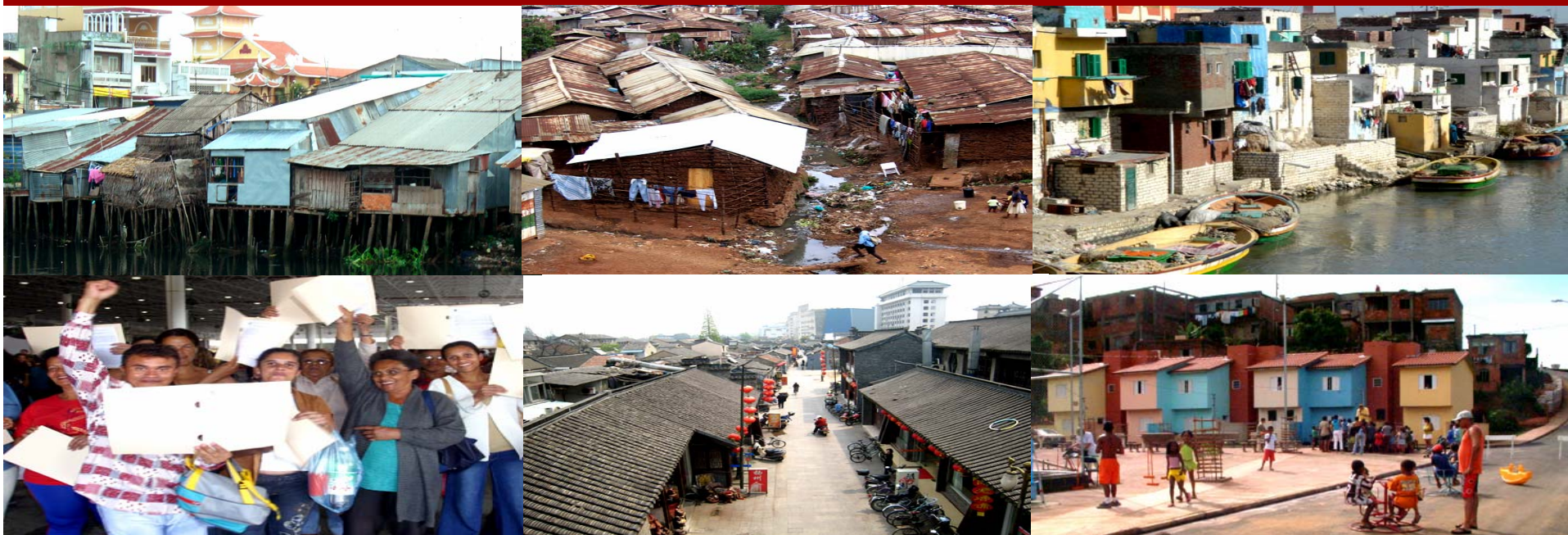


# Financing City Development Strategies and Slum Upgrading



# Key Issues and Trends

- ❖ Decentralization, increased responsibility, often not matched by devolution of powers – regulatory, financial and administrative
- ❖ Continual flow of poor people to cities with limited access to basic infrastructure and land for housing
- ❖ Public expenditure still accounts for around 70% of funding for infrastructure
- ❖ As a share of GDP, spending on infrastructure is considerably lower than the 1970s level
- ❖ Bi-lateral and multi-lateral ODA commitments for infrastructure have declined, both in absolute terms and as percentage of total commitments
- ❖ Private sector funding has fallen since 1997, instead of compensating the declining ODA and public funds as expected

# Typology of CDS Portfolio

## Links to Domestic Finance

### **Type 3: Systemic**

- Rationalize intergovernmental fiscal transfers to strengthen city revenue streams – Zambia, Swaziland
- Reduce fragmented authority and unfunded mandates – Chuvasia, Stavrapol
- Empower Cities with authority over tariffs and own sources – Ghana, Pakistan

### **Type 2: Metros and Peri-Urban**

- Overlapping geographic and functional jurisdictions – Cairo, Mumbai, Bangalore, Metro Manila, Montevideo
- Domestic financing dependant on pooling revenue flows and hence reforms

### **Type 1: Single City**

- Usually not linked to city revenue streams, fragmented authority over infrastructure – Hyderabad, Hubli-Dharwad
- Limited commitment from national government – Jakarta, Niger



# Systemic CDS- Ghana's Approach

## A model for working systemically on demand and supply:

- ❖ Strengthening intergovernmental fiscal flows
- ❖ Defining a process for cities to reduce revenue loss and obtain internal consent for borrowings, including pricing
- ❖ Developing legal framework – defining purpose, scope and limits for borrowing at the national level
- ❖ Unblocking existing supply constraints on insurance and pension funds



# Systemic CDS – India's Approach

JNNURM central government grants are provided to cities for:

- ❖ Adjusting obsolete system of laws, rules & procedures to meet modern urban needs
- ❖ De-fragmenting authority over infrastructure
- ❖ Augmenting revenue stream of cities to encourage suppliers of capital to change lending practices to accommodate special needs of urban infrastructure



Two years in, the jury is still out. “JNNURM is both a science...and an art; Nothing can be more damaging than implementing the reform agenda in a disjointed manner.”

