non-urban areas hardly any methods have been deployed in order to systematically capture the increased land values as a result of policy changes or public investments. Even in urban areas the methods are not applied uniformly across all urban local bodies (coverage), rates are low and do not give to the State its full possible share in the increased values of land (maximization) and not all possible value capture methods are used (scope).

3. Objectives of the National Value Capture Policy Framework

3.1. Value Capture Policy Framework will achieve the following objectives.

- Allows for fair allocation of costs among all stakeholders, not only promotes public investments in infrastructure but also prevents distortionary speculative activities.
- Combined with zoning regulations (like higher FAR), can be a powerful instrument to trigger urban transformational through new public investments in infrastructure creation.
- Value Capture Financing methods trigger a self-reinforcing positive feedback loop where value is created, realized, captured, and recycled. This induces a virtuous cycle of

development and shared prosperity and win-win mutually beneficial partnership between the government and land owners.

4. Meaning of Value Capture

4.1. Value Capture mechanism as practiced widely in the world is a principle that people benefiting from public investments on infrastructure should pay for it. This mechanism is feasible primarily due to the increase in private land values both due to public investments and public policy decisions. Value capture is distinct from the user charges or fees that agencies collect once services start being delivered on the infrastructure. Value capture relies more on the intrinsic accretion of value increase in the location of the private land once public infrastructure is implemented in its vicinity.

5. Target Agencies for Adoption and Typologies of Development Projects

5.1. The Value Capture Policy Framework is designed for the State Governments and the following Central Government Ministries-

- Ministry of Urban Development and its line agencies at state and local level such as state urban development departments, regional development authorities and urban local bodies. These are important investors in urban infrastructure through the various missions initiated by Government of India.
- Ministry of Railways for high speed rail projects and expansion of railway network through SPVs.
- Ministry of Road Transport and Highways for the phased implementation of the Indian National Expressway Network.
- Department of Industrial Policy and Promotion for setting up of Special Economic Zones (SEZs) and industrial corridors such as the Delhi Mumbai Industrial Corridor (DMIC).
- Ministry of Power for setting up power generation plants.
- Ministry of Shipping for projects requiring significant land resources. These include but not limited to expansion of cargo terminals, constructions of ferry and cruise terminals, establishment of free trade zones.

5.2. The typologies of projects that need to be explored for VCF by the Central Government Ministries are briefly described below.

- Projects such as railway expansion and road highway expansion that improve accessibility to a region outside urban context.
- Projects that improve the quality of urban experience (metro projects, infrastructure upgrade, heritage conservation).
- Projects that do not have land as the impeding resource factor (such as Metro projects and the Smart City Mission) can focus on VCF methods that produce revenue. Projects requiring land, such as high speed rail, SEZs, ports will have to rely on different VCF methods.
- The gestation period of the projects would determine the type of the VCF method used for the project.
- The area of influence determines the geographic extent of immediate positive impact of the government investments. Selecting an appropriate VCF method will depend on whether the projects have distinct area or negotiated area of influence.

6. The Policy Framework

6.1. The multiplicity of investment partners, the difference in the types of projects and the constraining resources the projects need (land, finance or both), the difference in state and local regulations, the location of the projects and the implementation capacity all add to the complexity of devising a standard VCF policy that can anticipate the effect of these variables.

6.2. This Policy provides a framework that can offer multiple options across agencies and projects will offer flexibility to design VCF methods. Most of the states have codified enabling legislation for these in their urban laws and therefore should be able to guide other agencies/states in developing similar legislations across urban and non-urban jurisdiction. Land value increment taxes, area and value based development charges, FSI/TDR and impact fees are the most dominant tools applied by state urban authorities.

6.3. From the above, it is evident that there are big variations in the nature of projects in Urban and Non urban areas. This necessitates the need for separate frameworks for urban and non urban areas. The following sections capture the essential

points for the separate frameworks to be developed by the states.

6.3.1. Urban: States will need to assess the existing VCF tools in the State and identify areas in ULBs where VCF can be applied. The three possible scenarios for VCF methods are:

- Coverage: Extending existing value capture tool (the list of existing Value Capture tools presently use in India is at **Annex I**) to all parts of the ULBs and all ULBs in the State;
- Optimize revenues: By changing existing rate structure in value capture methods of the State to enhance revenues;
- Scope: Compare with other States/Countries. Examine their relevance and appropriateness to the ULBs and the State.

6.3.2. Non-urban

- Projects that lend to this classification belong to projects that improve accessibility to/from the region (roadway and railway), offer public services/utilities absent previously (power plants for electrification) or generate economic opportunities (industrial parks, SEZs).
- While preparing the feasibility report of such projects, the implementing Ministry should identify the appropriate VCF methods, which can be applied and assess the estimated increased value of land in consultation with the State Government.
- The mechanism for sharing the increased land value between the State Government and the implementing agency may also be worked out and made part of the feasibility report.
- Central Government Departments/Agencies should use a Challenge method for project/site selection. In the scoring criteria greater weight should be given to the type(s) of VCF method proposed by the State Governments and the sharing pattern of the VCF proceeds.

