

# Sustainable City Finance

New York

January 7, 2010

## Financing Urban Innovations

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# The goal



# Sustainable cities are:

## Efficient

Generate economies of scale and agglomeration  
Provide services at low unitary costs

## Socially integrated

Promote social interactions to build social capital and  
enhance creativity

## Livable

Provide good living conditions that attract and retain  
a skilled and creative labor force



# The challenge



To attain and enhance these attributes  
most cities need to change existing  
urban development trends

### Reduce urban sprawl

Increase densities and redevelop central areas

### Promote social integration

Avoid segregated single land uses that increase the  
demand for transportation

### Equalize service provision

Good living conditions in all neighborhoods



# Changing trends requires innovation and efficient implementation arrangements to bring new urban development patterns to scale

## Innovations

- Develop dense, fully serviced and socially integrated neighborhoods
- Promote mixed land use urbanization patterns
- Direct new development towards underutilized central areas

## Implementation

- Institutional arrangements to promote a shared vision of the future
- Strong mechanisms to coordinate public and private interventions
- Long-term financing



# It is difficult to secure financing for large scale innovations to change trends in urban development

## Innovations have high market risk

- Consumers may not easily accept innovations  
private lenders charge large risk premiums that turn projects unprofitable
- They can be copied by competitors  
replication erodes profit margins for pioneers

## Changing trends requires large-scale, long-term investments

- Few sources of long-term financing  
available sources are usually risk averse
- Large-scale financing is hard to secure  
requires complex institutional arrangements to coordinate different sources and payments over extended periods



# What works





## Promote innovations

### Pooling of private and public resources

#### Agencias Cero

Public-private partnerships to identify and test innovative approaches to urban development  
Implemented in Spain by the Fundación Metropolis.

Partners in the Agencias include: the Foundation, the municipality, and local banks, chambers of commerce and industry.



## Key functions of the Agencias Cero

- Identification of strategic urban projects
- Conceptual design of the urban operations
- Establishing a corporation for each urban operation
- Control of the land through negotiations with landowners
- Master plan design
- Approval of the master plan
- Sale of shares in the corporation to the private sector
- Monitoring and technical support to the project



## Reduce risk

Public-private partnerships to share risks in innovative urban development projects

### Quito Historic Center Corporation

Mixed-capital corporation to promote the rehabilitation of the historic center of the capital city of Ecuador.

Partners in the corporation include the municipality and a local foundation concerned with the preservation of the city's heritage.



## Key functions of the Quito Corporation

- Identify investments opportunities that suit the urban rehabilitation and historic preservation objectives of the municipality (**innovate**)
- Set up partnerships with landowners and investors to implement the projects (**sharing risks**)
- Invest in innovative projects to demonstrate their feasibility (**taking risks**)



## Secure large volumes of long-term financing

### Borrow through specialized institutions

Financiera de Desarrollo Territorial  
FINDETER (Colombia)

Government financial corporation. Rediscount long-term loans to municipalities by private banks to finance urban development projects.

Funds are obtained in the local capital markets.



## Borrow from multilateral financial institutions

Urban Development Program PROCIDADE (Brazil)

Government guaranteed line of credit from the Inter-American Development Bank (IDB) to finance urban development projects proposed by mid-size cities.

Individual projects of up to US\$50 million.



## Leverage betterment

### Tax Increment Districts (United States)

Leverage future revenue to finance large investments.

### Macro Projects (Colombia)

Land readjustment initiatives to provide infrastructure and regulate the incorporation of large pieces of rural land to urban uses.

The government recuperates the investment in infrastructure and part of the betterment in the form of urbanized land.



## Pool public and private resources

### Contract Plans (France)

Coordinate the contributions of stakeholders in large urban projects.

### Creative management of public land

#### Puerto Madero (Argentina)

Leverage location and heritage value of land to finance public investments in a large urban development project that recycles unused and centrally located public lands.

Corporation completed the project with US\$ 120 million in profits.





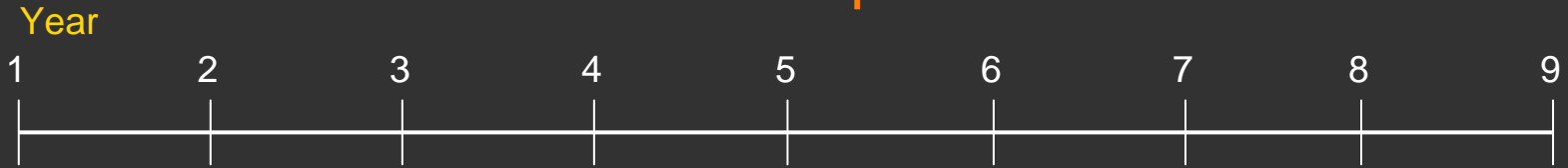


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# Puerto Madero implementation

Financing



first call for bids  
for the warehouses

.....→ maximum period for completion of recycling of the warehouses

↑  
payments for the warehouses

investment in  
infrastructure Sector 1

.....→ completion of infrastructure

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# Key conditions



- sound structure of intergovernmental relations
- system of democratic governance
- institutional capacity
- adequate financing



- Intergovernmental relations
  - Clearly defined responsibilities among levels of government
  - Sufficient resources to discharge the functions
  - Hard budget constraints to promote fiscal discipline



- Governance
  - Citizen representation and oversight
  - Good and timely information



- Institutional capacity
  - Organizational structure
  - Administrative systems
  - Human resource policies



- Financing
  - Own sources of revenue
    - Fees for services
    - Local taxes
  - Transfers
  - Borrowing





- Borrowing to be framed in a hard credit discipline imposed by:
  - Market based risk evaluation
  - Good and timely information
  - Sound intergovernmental relations
  - Democratic oversight



In sum



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will emerge from innovations in urban development



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## Financing innovations in urban development

risky

expensive

long-term returns



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## Requires

a shared vision by all stakeholders to align their interests  
creativity to leverage current and future flows of resources  
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## A bold combination of

financial creativity

and

fiscal restraint

