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FOR A BETTER URBAN FUTURE



Oliver Harman - Cities Economist

Cities that Work, International Growth  
Centre, Blavatnik School of Government,  
University of Oxford

**IGC**

International  
Growth Centre

Cities that Work 

# Knowing me, knowing you – a Zoom poll



# Three takeaways

1. The way governments are funded and financed matter
2. Funding does not equal Financing
3. Matching funding (as best possible) to project economics – there is no one size fits all!

P.S (I promise to do this with only one slide of economics)



Plus echoing three of my colleagues' takeaways

- Paul Collier – *'National objectives are delivered in cities. **Empowering cities makes sense for central government.***
  - (So we need to finance them)
- Shahrukh Wani – Intergovernmental **collaboration is essential**
  - (Most cities will struggle to finance a lot of projects themselves, need to find common ground)
- Vicky Delbridge – Utilising evidence based design and project feasibility showcases what works which can **help attract finance and investment**
  - (Data can reduce the risk, uncertainty and hence cost for investors / lenders)



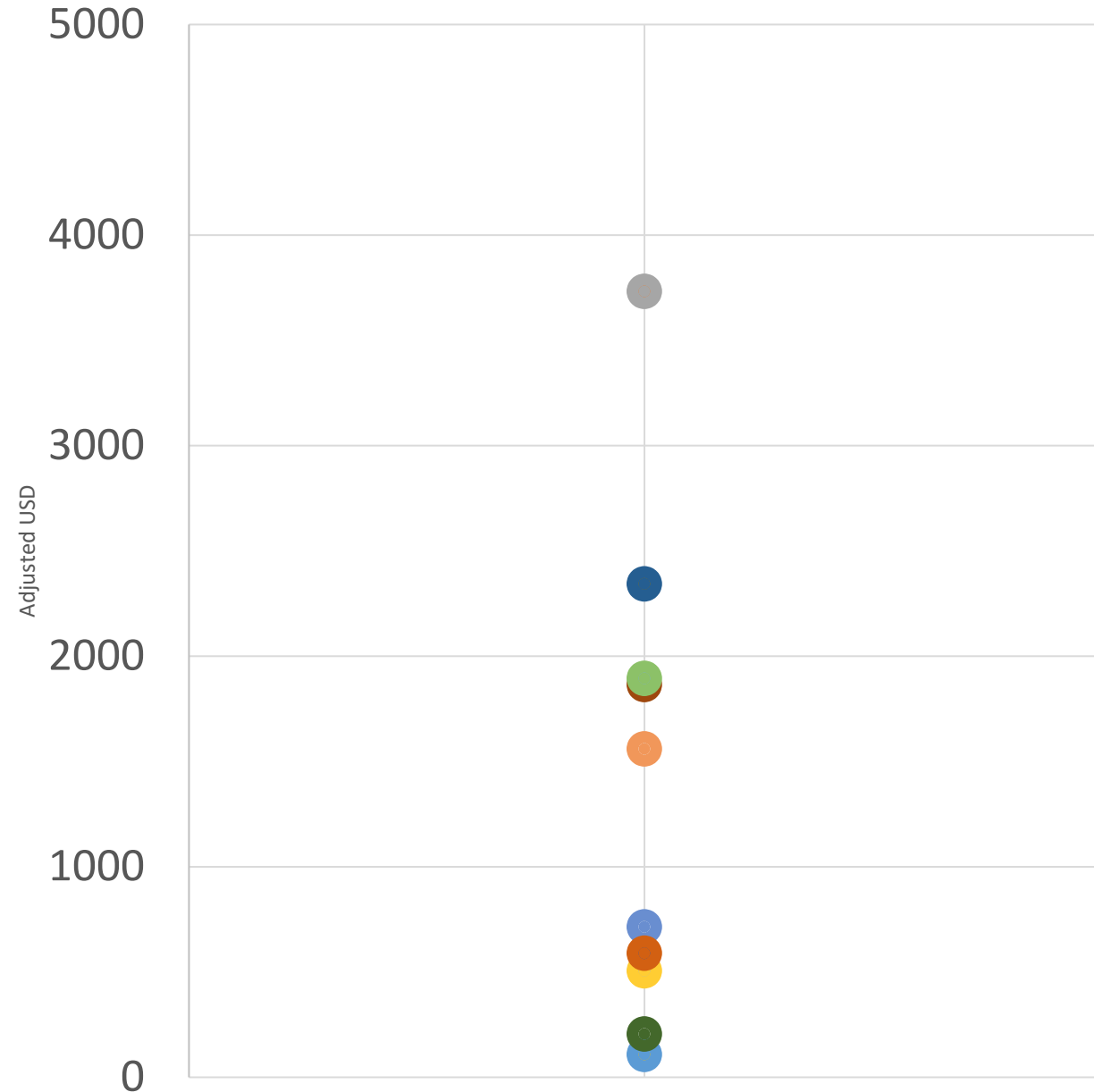
# Central government revenue per capita



Highest per capita budget is 30x the lowest

Brazilian National Congress  
Source: Wikipedia Commons

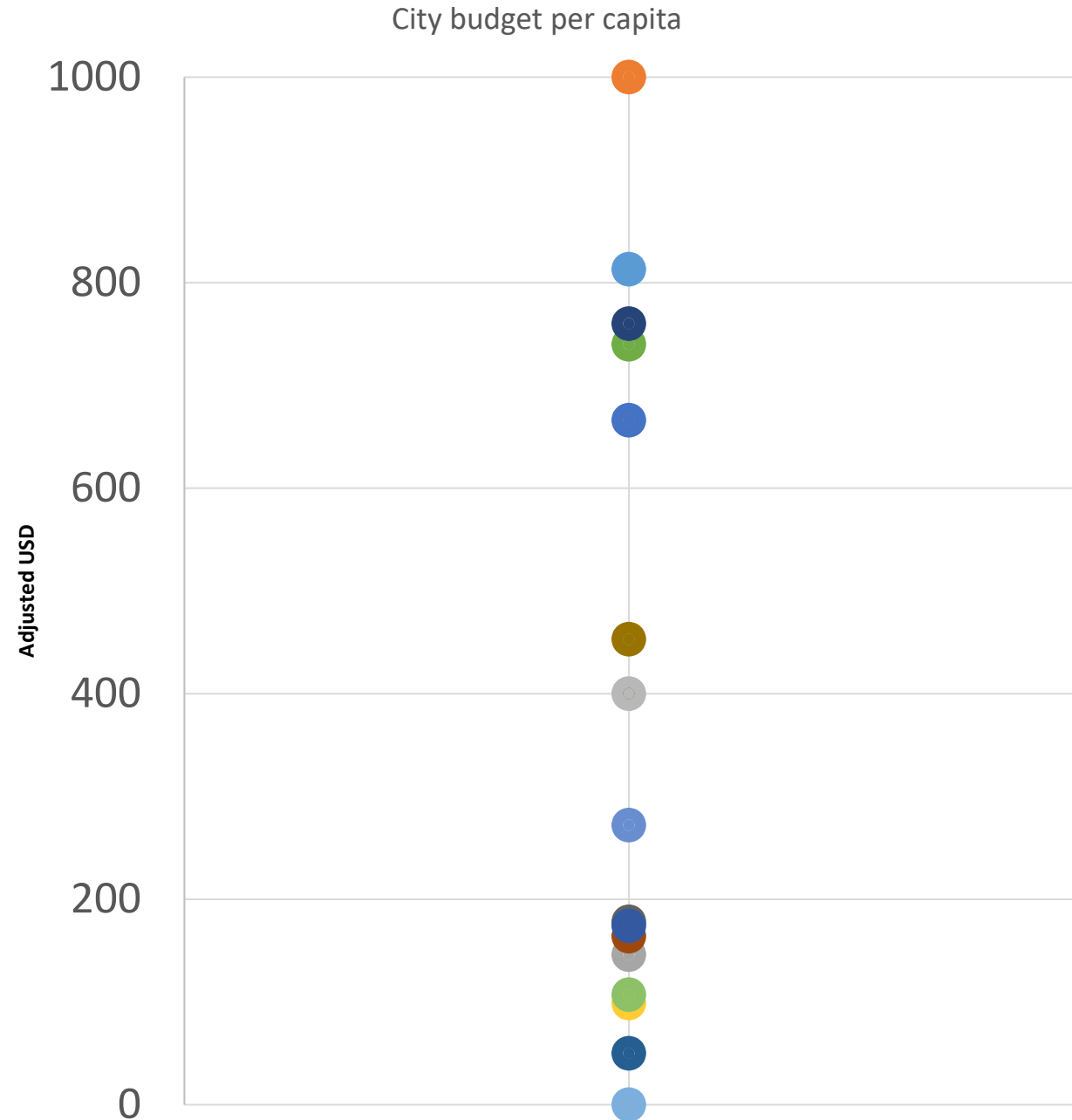
Government budget per capita



## City government revenue per capita



Highest per capita budget is 20x the lowest



## Three pillars of local government finance



Locally  
generated  
revenues



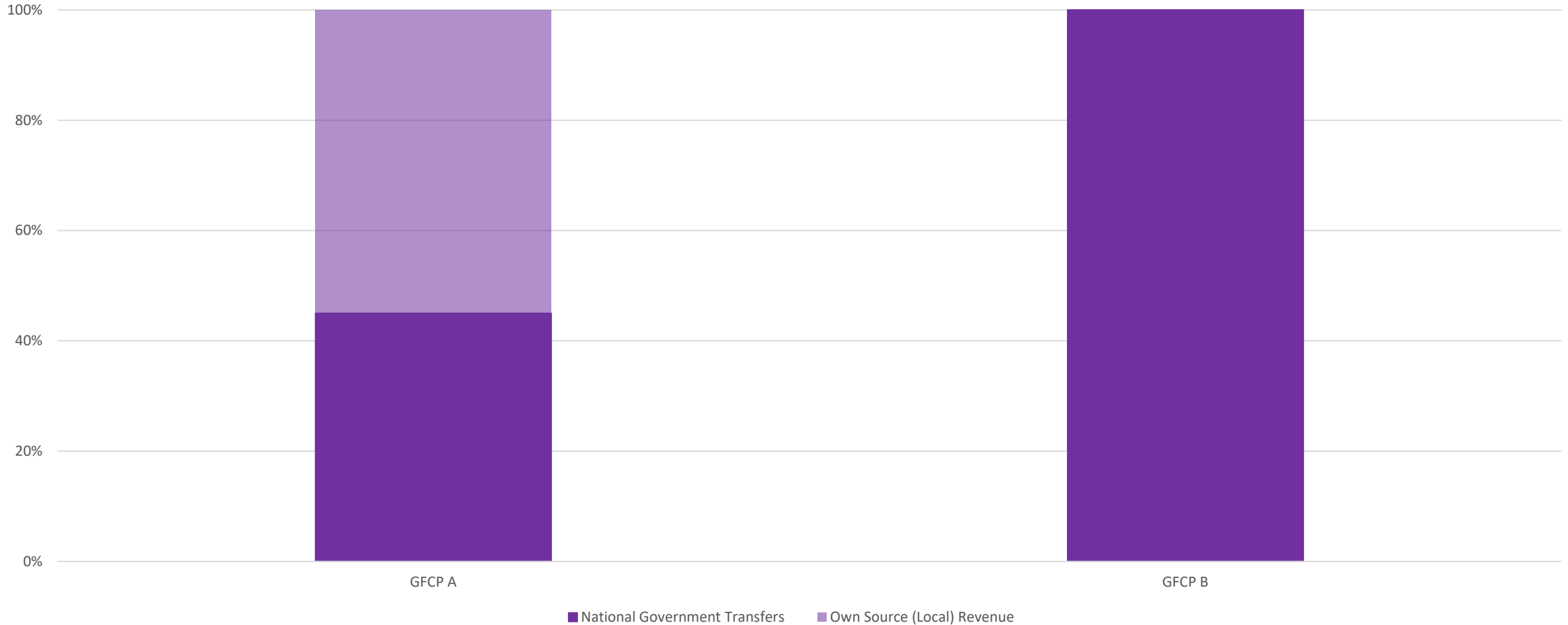
Intergovernmental  
Transfers



External  
Finance  
(Borrowing and  
Development  
Partners)



## A tale of two cities (and their revenues)





To attract this...



**Financing**  
(capital  
expenditure)  
0 – 2 years

You must give lenders confidence in this...



