

# **Empowering Cities to Implement the 2030 Agenda and New Urban Agenda:**

**Mobilising Municipal Finance  
for Sustainable Infrastructure  
in Asia-Pacific**



# Today's Presentation

1. **Background, context and key questions**
2. **The infrastructure gap in Asia-Pacific**
3. **Key components of municipal financing systems**
4. **Financing instruments which assist in leveraging capital**
5. **Summary reflections for discussion**





- **Part of UN Secretariat: 62 member states - 58 are regional members**
- **ESCAP covers the world's most populous region - two thirds of humanity**
- **Based in Bangkok, with 4 Sub-regional offices**
- **ESCAP fosters:**
  - **regional cooperation through an intergovernmental platform to promote social & economic development**
  - **normative, analytical & technical cooperation at the regional level**
  - **a platform for South-South dialogue / exchange of practices**





**Regional Partners Forum @Quito+1**  
**28-29 November 2017, Bangkok**  
*Over 70 representatives  
from 17 countries  
met one year after Quito  
to drive implementation  
of the outcomes of  
Habitat III and  
localisation of the SDGs  
in Asia Pacific*

**Priorities for Effective Implementation at national  
and local levels**

National Urban Policies

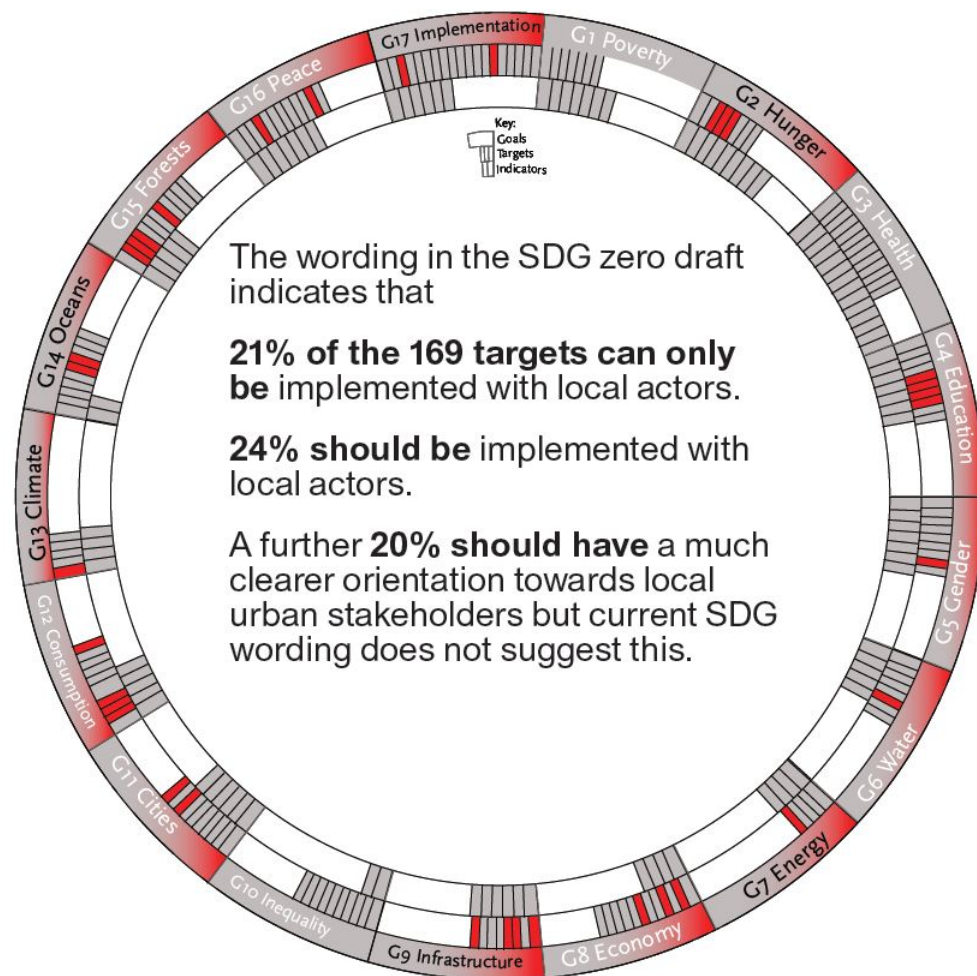
Data

Financing

Local partnerships



# 2030 Agenda and Cities



**Cities well positioned for the implementation of Global Development Agendas**

# Key question

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What are the enabling institutional conditions which need to be in place for cities to be able to leverage long term financing for sustainable infrastructure to deliver against global development agendas?