--Om Prakesh Mathur

# Financing CDS - Some Lessons

Results indicate that prospects for repeated access to domestic finance improves when CDS attempt at least three key reforms:

- ❖ *First*, National actions empowering cities to raise finances, create infrastructure and pay for their use over time.
- ❖ *Second*, City level actions that carry out accounting reforms and allow flexibility in tariffs.
- ❖ *Third*, Supply-side initiatives that improve cities access to commercial finance through effective intermediation or pooling.

# Financing CDS – Other International Initiatives

Initiative	Features	Examples
WB-IFC Sub-National	Provided longer terms for states, cities and utilities in Middle Income Countries with established markets in partnership with other intermediaries	Johannesburg – with DBSA; Mexico – with Dexia; Chuvasia Republic, Russia
PPIAF Sub-National Technical Assistance Program	3-yr pilot to provide TA to sub-nationals to improve creditworthiness for accessing market-based financing on their own; not tied to specific financiers or financing options	None yet
ADB	<b>Sub National Lending</b>	
USAID-DCA	Innovative market access for smaller and medium cities by pooling-A	India, Mexico, Morocco (in pipeline)
AFD	Loans and grant–loan blends provided to sub-nationals without sovereign guarantees	Ouagadougou – grant-loan blend; Istanbul – loan for subway

# Typology of Slum Upgrading Portfolio

## Links to Finance

### **Type 3: National and City Partnerships**

- Major national investments financed by public subsidies – Brazil - Bahia, South Africa – Ekurhurleni
- Links with domestic banks – Guatemala
- *MDF – Morocco, Tunisia*

### **Type 2: Policy Frameworks**

- Defining role of the state in differentiating public and private land issues for financing to be effective – Gujarat, Brazil, AUF

### **Type 1: City Level**

- Limited sustainability unless backed by reform – Mbane, Sangli, Manila - Impact



# Financing Slum Upgrading: Experience of CLIFF and SUF

## Features:

- ❖ Provided support for the urban poor to organize and negotiate with local authorities – CLIFF, SUF
- ❖ Proposed grants to National Level Poor Funds – Ghana, Tanzania, Sri Lanka (City and National Poor Fund)
- ❖ Supported resettlement projects – River Development in Indonesia, Parks in Sri Lanka – SUF

## Outcomes:

- ❖ Recognition of the community as the key for slum upgrading
- ❖ Dependant on Public Finance (Mumbai - 90% of home cost from the state)
- ❖ Usually disconnected from city governments and infrastructure - Nairobi
- ❖ Limited effects at scale

# Framework for Sustainable Financing of CDS and Slum Upgrading

Sustainable assistance from international development partners, which promotes improved systems, usually has **5 reinforcing components**:

1. **Decentralization Reforms**: empower cities to perform legal, financial, technical and managerial functions
2. **Poverty**: incentivise cities to invest in public infrastructure in slums through loan-grant blends
3. Require mobilization of **local private financing**
4. Work with **Micro Finance Institutions** for home improvement loans for the poor
5. **Prevention**: use financial models to facilitate the prevention of new slums

# Cities Alliance – Forward Work Plan

- ❖ Develop partnerships with UCLG on **Municipal Finance Commission of Mayors**
- ❖ Partner with **Metropolis Bank of Cities** in assisting cities to access domestic finance
- ❖ Partner with Sub-National Technical Assistance Window to develop two tools:
  - ❑ **Municipal Fund Performance Tracker** to stimulate action plans for linking with domestic markets
  - ❑ **Fiscal Devolution Performance System** for comparisons over time and across countries
- ❖ Integrate Financial Operating Plans in CDS and Slum Upgrading activities
- ❖ Work with Member financing initiatives – e.g. AFD, USAID-DCA, CDIA, PPIAF, C-GAP
- ❖ Financing African Cities – AfD- Cities Alliance Joint Work program
- ❖ Engage partner countries in framework agreements to promote systemic change