**Funding**  
(capital repayment and  
operational expenditure)  
2 – 20 years

Intervention (Project) Lifecycle



‘A key hurdle to the implementation of major transportation projects is funding’ Siemiatycki, M (2018)

## How city governments are financed matters

- **Decisions change with source of finance**







*'governments spend increases in tax revenues more towards expenditures that benefit citizens than increases in grant revenues'*



## Driving project finance cash flows

### The role of locally generated revenues

- **User fees are central (but not enough) to fund interventions**
- **Pre development (exaction) or post development (land and property tax) are central (but not enough) to fund interventions**
- **Inter-government transfers fill gaps where public benefits outweigh private costs**



## Funding Projects (Transit infrastructure)

### User Fees

- International experience suggests that user fees **typically cover 30-80% of the operating costs** of transit infrastructure

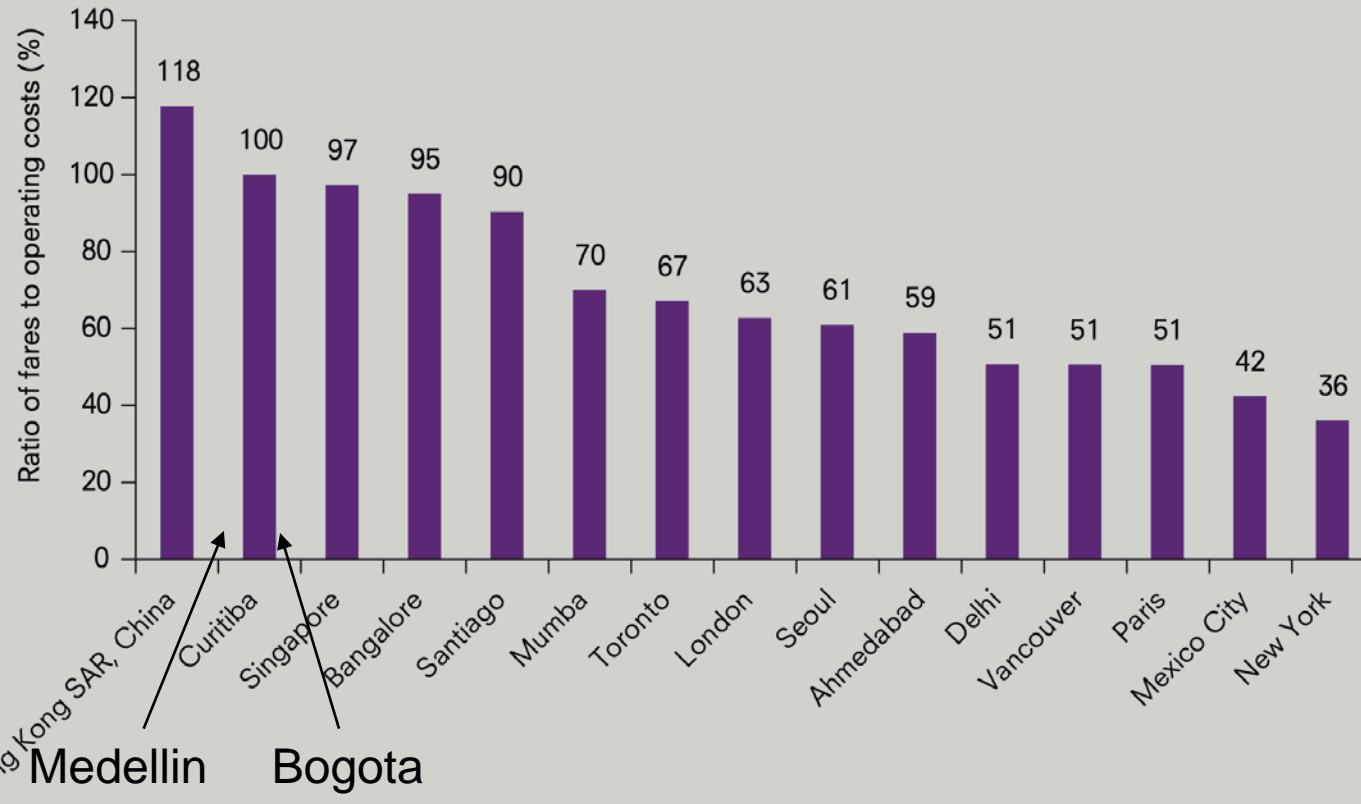
### Land Value Capture

- International experience suggests that **10-20% of infrastructure projects** can be financed through land value capture

So we are still missing ~30%

Source: Siematycki, M. (2018)

### In many large cities, public transit fares do not cover operating costs



Source: World Bank (2013)

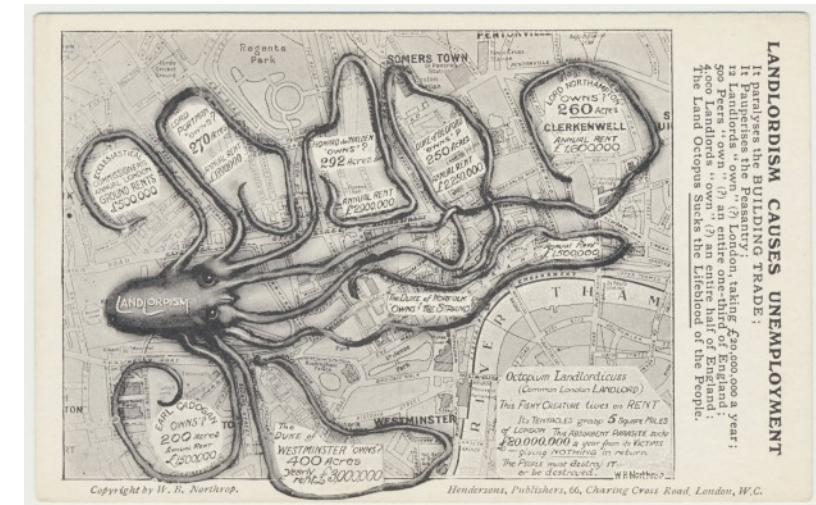
Source: Who Owns England



“Somebody will capture rising land values” – Professor Sir Paul Collier

The question is...who?