Main types of value capture tools used in India

1. Land Value Tax

This mechanism is the oldest governance system based on land records, valuation, assessment and revenue collection and enables levy for rural agricultural land in most states in India. Maharashtra and Tamilnadu, through state laws have expanded the scope of this mechanism to cover urban land, with the latter depending on this revenue stream for low income housing. However this tax has proved to suffer from lack of buoyancy and from lack of devolution of this state tax to the urban local bodies.

2. Fees for changing landuse (agricultural to non-agricultural)

Land revenue codes provide for procedures to obtain permission for conversion of landuse from agricultural to non agricultural use. West Bengal formulated a system to capture gains from changes in landuse as well as types of urban landuse (from commercial to industrial, residential to industrial, residential to commercial in urban areas) but couldn't get it implemented. Karnataka on the other hand developed an area based formula (rates haven't been revised either) due to popular acceptance but lost out on the possible gains of increases in value.

3. Land Value Increment Tax (LVIT), primarily a betterment levy for improvement schemes

4. LVIT in conjunction with Town Planning Schemes (TPS)

5. LVIT for specific projects

Land Value Increment Tax (LVIT) is the Indian version of the betterment levy adopted in cities by the erstwhile city improvement trusts and now the urban local bodies. The essence of this is to capture a part of the increase in land value either due to

- Planned improvements (Mumbai and Nagpur in Maharashtra, Bangalore in Karnataka and cities in Madhya Pradesh), with the portion varying from 1/4th to 1/2 of the estimated increase in value.
- Undertaking a detailed town planning exercise for converting agricultural land into planned layouts. The town planning exercise produced both land banks for the planning authorities and financial resources from LVIT. This mechanism was codified

in the state planning laws of Maharashtra, Andhra Pradesh, Karnataka, Gujarat and latest in Punjab.

- Mumbai Metropolitan Regional Development Authority (MMRDA) codified the possibility of levying betterment charges for specific projects in its MMRDA Act 1974 but has not been able to implement it for reasons primarily emanating from lack of methodical evaluation of improvement in the land values due to specific projects.

6. Area based Development Charges

Area based development charges are the most widely used land based fiscal tool in Indian states. The variations in the adoption of this mechanism are significant amongst the states but land and buildings are both covered. The term Impact Fees also is used within this mechanism in some states but essentially these are area based development charges. Andhra Pradesh, Gujarat, Maharashtra, Tamil Nadu and Madhya Pradesh have adopted this and collect this upfront while granting development permissions. In some states, this charge is barely sufficient to cover the administrative cost of granting development permission.

7. Value based Development Charges

Recognizing that area based development charges do not reflect the increasing cost of development and thereby result in lack of buoyancy, many states have increasingly moved towards linking development charges to market value of land by carrying out periodic valuation exercises in assessing the market value of land assets. Maharashtra with 'ready reckoner' rates, Karnataka with 'guidance values' rates are examples of value based development charges

8. Transfer of Development Rights and Incentive FSI

Transfer of Development Rights (TDR) is used for trading development rights and thereby aiming to recover monetary compensation that would have been lost due to heritage conservation or land being utilized for social causes such as open spaces and affordable housing. In most Indian cities where FSI is uniformly low, additional FSI could be purchased for affordable housing, road widening, school and hospital construction etc through TDR. In land constrained cities, this mechanism has acquired the form of a fiscal tool for the ULBs. Maharashtra, Karnataka and Gujarat have enabling laws for this mechanism in their planning regulations.

9. Premium on relaxation of rules or additional FSI

This mechanism is used in states such as Maharashtra, Karnataka, Gujarat, Tamil Nadu etc. to allow for additional development rights beyond the permissible limits by state town planning acts. This has emerged as a popular fiscal tool and faces criticism from the urban economists that it provides perverse incentives to keep city wide FSI low and then subsequently charge for additional FSI. In some cases, this mechanism will work against other value capture mechanisms such as Transit Oriented Development (TOD) which by its nature assumes a high built up spaces and high density of households to capture value of heavy capital investments in public transit.

10. Charges for regularization of unauthorized development

These are charged for regularizing development that has occurred outside the planning norms/guidelines. Examples of these are layout regularization in Andhra Pradesh, gunthewari development regularization in Maharashtra and impact fees in Gujarat. This has also acquired the status of a fiscal tool similar to premium fees described above.

In addition to the land based fiscal tools described above there are two additional mechanisms adopted in Indian cities. These return value in the form of land assets to the local authorities and are

11. Land Acquisition and Development

The MMRDA and CIDCO have used this strategy to finance the infrastructure development as their areas expanded. MMRDA especially is using the proceeds from these sales for the Mumbai Urban Transport Project (MUTP). MMRDA was able to generate Rs50.8 billion (approximately US\$1.2 billion) from the sale of small land parcels in Bandra-Kurla in just two auctions. CIDCO uses a hybrid partnership model where portion of the assembled and developed land with higher development rights (FSI) is given back to the original landowners. The range of this developed land given back between 12.5 % and 22.5%.

Town Planning Schemes

States such as Gujarat and Haryana have successfully used land assembly programs where the owners agree to exchange their barren lands for infrastructure-serviced smaller plots. Gujarat has used its unique version of Town Planning Scheme (TPS), in existence for more than half a century, to guide the development of Ahmedabad city and its surrounding infrastructure.
