Government Management of Land and Property Assets: Justification for Engagement by the Global Development Community

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In most countries, central as well as local (municipal) governments own or control large holdings of land and built-up properties and, in addition, have the responsibility to provide public infrastructure services within their respective jurisdictions—from roads, streets, water, and sewerage to social services, such as schooling. Further, economic development and urban regeneration are often policy objectives of the public sector as well. Establishing an organizational system that would manage government property assets and deploy them for achieving government objectives is one of the tasks of governmental asset management.

Management of government-owned property assets, including land, as a distinctive area of public management, is still in its infancy compared with traditional areas like public budgeting or public administration. This explains and excuses a striking mismatch between the many benefits good asset management generates and the little attention governments give it. This begs the question: what are the benefits of asset management for the global development community, including for the clientele of the World Bank and other international development institutions?

Potential Benefits of Better Asset Management

Financial gains. The size of government property portfolios and the share of public wealth concentrated in governmental property assets in urban areas are staggering. For example, the government of Warsaw owns 22 percent of the city’s territory and 11,312 built-up properties of all kinds—from markets and garages to sports and cultural buildings to industrial, commercial, residential, and administrative properties. The city’s commercial rentals alone contain about 10,000 shops. The land value makes up 80 percent of all assets in the city’s consolidated balance sheet, and this is not a unique share: on average, property assets constitute 40 to 95 percent of everything governments own. Moreover, in many countries, the value of urban land and property under local governments’ control remarkably exceeds their annual budgets. Not surprisingly, better asset management can produce substantial financial gains in all “four quadrants” of public budgets—for both central and local governments, as depicted below. These gains include more systematic use of “land financing” for infrastructure finance.

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<th>Revenues—Increased</th>
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Moreover, better asset management can prevent governments from exposure to unnecessary fiscal risks and contingent liabilities. Finally, a systematic review of government land from a balance sheet can help restructure government property holdings and convert surplus property to funds for needed infrastructure.

**Local economic development and social programs.** Government-owned land is considered, rightfully, as a main contribution that local governments can make to local economic development—the primary task on the agendas of many local governments, especially in cities in decline or with high unemployment. Often, land is allocated below market value for the sake of local economic development or other governmental goals and programs. However, such allocations are often misused or distort the investment climate. For example, a land site in a prime location can be given for free for a private tennis court, with the face-value motivation that this contributes to the local social climate (sports) and economic development. Improving governance where local economic development and asset management overlap is an urgent task.

Similarly, government land is often used for achieving various social and development goals, with land value being sacrificed without even evaluating it. Often, such land programs (e.g., giving a land plot for housing to each family) are not sustainable and must be redesigned to better balance conflicting goals.

**Anti-corruption effects.** Good asset management is a very practical anti-corruption instrument, “anti-corruption in action,” for a very simple reason: it introduces transparency into information about public land and property holdings, transactions with public property, and procedures and decision making.

**A focal point for decentralization reforms.** Asset management can further serve as a focal point for government decentralization, especially in countries without a strong prior tradition of local self-government. Indeed, asset management is a multi-dimensional area of public management, which tests such critical elements of government decentralization as

- Delineation of powers between the central and local governments (in this case, how property control is allocated between the levels of government) and
- Financial management and distribution of property-related revenues and expenses between the levels of government.

Another reason why asset management is good for testing government decentralization is that its subject—public land and property—is not abstract and is perfectly understood by people, whether in Kyrgyzstan or Yemen or Poland. For example, introduction of public hearings on asset management issues in Kyrgyzstan’s municipalities became an important milestone in how local governments learned how to talk to their people.

**Higher efficiency and more room for the private sector.** Public-private partnerships and special-purpose asset management enterprises are advanced instruments. Improved asset management usually implies competitive and transparent outsourcing of certain elements (e.g., operating and managing public-use facilities, from parks to farmer markets). This helps increase professionalism and efficiency and curtail bloating in the public sector.

**Donor’s Role—Past and Future**

The World Bank has played a leading role among donor organizations in sponsoring research of asset management practices in urban areas, conversion of good practices in transferable knowledge, and development of diagnostic tools (see references). It also included asset management (with urban land management as a part, often the main one) in several country-specific assessment or technical-assistance projects (Morocco, Kuwait, Egypt, Yemen, Warsaw, and Saudi
Arabia). However, its direct participation in technical assistance and training on urban land and asset management in clientele countries remains limited to date, with substantially broader engagement by USAID, at least in the Europe and Central Asia region.

Given a donor’s capacity, it is impossible to overestimate potential impacts of more systematic engagement in both further knowledge generation and technical assistance and training. A list of possible high-impact activities and topics is provided below. Many of them imply moving beyond diagnostics to design and implementation of better asset management. In particular, this may include synthesizing cross-country knowledge into a composite framework for good policy and for a well-balanced regulatory regime.

Creation, transfer, and dissemination of cross-country knowledge
- On policy and regulatory regimes
- Valuation of governmental properties: which value should be used when (in particular, market value vs. fair market value vs. “value in use” vs. “opportunity value”)
- Institutional and organizational arrangements
- Good practices
- Basic information on the size of government property holdings

Promotion of good policies and regulatory regimes
- Formulate and make available a good land management policy framework
- Formulate and make available a well-balanced regulatory framework (central/local)
- Conduct land management assessments against these frameworks in specific countries or cities to identify gaps and problems in policies and regulations
- Promote balancing the roles of the central government, local governments, and professional associations.

Delivery of technical assistance and training on specific practice areas

Incorporating land and asset management into financial management, in particular, according to the “four quadrants” model noted on the first page of this technical brief.

Establishing prerequisites
- Establishing or defining local (municipal) land
- Delineating state and municipal land
- Registering public land rights

Setting up the basics
- Inventoring
- Valuating property for transactions
- Introducing good basic policies (transparency, competitiveness)
- Strategic land management plans
- Incentives

Unlocking land values
- Simplifying or relaxing land use rules
- Training for urban planners and land managers on basics of land economics
- Good-quality competitive procedures

References


2. Land and Real Estate Initiative (LARI) initiated and sponsored the following studies:
   - “Strategic Municipal Asset Management Advisory Note” (Worley International Limited, 1999).


About the Author

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Notes

1 Asset management of public property is understood as the process of making and implementing decisions about property acquisition, use / management, and disposition.

2 “Land financing” is a set of instruments, through which governments can convert their land or powers over private land into infrastructure. Conventionally, land financing does not include property tax.