Source: W.B Northrup, 1925



## Pre-development 'exaction'

### Motivation from the UK – two alternatives

#### Section 106

##### Criteria

- Site specific
- Money for **specific development** and solely used for that purchase
- Each **separate proposal negotiated**



#### Community Infrastructure Levy

##### Criteria

- **Local authority decision**, if there is a local funding gap
- Not provision of specific infrastructure,
  - **Any infrastructure as defined by legislation**
  - As long as for the community
- Rates are predetermined and known to all
  - Provides **certainty to developers and public**
- Fairer, widens contribution

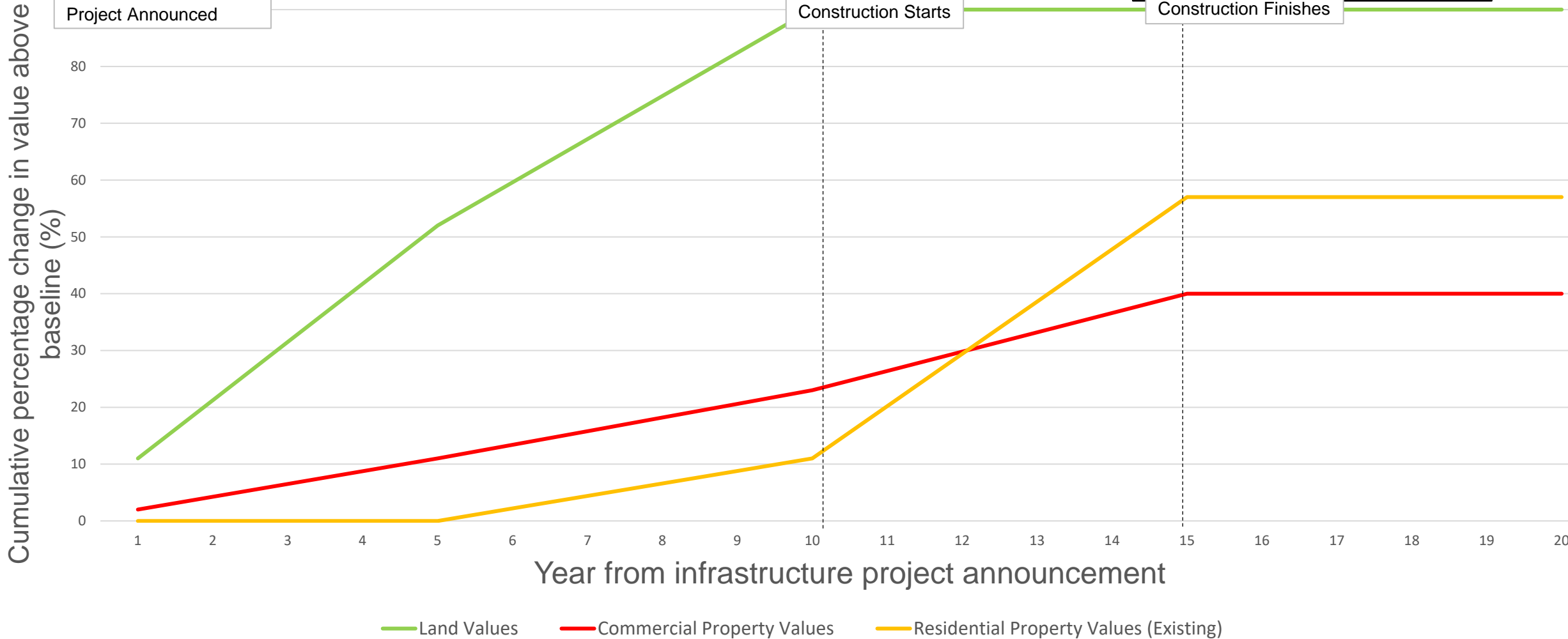




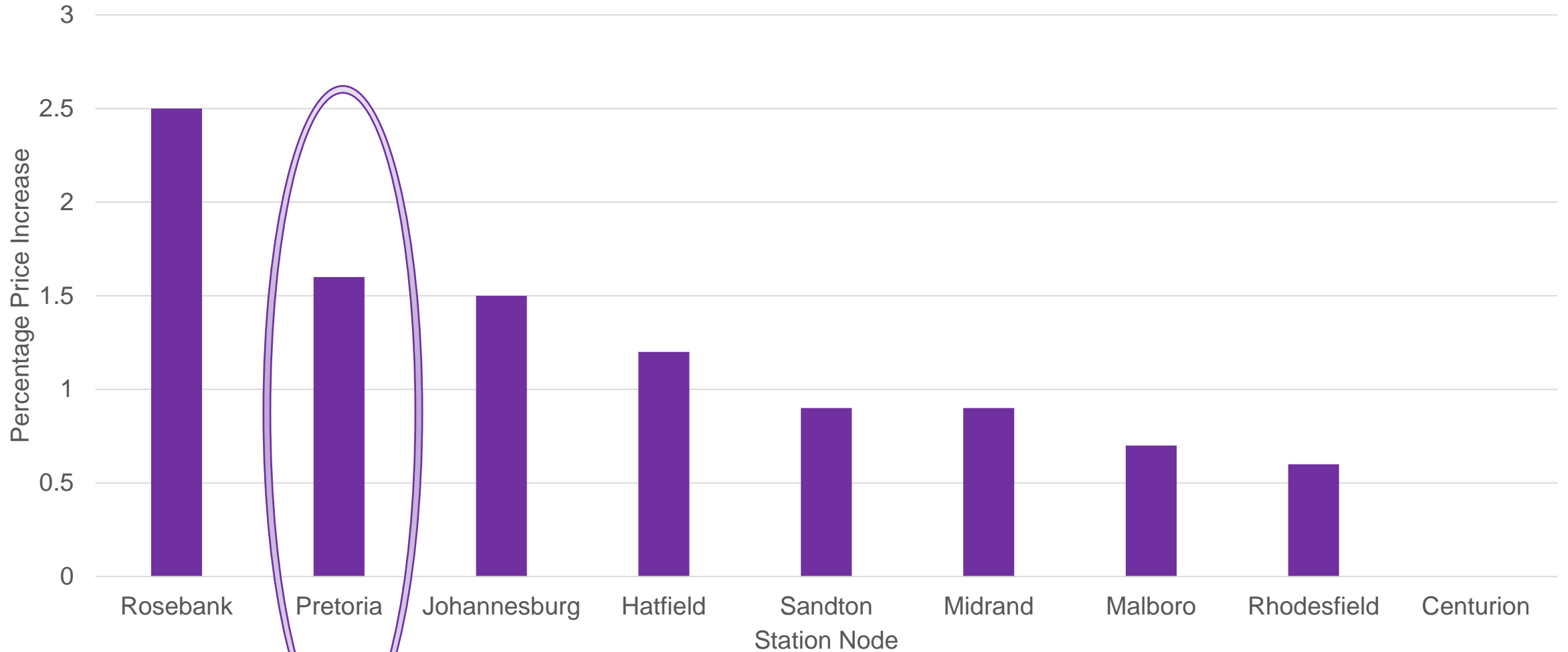
# Post-development 'capture'

