COALITION FOR URBAN TRANSITIONS
A New Climate Economy Special Initiative

Financing the Urban Transition
PwC and LSE Enterprise
What we did…

An applied research framework that was both global and country focused

**Key research questions**
The Financing the Urban Transition work-stream seeks to address three key research questions around *how to raise, steer and blend finance effectively into compact, coordinated and connected urban development*.

1. Where sources of capital are available and what prevents it from being directed effectively towards compact, connected urban infrastructure that supports sustainable development?

2. Which specific instruments have greatest potential to mobilise private investment in compact, connected and coordinated urban development alongside public finance?

3. How does economic development and country context affect the ability and needs of a country to successfully finance the urban transition?

**Work-stream objective**
To empower national decision makers with the knowledge and tools to unlock and direct urban finance – enabling compact, connected urban infrastructure that supports sustainable development.

**Finance workstream scoping and research - progress and next steps**

2016 – Mar ’17

- Landscape review of funding models and finance instruments
- 2 x *draft* case studies – Uganda, Mexico

Mar ’17 – Apr ’17

- Final report and annexes (global review, instruments inventory)
- 3 x case studies – Uganda, Mexico, India
Key messages I
Global review findings
Global review: What we found

Financing gap of developing countries: between USD 1.2 and 2.3 trillion per year.

City versus national financial maturity

Sources of finance: AUM (USD trillions)
Global review: What we found

- 72 finance instruments identified with potential for 3C infrastructure investment
- Interviews with Finance Working Group and other experts to identify 7 key finance mechanisms for more detailed research under Phase 2. Criteria: relevant for 3C infrastructure, potential for financing at scale, national government control or major influence, evidence of previous success.
Key messages II

Country application findings
What we found: Country level headlines

- **UGANDA**: Getting the fundamentals right to **raise and mobilise** urban finance
- **INDIA**: Active management of rapid urban growth to **steer and direct** finance
- **MEXICO**: Explore the potential of private sector investment through innovative instruments to **leverage and scale** urban finance

Emerging recommendations

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<tr>
<th>Uganda</th>
<th>India*</th>
<th>Mexico</th>
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<tbody>
<tr>
<td>• Release the constraints of central government transfers</td>
<td>• Importance of constitutional structure and regulatory framework in unlocking investment</td>
<td>• Pilot land value capture in growing secondary cities</td>
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<td>• Implement a ‘municipal development fund’ to provide credit to local governments</td>
<td>• Need to involve stakeholders and develop market solutions</td>
<td>• Expand pooled finance mechanisms for smaller municipalities</td>
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<td>• Build local capacity in financial and urban planning</td>
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<td>• Scale, support and de-risk PPPs</td>
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* These India findings will be updated by March 15th
What it means: Characteristics of urban financing systems in low to middle income countries

The global review highlights seven financing instruments which are under-utilized by low and middle-income countries. The country level findings bring us to consider what step-wise national urban financial transitions look like, what supports them and what changes as countries grow. This is developed based on findings from the case studies in Uganda, India and Mexico, providing an example of the types of challenges that are faced by countries at lower income, lower middle income and upper income status.

<table>
<thead>
<tr>
<th>Low income</th>
<th>Lower middle income</th>
<th>Upper middle income</th>
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<tr>
<td>Key characteristics:</td>
<td>Key characteristics:</td>
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<tr>
<td>• Limited foreign and private investment</td>
<td>• Less reliance on central government transfers, with own source revenue developed</td>
<td>• More innovative financial instruments can be deployed to scale private sector investment</td>
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<td>• Heavy reliance on IFI financing</td>
<td>• More developed debt market</td>
<td>• Established cities attracting high rates of foreign investment and become integrated into global markets</td>
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<tr>
<td>• Centralised, and often inefficient, governance with high reliance on central government transfers</td>
<td>• More mature municipal governance system</td>
<td>• Less reliance on IFI financing</td>
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<td>• Lack of planning and regulatory regimes to govern urban finance</td>
<td>• Supportive planning, regulatory, financial regimes developed</td>
<td>E.g. South Africa, Colombia, Mexico</td>
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E.g. Ethiopia, Uganda, Haiti

E.g. India, Vietnam, Ghana
What it means: Financial maturity framework

Countries at different stages of development experience different challenges in raising, steering and blending finance, requiring a unique set of financial instruments and supporting policies at each stage to unblock these barriers.

Finance ministries must consider different reforms and instruments as their countries move through different stages of financial maturity.

**STAGE 1: FOUNDATION**
- Governance and regulatory reform
- Budgetary framework
- Implementation capability development
- Sustainable urban policy

**STAGE 2: TRANSITION**
- Credit-worthiness
- Fiscal decentralisation
- Bond and debt financing
- Core shifts towards sustainable infrastructure investment

**STAGE 3: ESTABLISHED**
- Land Value Capture
- Advanced PPPs
- Diverse own source revenue generation (e.g. congestion charging)
- Improved policies and incentives to bring forward 3C urban development
Consultation time

Your views on how to develop the key messages
Key consultation questions:

• How do these findings resonate and how can we improve the structure and messaging of the draft global or country findings?

• Does the narrative of the maturity framework resonate with your findings? Is there any relevant work and research that we can reference that can support, evolve or challenge the ‘maturity framework’ proposition?

• Which emerging recommendations do you see have most potential? Are there other countries we should explore?

• How can we take forward these recommendations?

• What are the potential linkage to other workstreams and partners?
Thank you