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OUTCOME DOCUMENT OF THE HABITAT III THEMATIC MEETING ON FINANCING URBAN DEVELOPMENT: THE MILLENNIUM CHALLENGE

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Host Partners

The New Urban Agenda was adopted at the United Nations Conference on Housing and Sustainable Urban Development (Habitat III) in Quito, Ecuador, on 20 October 2016. It was endorsed by the United Nations General Assembly at its sixty-eighth plenary meeting of the seventy-first session on 23 December 2016.

Several official regional and thematic high-level meetings involving a wide range of participants debated priorities for the New Urban Agenda and policy recommendations in the form of a final participants' declaration from September 2015 to April 2016. The final declarations from regional and thematic meetings were considered official inputs to the Habitat III process.

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An electronic version of this publication, as well as other documents from the Habitat III preparatory process and the Conference itself, are available for download from the Habitat III website at www.habitat3.org.

OUTCOME DOCUMENT OF THE HABITAT III THEMATIC MEETING ON FINANCING URBAN DEVELOPMENT: THE MILLENNIUM CHALLENGE

CONTEXT

1. With 66 per cent of the world's population expected to live in cities by 2050, how will the world pay for the increasing demand for good quality urban services? In most developed countries, local governments have been the main contributors in terms of public investment for local infrastructure. In developing and the least developed countries, the fast-paced urbanization process has led to an increasing demand for basic services that most often is not matched by adequate financing.

2. We have not yet grasped the implications of this urban future. The future of humanity may depend on the implementation of the Paris Agreement under the United Nations Framework Convention on Climate Change. The well-being of the world's population requires the transformational development envisioned in the Sustainable Development Goals. The financing for development agenda promotes the blending of public and private finance to realize these global goals. Yet increasingly towns and cities are the entities that will deliver this future. Central government agencies alone will not be able to secure the investment necessary for the green cities that we need across the world. Therefore, there is a new imperative for partnerships between levels of government and a new urban agenda. Business as usual will not provide towns and cities with the finance they need. Localizing finance for inclusive change means designing and implementing a new balanced portfolio of financing instruments that meet the needs of all cities, from megacities and their challenges to the rapidly growing towns and secondary cities of the least developed countries. It will include a role for central Governments, domestic capital markets, pension funds, diaspora finance and local governments that will drive the implementation of the global goals.

3. However, despite advantageous conditions for long-term investments, as well as the recognition of the stakes for urban sustainability by many international institutions, local government finance systems are not up to the task. In recent years, investments in local infrastructure and basic local services through public financing have slowed down considerably, owing in part to fiscal austerity measures leading to underinvestment in the infrastructure necessary for urban development.

4. Institutional and private investments are also scarce, owing in part to the far-off expected return on investment in public infrastructure, coupled with risks, misconceptions, uncertainty and a lack of incentives. To find ways to unlock public and private savings for urban development represents a necessity in order to achieve the Sustainable Development Goals, in particular Goals 11 and 17, the Sendai Framework for Disaster Risk Reduction 2015-2030 and the Paris Agreement on climate, and to implement the New Urban Agenda. However, from a macroeconomic point of view, the long-term sustainability of our economic model is being threatened by a growing gap between financing needs and investment priorities. The new reality of urban infrastructure financing requires us to understand this complexity in order to be able to bring not only "technical" responses, but also macroeconomic, mesoeconomic and microeconomic responses aimed at raising collective consciousness and developing new case-specific solutions.

5. In many cases, local governments in developing and the least developed countries have depended excessively on central transfers, with weak or even non-existent capacities and/or supportive regulations to raise significant revenue from local taxes. Furthermore, local governments in most of these contexts are confronted with the impossibility of engaging with national commercial banks.

6. Although the majority of finances will have to be mobilized at the national and local levels, the development of international financing, both public and private, must be promoted as a lever to mobilize the necessary funds, either through financial markets or through the creation of mechanisms that are better adapted to cities' and regions' financing needs and conditions.

7. The magnitude of the needs to be satisfied implies a rethinking of financing systems and finding the levers from which global savings, both public and private, will be channelled to help national and local actors to face the urban challenge.

THE MILLENNIUM CHALLENGE

8. As one of the most important challenges that humanity will face in the years to come, financing sustainable urbanization implies the empowerment of local, metropolitan and regional governments and their private and social sector partners to address the growing needs of the population for urban services and infrastructure of good quality in an equitable and inclusive manner. The New Urban Agenda should enable the appropriate rules and regulations, qualified human resources, strategies and tools in order to plan and act to ensure adequate access to funding at the local, regional, national and international levels. This challenge is framed by the following cross-cutting fundamentals:

(a) Local development should be focused on strengthening the local economy: this is a major concern that should drive financing for development policies in general. Strengthening a development model on the basis of the mobilization of a territory's own resources is the best case for engaging local stakeholders in strong, long-lasting and resilient partnerships. Without a local economy that produces employment, equity, innovation, trade flows and networks of dynamic entrepreneurs, there is no opportunity for maintaining development policies and paying for basic service provision, operation and maintenance in the long run;

(b) Cities, whether small or big, are reliable partners: vulnerable or impoverished cities are defined as such, not because they have no wealth to build on, but because local savings are not invested locally and/or no credit is provided for local development because of a lack of confidence in and track record of successful transactions, as well as a lack of adequate financing mechanisms. Therefore, a strong emphasis on de-risking options to help to raise a credit profile should be fostered. Local governments are as reliable as national Governments;

(c) Innovation is to be supported at the local level: many local and regional governments have successfully implemented alternative solutions to finance local investments, proving that they are key actors in setting up innovative models on the basis of their endogenous human, environmental and economic resources. Many of these innovations have been tested and replicated, and they need to be better recognized by financing experts, advisory firms and international development finance institutions in order to become part of the basket of solutions that are provided when advising on financing urban development;