Illustration of Value Uplift Process

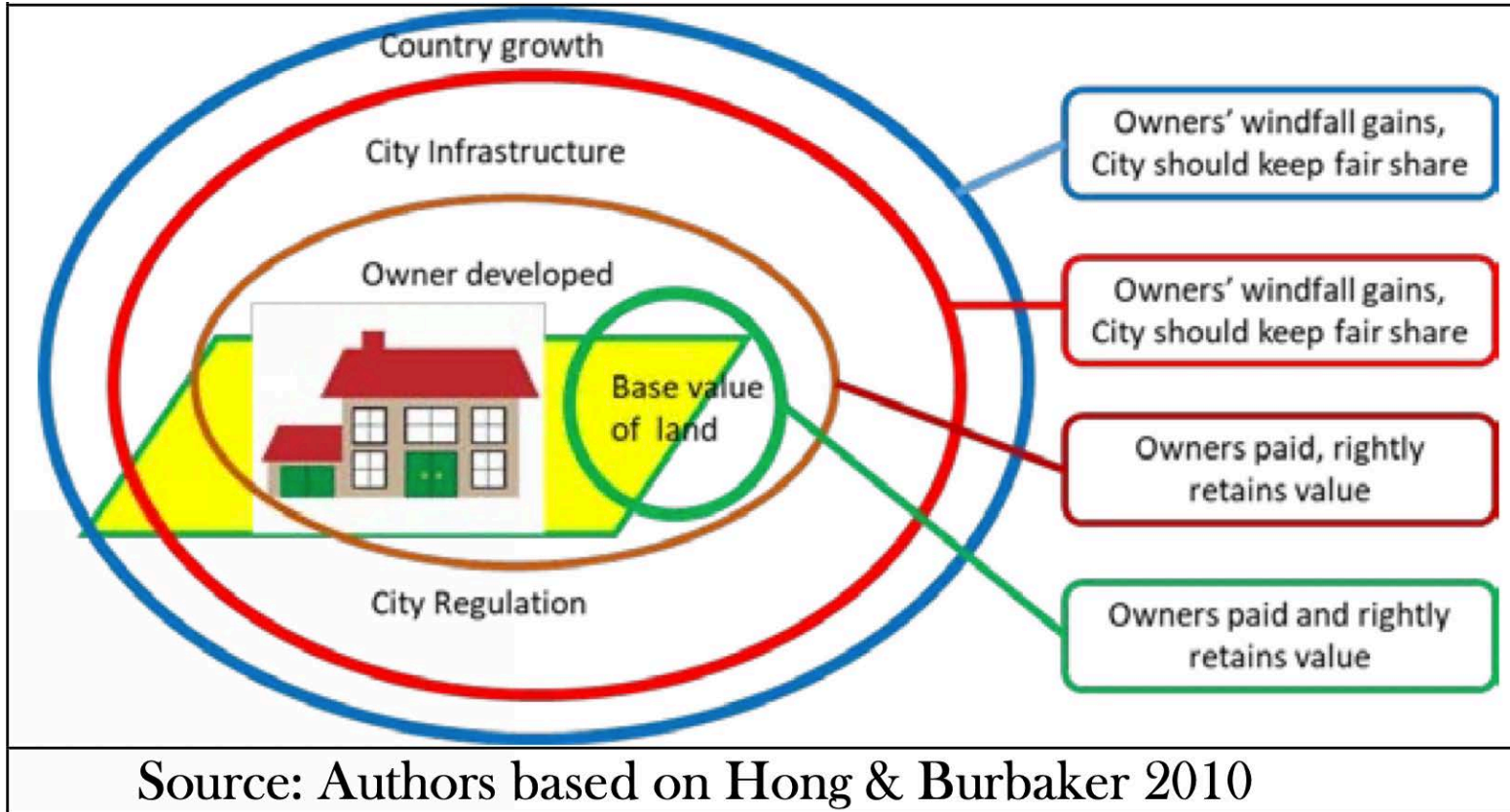
Haas, A., and Harman, O. (2018). Adapted from Savills 2018.



## Property (Land) Price Increases Due to 'Close' Proximity to Station Node [South Africa]



Source: Author's Own, Adapted  
from Lightstone (2017)