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What's the **infrastructure gap** in Asia-Pacific?

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**Which public goods need to be financed** at the city level?

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What are the **key components of a functional municipal financing system** to support investment in such goods which govern relevant policy decision making and action?

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What are the **financial instruments** which local governments have at their disposal which can be used to leverage private finance for these investments?

# The current GAP

Infrastructure Needs and Gaps: Asia Pacific, USD Billion 2015 prices				
	Estimated Current Investment (2015)	Baseline Estimates		
		Annual Needs	Gap	Gap (% of GDP)
Total (25)	881 [5.5]	1,211	330	1.7
Total without China (24)	195 [3.8]	457	262	4.3
Selected Low to Lower Middle Income Countries (18)	178 [4.2]	422	244	4.7
without India (17)	60 [2.9]	192	132	5.4
Selected Upper Middle Income Countries (7)	703 [6.0]	789	86	0.6
without China (6)	17 [2.0]	35	18	1.8
Selected Central Asia Countries (3)	6 [2.9]	11	5	2.3
Selected South Asia Countries (8)	134 [4.8]	294	160	4.7
Selected Southeast Asia Countries (7)	55 [2.6]	147	92	3.8
Selected Pacific Countries (5)	1 [2.7]	2	1	6.2
India	118 [5.4]	230	112	4.1
Indonesia	23 [2.6]	70	47	4.7
China	686 [6.3]	753	68	0.5

*Estimates within parentheses are number of countries and those in brackets are percentages of GDP*

*Source: based on ADB, 2017*



***Empowering Cities to Implement the 2030 Agenda and New Urban Agenda: Mobilising Municipal Finance for Sustainable Infrastructure in Asia-Pacific***

<b>Public and Private Infrastructure Investment, 2010-2014 (% of GDP)</b>		
	<b>Private</b>	<b>Public</b>
25 ADB Developing Member Countries	0.4	5.1
East Asia	0	6.3
South Asia	1.8	3
Central and West Asia	0.3	2.6
The Pacific	0.3	2.5
Southeast Asia	0.5	2.1
China, People's Republic of	0	6.3
India	2.1	3.3
Indonesia	0.3	2.3

*Source: ADB, 2017*

# The Future GAP

Total infrastructure investment needs for the region will reach US\$22.6 trillion over the next 15 years (2016 to 2030)



Public sector reforms on both tax revenues and expenditures can meet around 46% of this gap (US\$121 billion out of US\$262 billion) between current and needed investments



The result is a 54% gap (or US\$141 billion) specifically for private sector infrastructure finance

# The Future Gap - sectors

***Water and sanitation.*** Asia-Pacific's projected investment needs in water and sanitation for 2016-2030 based on 2015 prices stands at approximately US\$787 billion, with climate adjusted estimates at over 800 billion.

***Transport.*** Asia-Pacific's investment needs in transport for 2016-2030 based on 2015 prices stands at approximately US\$ 7,796 billion, with climate adjusted estimates at over 8,300 billion.

***Energy.*** This sector has the largest infrastructure-financing gap. Asia-Pacific's investment needs in power for 2016-2030 based on 2015 prices stands at approximately US\$ 11,689 billion, with climate adjusted estimates at over 14,700 billion.



