

urban financing

"I do not feel that we should allow a shortage of funds to prevent cities from financing needed projects."

Hubert H. Humphrey , 38th Vice President of the US under Lyndon Johnson

FUELING THE DEBATE

- Why are the recommendations of the international community not enforced at the national level?
- What are the real investment needs and how can the quality and productivity of investments in cities be improved?
- Which financial mechanisms are most appropriate in order to fill the gap between available funds and funding needs?
- Which tax reforms should be made to mobilize local and national wealth?
- How can access to borrowing and public-private partnerships be supported?

CURRENT CONTEXT

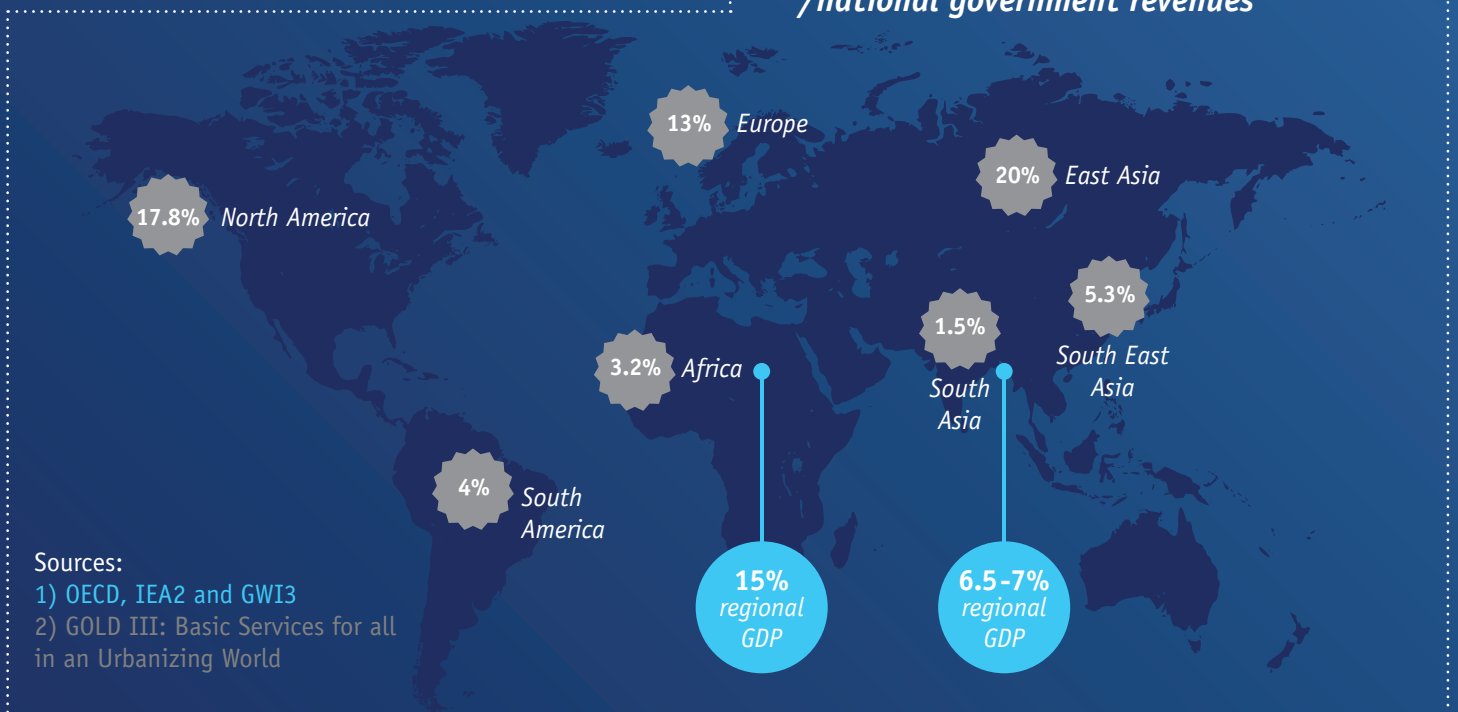
In a context of rapid urbanization and dwindling revenues, local governments have increasing responsibilities for meeting the basic needs of citizens, local economic development, and environmental protection; the funds available for the promotion of local development are far inferior to the resources required to take on these challenges.

One billion slum dwellers already have limited access to basic services. Over the coming 20-30 years, 1.4 billion new urban dwellers will need access to basic services in low-income countries.

- *Required investments in infrastructure by the year 2030* ¹

U.S. \$ 57,000 BILLION

- *The ratio of local government revenues /national government revenues* ²



THE ROLE OF LOCAL GOVERNMENTS

Studies conducted within the framework of the Millennium Development Goals have shown that the low level of attainment of MDGs is strongly linked to the lack of funds granted to local governments. Access to basic services is therefore dependent on the financial capacity building of local governments. This issue is especially crucial as a lack of basic investments entail a very high cost in terms of local, social and economic development, climate change and resilience. The deficit in basic urban infrastructures hinders the economic growth of countries, limits the attractiveness of regions and business productivity.

Access to basic services³



Investments needed to connect people to the water and sanitation networks in Africa= 1% GDP



Economic loss due to the lack of access to these services in Africa= 6.5% GDP

Economic growth

Africa = India or Pakistan

Economic growth if infrastructures were like those in India or Pakistan = 2.2% per year

Latin America = Turkey

Economic growth in Latin America if infrastructures were like those in Turkey = 2% per year

● MAIN CHALLENGES

Achieve a fair distribution of income between local and central government: the structural revenues of local governments are made up of local taxation, central government transfers, and fees for the services delivered to citizens. These are intended to finance current expenditures delivered by local governments, but depend totally on national revenue distribution. In a majority of low-income countries, this distribution is unfair.

Ensure equitable access to credit for local governments: in many low-income countries, local governments face difficulties in accessing credit, either because they are not legally allowed, or because the financial markets are too poor. As for the banking sector, it is usually reluctant to open up to local governments because they are not considered attractive due to their poor repayment capacities. Public-Private Partnerships, which have been in decline since the start of the global economic crisis, are concentrated in emerging countries and in some of the most profitable sectors. Tapping this funding potential implies that national reforms must be undertaken in order to encourage, secure, and adapt financing to the needs and capacities of local governments.

KEY OPPORTUNITIES

Engaging the international community

The international community should support urban basic infrastructure financing, promoting adequate loan policies that could multiply the effect of financing. Tools to monitor the implementation of fiscal decentralization could be proposed to help monitor such transition.

Capturing the added value of land generated by public investment

Infrastructures in low-income countries should be returned to local governments as a fair 'return on investment'. In countries in which these tools do not exist, it is important to carry out reforms so that this potential form of financing can be harnessed.

Giving local governments access to green funds

Local governments should ramp up their efforts to access 'green' financing mechanisms, adapted to their idiosyncrasies, in an efficient and effective way.

3) GOLD III: "Basic Services for All in an Urbanizing World" UCLG 2013