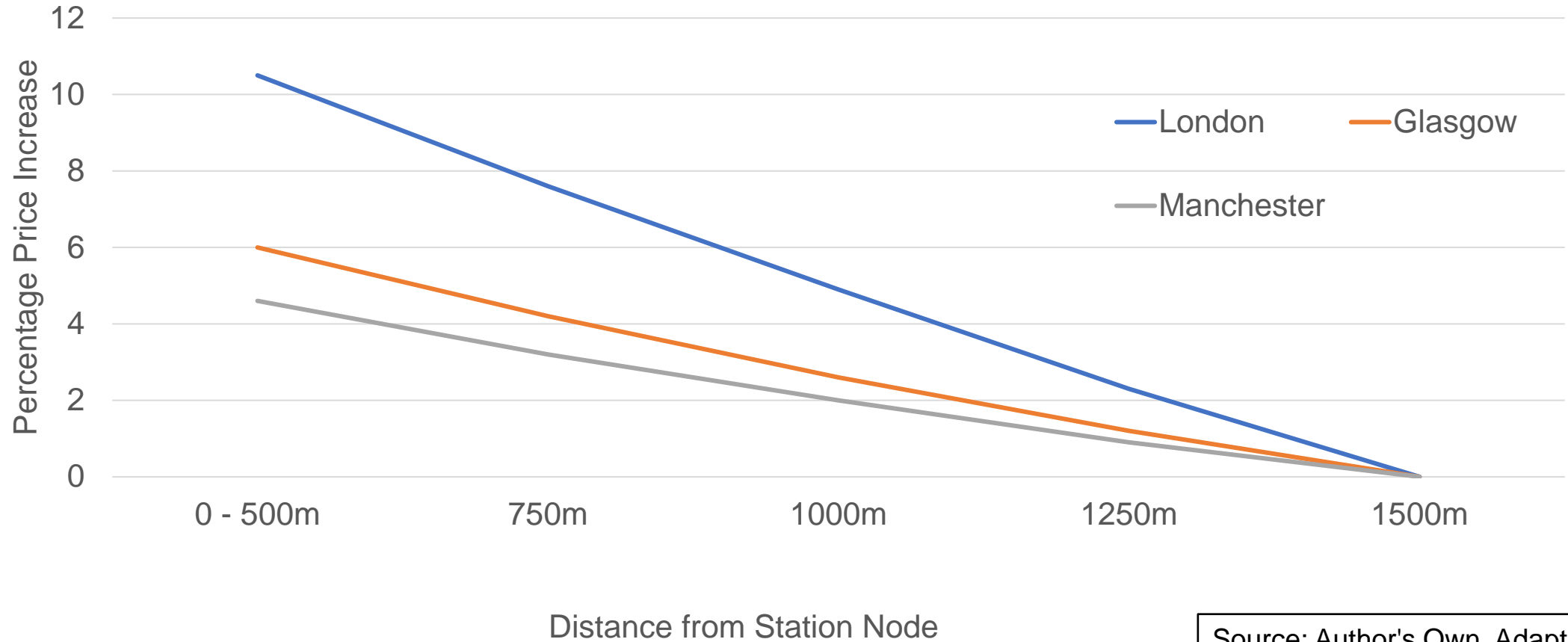


Source: Freire, M., and Kopanyi, M. (2018)

## Pretoria, South Africa

- 1.5% increase in property price is actually **ALL land price increase**
- ~25% increase in land value (!)
- From city infrastructure – ‘city should keep fair share’
- Based on real data from: Centre for Affordable Housing Finance in Africa

## Property (Land) Price Increases with Proximity to Station Node [U.K]



Source: Author's Own, Adapted from Nationwide (2014)



## Economics of funding models

- **Match funding source to project type and beneficiaries**
- **Encourage private sector engagement on the most profitable projects**
  - **(don't keep them to yourselves!)**



## Two policy questions

Does one citizen's use restrict other citizen's uses? (In econ-speak rivalrous vs non-rivalrous)

✓ Yes                      ~Somewhat                      ×No

Can you limit citizen use? (to paying citizens) (In econ-speak excludable vs non-excludable)

✓ Yes                      ~Somewhat                      ×No



**Can you limit citizen use?**

**Yes (Excludable)**

**No (Excludable)**

**Does one citizen's use restrict other citizen's uses?**  
**Yes (Rivalrous)**  
**No (Non-rivalrous)**

|  |  |
|--|--|
| <b>Parking spaces</b><br>  | <b>Public waterways</b><br><b>Local city forests</b><br>  |
| <b>Toll roads</b><br><b>Public transport fares</b><br><b>Private parks</b><br><b>Paid internet</b><br><br> | <b>Street lighting</b><br><b>Public parks</b><br><b>Drainage</b><br><b>Clean air</b><br><br> |




**Can you limit citizen use?**

**Yes (Excludable)**

**No (Excludable)**

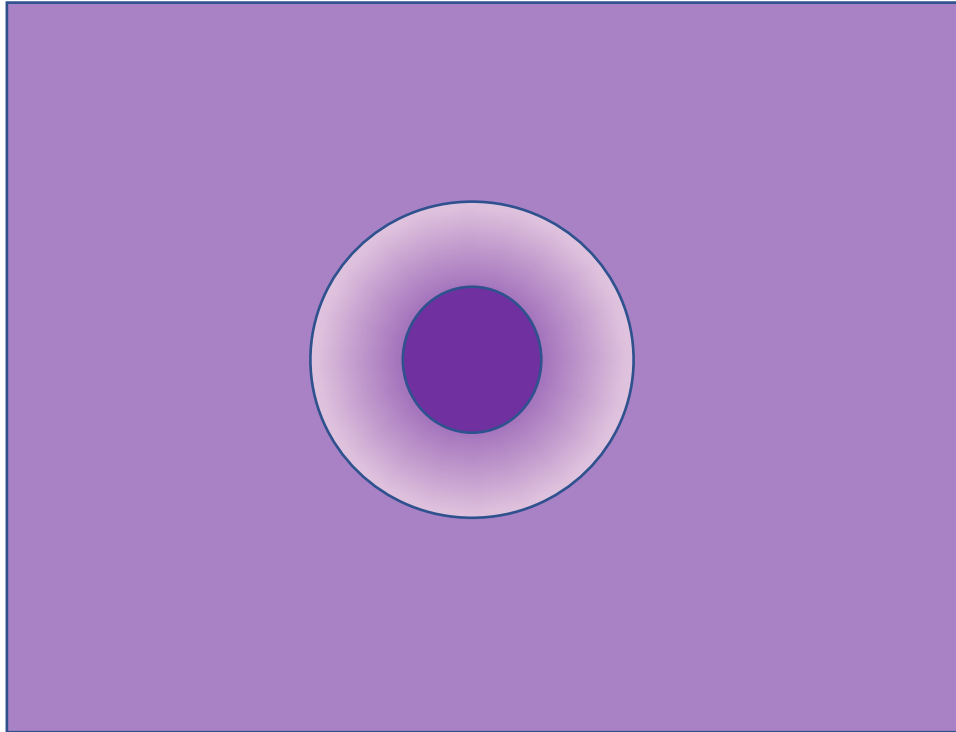
**Does one citizen's use restrict other citizen's uses?**  
**Yes (Rivalrous)**  
**No (Non-rivalrous)**

|   |   |
|---|---|
| <p><b>User fees</b><br/><b>Traffic fines</b></p>                          | <p><b>Inter-governmental grants</b></p>    |
| <p><b>User fees</b><br/><b>Targeting land and property taxes</b></p>   | <p><b>Inter-government grants</b><br/><b>Locally generated revenues</b></p>   |