## *Which public goods need to be financed at the city level?*

From a financing perspective, urban infrastructure investments can be divided into three categories

- **first, investments that are more in the nature of public goods**
- **second, investments that are more privatized in nature**
- **third, pure revenue projects**

*The financing challenge higher in the second category, named as the "missing middle", where private capital needs to be supported by public funds*

*What are the key components of a functional municipal financing system to support investment in such goods which govern relevant policy decision making and action?*

## Actions that enhance the powers of cities to

- Improve their own revenue sources (OSR),
- Rationalize intergovernmental transfers (IGFT)
- Provide the regulations for a borrowing framework (BF) that can attract long-term capital

***What are the key components of a functional municipal financing system to support investment in such goods which govern relevant policy decision making and action?***

**Debt financing depends on the rationality of the intergovernmental fiscal rules**

**De-risk investments**

**Policies that empower local governments through rationalizing intergovernmental flows, strengthening own revenues and financial intermediaries**

**Invest in structures to pool these demands and lower risks through efficient intermediation**



## ***Financing instruments which assist in leveraging capital - Fiscal decentralisation***

### **Fiscal decentralisation**

### ***Benefits and Risks to developing countries***

- Design and management of **intergovernmental transfers**
- Can increase the **efficiency of public finances**
- Transfers may continue to play an important role in order **to supplement local taxation**
- Ensure appropriate **accountability**
- Need to be **rational and predictable**
- **Coordination** between national, regional, and local governments is key

# ***Financing instruments which assist in leveraging capital - debt financing***

## **Debt Financing**

### ***Benefits and Risks to developing countries***

- Creditworthy national governments can **collaborate with cities to identify investment priorities**
- **Secondary markets and instruments reduce the cost** of longer-term local currency finance
- **Cities need sufficient own-source revenues for making debt repayments**, along with capacity for budgetary, accounting, and financial management
- **Risk mitigants and credit enhancements**

## ***Financing instruments which assist in leveraging capital - PPPs***

### **Public–private partnerships**

### ***Benefits and Risks to developing countries***

- **PPPs can play a role in delivering urban infrastructure projects**
- **Allocate risks** between public and private entities
- Involve commercial returns on **revenue-generating assets**
- Universe of suitable projects for PPPs is limited principally to those that can **generate sufficient income-backed returns**
- **Effectiveness of PPPs** has been mixed



## ***Financing instruments which assist in leveraging capital - LVC***

### **Land based financing**

### ***Benefits and Risks to developing countries***

- Helps finance **large urban transport and development projects**
- **National governments can incentivise municipalities to assess and implement LVC** as a condition of allocating national funds to part-finance infrastructure projects
- **National legislation and frameworks are critical enablers** for creating the revenue stream
- **Higher levels of government often retain the power to set assessment parameters or tax rates** which represents a significant risk
- LVC is most **risky when combined with an ineffective tax system and opaque property market**

***Tamil Nadu, India: Empowering Municipal Decisions***

- *Linking fiscal transfers to state taxes (rule based rather than on patronage), strengthening own sources (including powers to set rates) and setting up a supply side intermediary*
- *Demonstrated that domestic private debt can finance municipal infrastructure at low costs*
- *Market access for small and medium cities, demonstrating the advantages of pooling in overcoming small size of issues*

## ***Financing instruments which assist in leveraging capital***

### ***The Public-Private Partnership Center (PPPC) of the Philippines***

- PPPC assists and supports implementing agencies and departments on *project preparation*
- Establishment of the Project Development and Monitoring Facility (PDMF) in 2010
- By end 2016, PDMF had committed a total of nearly US\$56 million
- More than US\$4.3 billion of private investment has been secured



## ***Financing instruments which assist in leveraging capital***

### ***Land Based Financing in the Republic of Korea Land and Housing Corporation (KLHC)***

- KLHC financed new transport infrastructure, suburban railways and expressways
- Companies bought some of the newly developed land for housing
- Users also benefited from appreciated values
- From 2001 to 2008, 38 land development projects were built - the average land value capture per project was around US\$559 billion (21.5%) of the average US\$2.6 billion project cost - total land value captured reached nearly US\$2.8 trillion

# In conclusion

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***Combining the above instruments with enhancing the powers of cities to improve their own revenue sources, rationalize intergovernmental transfers and provide the regulations for a borrowing framework capitalizing on the benefits and reducing the risks in an integrated fashion can attract long-term capital***

These policy measures lie under government control or influence and have supporting evidence of previous effectiveness

# What do you think?

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How can we support a more enabling environment for cities to be able to leverage long term financing for sustainable infrastructure?





**Thank you!**  
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Supporting the  
Implementation of  
Agenda 2030 and the  
New Urban Agenda