



Financing Urban Development: The Millennium Challenge

Habitat III Thematic Meeting

Concept Note¹
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I. Context

The United Nations Conference on Housing and Urban Development (Habitat III) will be held in Quito, Ecuador in October 2016, and will be a platform to debate the challenges that cities face and their role in sustainable development. During the conference, the New Urban Agenda for the upcoming years will be debated and defined.

Habitat III will gather national governments, multilateral organizations, local governments, the private sector, and civil society to identify solutions, propose policies, and create new models of development that are sustainable, promote equality, and generate links between urban and rural areas.

Within the context of accelerated urbanization and the challenges that this imposes on cities, the themes and perspectives through which the debate can be oriented are numerous. In order to organize, systematize, and facilitate the process for the construction for the New Urban Agenda, 22 Issue Papers have been created within six broader areas or main themes: Social Cohesion and Equity- Livable Cities, Urban Frameworks, Spatial Development, Urban Economy, Urban Ecology and Environment, and Urban Housing and Basic Services.

One of the Issue Papers is dedicated to the topic of municipal finance for urban development, a topic that is undoubtedly recognized as one of the most important for coming years.

Even as local governments have taken on more responsibilities (service delivery, local economic development, conservation of the environment, provision of infrastructure), they do not have the necessary financial resources to carry them out. On one hand, their own fiscal base is insufficient and it continues to strongly depend on the transfer of resources by the central government. On the other hand, numerous challenges exist in many countries, legal or institutional, that make it hard to obtain external resources (national or international, public or private).

It is estimated that investment needs for urban infrastructure for the coming years will rise to \$57 billion and a large part of that falls on local budgets. It is for this reason that it is important to consolidate the processes of decentralization and local autonomy, and to strengthen the financial and institutional capacities of local governments.

¹ Document prepared by the FMDV Regional Office in Mexico.



II. Justification

Cities generate more than 80% of the world's gross domestic product. Despite their economic importance, cities do not have sufficient funds to guarantee their development needs. Intergovernmental transfers do not always respond to fair criteria of redistribution and also depend on political factors or adjustments to national budgets. Local authorities in some countries do not have the capability to define local taxes, limiting their capacity to expand the tax base and/or public debt, particularly against the national and international financial markets.

To cope with the expansion of cities and improve the delivery of basic services in areas that are already urbanized, innovative and effective financial mechanisms are needed, as well as robust legal and institutional frameworks. Even though the majority of local financial systems are not adapted to the current global context, there are countries that are betting on a clearer delimitation of the responsibilities of local authorities and facilitating tools for the generation of revenue at the local level.

Several areas of opportunity have been identified for the development of more robust and efficient local financing systems:

1. Implement more effective systems of governance in order to have an adequate political and institutional framework for the collection of resources. This process includes the clear definition of responsibilities to facilitate the delivery of services and the financing of urban infrastructure in a coordinated way between different levels of government as well as with the private sector.
2. Increase internal/endogenous sustainable funding sources. To do so, national and local reforms that allow the generation of opportunities and incentives are required to increase revenue and its efficient use in the long term.
3. Better financial and asset management for a successful implementation of projects and a more efficient management of governmental expenditure, in a more transparent manner and with accountability.
4. Promote financial pooling of urban infrastructure projects. Mechanisms of financial intermediation (national or international) have to be created to fund infrastructure projects between two or more local governments, as well as mechanisms that facilitate the attraction of capital investments and that guarantee the recovery of benefits.
5. Promote access to internal sources of financing to complement local revenue. When national policy allows, the internal sources can be complemented with other resources such as the issuing of bonds and access to international markets, among others.

III. Objectives

The Thematic Meeting Financing Urban Development: The Millennium Challenge, organized by the Government of the City of Mexico and the United Nations System will gather different stakeholders to propose solutions for the strengthening of municipal finance, to identify strategies for the formation of institutional and financial capacities, as well as to contribute to the acknowledgement of the city as a relevant stakeholder in the definition of the New Urban Agenda, particularly within the topic of financing development.



1. Consolidate a common message of the local authorities on the themes of decentralization and financial autonomy as an input for the Habitat III Conference;
2. Facilitate a space where networks and key stakeholders can meet to share public policies and solutions for innovative financing for urban development;
3. Identify concrete tools and specific support programs for local governments that promote the sustainable financing of urban development around the world.