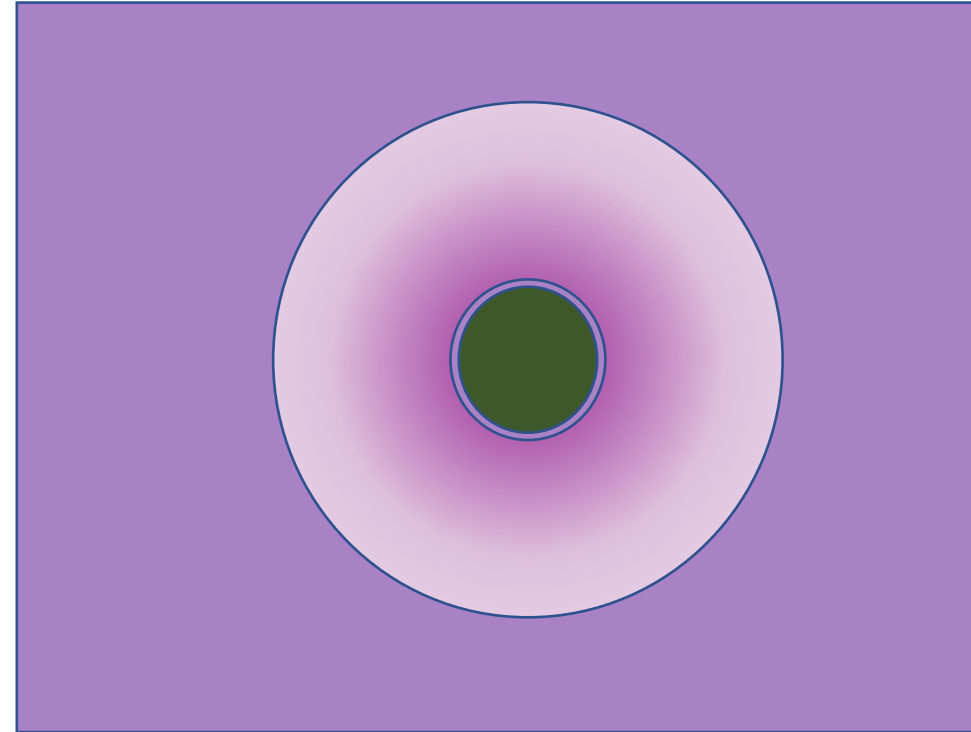




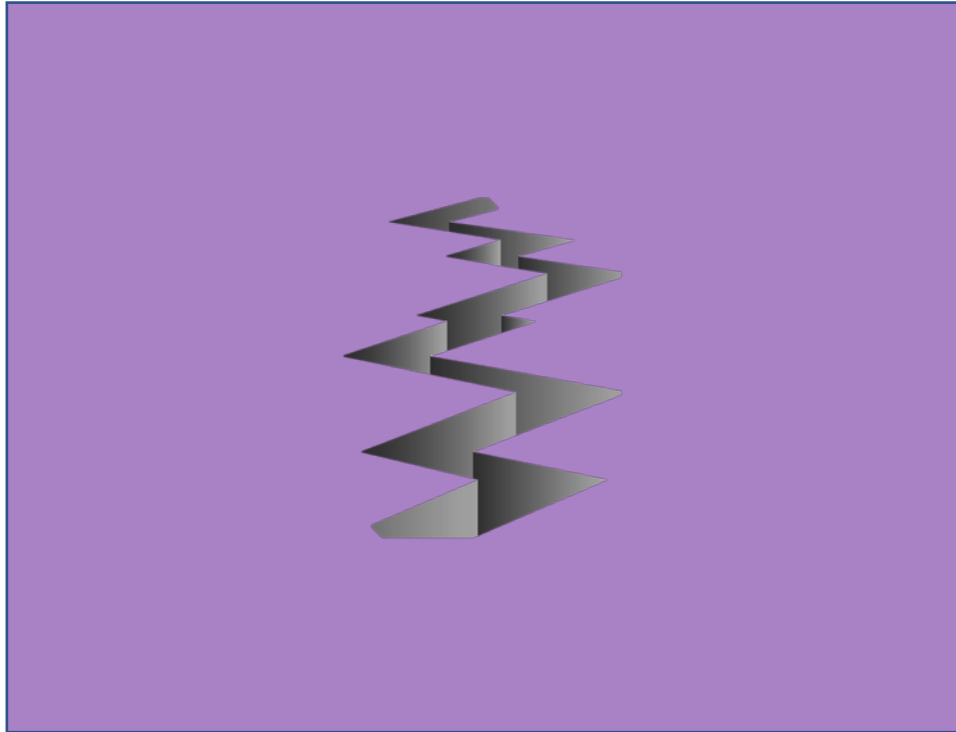
## Increasing Quality and Accessibility of Streets In Çankaya Neighbourhoods, Ankara, Turkey



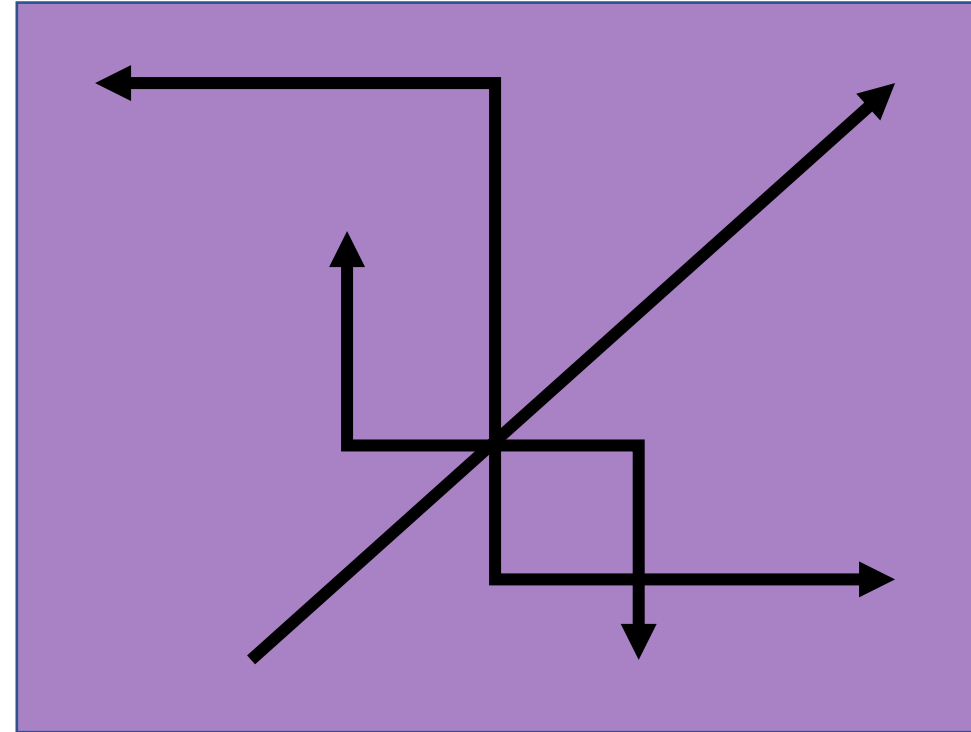
## Participatory Design of the Central Park, New Clark City, Philippines



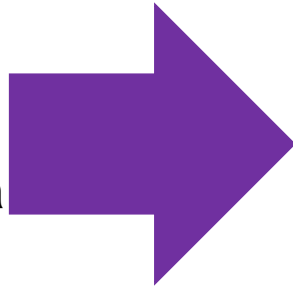
## Earthquake Preparedness Strategy for Surabaya, Surabaya, Indonesia



## Development of a Smart Ticketing System for Public Transportation Network



## Participatory budgeting and (digital) town halls

1. 'Town Halls' / meetings organised by councils
  2. Certain capital **budget % set aside** (Freetown 10%, others ~20%)
  3. Discussion on **local needs and investment priorities**
  4. Election of **(citizen) neighbourhood representatives**
  5. Coordinate municipal wide to draft agenda
  6. Passed to city executive
  7. Final budget based on popular priority ranking, technical and financial feasibility
  8. City **not legally bound** to invest
- 
- ✓ improve development outcomes
  - ✓ increase vote shares of participating parties
  - ✓ decrease 'clientelism'
  - ✓ decrease occurrences of violent events
  - ✓ increase political efficacy of participants
  - ✓ allow citizens to become more informed
  - ✓ allow for updating of policy preferences

COVID IGC Experiment - digital town halls – via whatsapp, less costly, accessed when convenient, no transportation costs (but other costs), more inclusive discussion, improved argument, exclude political representatives

## A segway to (long term) financing...

### **Internal (public) finance**

- *Consider large scale public financing in the form of grants* - Matthias Kroll, economist, World Future Council
- *Focus on domestic resources* - Nick Bryer, head of inequality policy and campaigns, Oxfam GB
- *Get everyone on board* - Hafiz Mirza, chief, Investment Issues Research, Unctad

**Inter-governmental transfers** – As Prof Sir Paul Collier says “successful urbanisation is nationally important”

### **External (private) market finance**

- *The SDG funding gap needs significantly increasing private sector participation* - Lorenzo Bernasconi Associate Director, The Rockefeller Foundation
- *Find the appropriate source of finance for each goal* - Romilly Greenhill, team leader development finance, Overseas Development Institute (ODI)
- *Remember that one size does not fit all* - Ralitza Dimova, lecturer in development economics, University of Manchester,



## A segway to (long term) financing...

### **Limitations – capacity, legality and knowledge**

- **Creditworthiness** - even the 500 largest cities in developing countries, only 20% are creditworthy in local markets
- **Legal bottlenecks** - 56% of countries globally do not allow any local government borrowing
- **Information gaps** - Merit in reducing the large knowledge gap between city budgets & lender requirements
- **Form follows finance**

***Municipal bonds vs loans*** – bonds require a lot of prerequisites, are quite rigid. Loans provide flexibility, term lengths and rates are renegotiable and restructure-able.

***Public private partnerships*** - not a panacea and still require very strong governance to deliver better than the traditional procurement

***Pooled Financing and Financial Intermediaries*** – can help with the above –


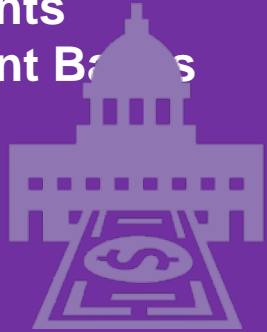


- ✓ play an important role in investment coordination,
- ✓ facilitate and manage relationships,
- ✓ building the financial capacity of developing cities over time
- ✓ can align national and local incentives

**Can you limit citizen use?**

**Yes (Excludable)**

**No (Excludable)**

**Does one citizen's use restrict other citizen's uses?**  
**Yes (Rivalrous)**  
**No (Non-rivalrous)**

|  |  |
|--|--|
| <p><b>Private finance</b></p>    | <p><b>Inter-governmental grants</b><br/><b>Multilateral Development Banks</b></p>                                       |
| <p><b>Private finance e.g. PPPs</b><br/><b>Targeting land and property taxes</b></p>  | <p><b>Inter-government grants</b><br/><b>Locally generated revenues</b><br/><b>Multilateral Development Banks</b></p>  |



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## Further resources and references:

Feire, M., and Kopanyi, M. (2018). **Asset and debt management for cities**. IGC Working Paper. Available at [https://www.theigc.org/wp-content/uploads/2018/07/FINAL-Asset-and-Debt-Management-for-Cities\\_Working-Paper-062118.pdf](https://www.theigc.org/wp-content/uploads/2018/07/FINAL-Asset-and-Debt-Management-for-Cities_Working-Paper-062118.pdf)

Siemiatycki, M. (2019). **Strategies for effective procurement and public-private partnerships in the transport sector**. <https://www.theigc.org/wp-content/uploads/2019/02/Strategies-for-effective-procurement-FINAL-Feb2019.pdf>

Collier, P., Glaeser, E., Venables, T., Manwaring, P., and Blake, M. (2017). **Land and property taxes for municipal finance**. Available at <https://www.theigc.org/publication/land-property-taxes-municipal-finance/>

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The Guardian (2016). **Seven ideas of how to finance SDGs**. <https://www.theguardian.com/global-development-professionals-network/2016/jan/26/eight-ideas-how-fund-sdgs-sustainable-development>