(d) The right to the city, partnerships and governance: public regulations have often failed to create a framework that protects the general interest from social and spatial exclusion, especially in metropolitan areas. Local governments cannot address the multiple challenges and needs on their own, especially in times of diminished resources. A successful governance scheme entails respect for fundamental human rights, age and gender responsiveness, inclusiveness, participation, convergence, the joint elaboration and implementation of public policies through transparent and democratic institutions and processes, and the participation of all relevant actors in financial decision-making. Such a scheme, in addition to capacity-building programmes and citizenship education on responsibilities and rights, is essential for local stakeholders and civil society, including women and youth, to gain greater ownership and empowerment. The right to the city requires the deliberate redistribution of investments, services and infrastructure in a manner that prioritizes underserved areas. A full set of instruments that can foster the right to land is needed in order to prevent land from being considered merely as a commodity;

(e) A better articulation of macroeconomic, mesoeconomic and microeconomic scales: these dimensions have to be better articulated in financing models in order to match "global-local" realities and impacts. When dealing with solutions for planning financing for formal and informal settlements, there is a greater need for a hybrid and blended basket of financing solutions to be proposed to cope with inequalities and cater for specificities;

(f) The tailor-made and holistic approach of the New Urban Agenda: the New Urban Agenda will need to be understood and applied by taking into account a wide range of realities and contexts, as well as cultures and historical urban landscapes and avoiding a one-size-fits-all approach. It must be implemented through differentiated strategies, depending on the reality and situation of each settlement, with a region-, country- and settlement-specific approach. It should encourage a holistic focus that avoids partial, sectoral or segmented financing policies;

(g) Habitat III should be a focused and action-oriented agenda: it should be grounded in country implementation frameworks that ensure the cohesion needed at the national and subnational levels and complemented, where appropriate, by high-impact development cooperation. More than just technical solutions and sectoral approaches, the New Urban Agenda should deliver a concrete hands-on road map for all types of urban stakeholders. This is the only way to contribute to the achievement of the Sustainable Development Goals, in particular Goal 11. Financing urban development is not only about urban services; the challenge is also to contribute substantially to the eradication of poverty and the reduction of the dramatic inequalities and gaps existing within and between the countries that characterize our world today.

LOCALIZING FINANCE FOR INCLUSIVE CHANGE

9. We, the participants in this Habitat III thematic meeting, representing a wide range of stakeholders, including national, regional and local governments, organizations of the United Nations system, intergovernmental organizations, civil society, academic and research institutions, businesses and the private sector, social and solidarity enterprises, community-based organizations, philanthropies and women and youth organizations, thank the government of Mexico City and its partners for hosting this event, and propose that the present declaration, in particular the drivers for action set out below, be considered and included as an essential part of the process towards the preparation of a New Urban Agenda to be adopted at the United Nations Conference on Housing and Sustainable Urban Development (Habitat III), to be held in Quito in October 2016.

1. Fiscal and financial decentralization

10. The related drivers for action are:

(a) To provide timely, predictable and adequate government financial transfers commensurate with the mandates for service provision of local governments, and to ensure that such transfers can be utilized in financing mechanisms authorized by local governments;

(b) To recognize that "bottom up" national development implies the adequate intergovernmental allocation of resources, subsidiarity and sound subnational fiscal policies that involve the greater ability of local, metropolitan and regional governments to raise their own revenues and access predictable transfers, coupled with transparent equalization mechanisms or funds. A stronger agenda is to be promoted in implementing a clearer cooperation between locally present central government bodies and decentralized governments;

(c) To enable local governments to piggyback on selected national or regional revenues that are productive but that are best administered at a higher level, for example, income-related taxes or value-added tax, carbon taxes and taxes on extraction and pollution;

(d) To recognize the importance of engaging in adequate fiscal reforms that push forward fiscal decentralization to ensure that local governments are able to manage both urban development projects and the necessary funding. This fiscal autonomy will enable the securing of revenue streams for better planning, borrowing and investment;

(e) To encourage a shift in behaviours and in management culture to start a transition from a financial system based mainly on grants and subsidies from the central Government to a system based on a financing mix, including performance-based grants and incentives;

(f) To consider that the structure of national and local taxation is not flexible enough to react to changes in the economic structure (the service economy, the dematerialization of production, relocation and tax optimization by large companies);

(g) While the production of wealth is concentrated in cities, few tax systems allow for cities to be funded on even a portion of the value added produced within them. The current distribution of resources should be modified to decrease inequalities among and within cities and between urban and rural areas, as well as promoting integrated territorial development.

2. Endogenous resources and land-based financing

11. The related drivers for action are:

(a) To consider that, with the support of national Governments and partners, local resources can be used to help to finance local development and encourage the emergence of virtuous cycles of investment at the local scale and the creation of local value chains for financing through hybrid funding sources (financial short circuits engaging local savings in local financing);

(b) To enhance capture of the appreciation in land value generated by infrastructure projects (including those for local roads, sewerage and water transportation), with close monitoring of land speculation by landowners, through better planning and balanced incentives and constraints;

(c) To redistribute land value gains and charges, as well as investments, to intentionally promote territorial equity and avoid spatial segregation and the uncontrolled or inequitable gentrification of neighbourhoods, with special attention given to well-located social housing provision and social diversity throughout the city;

(d) To better orient property development and land value capture by developing tools, in coordination with national Governments, that allow for a simplified and more effective tax collection process. An increase in the knowledge and use of legal land-based financing tools and the functioning of the real estate market, especially considering the impact of foreign investors thereon, would be positive for local land management;

(e) To develop a comprehensive public strategy on land management and the use of regulatory mechanisms, including the exercise of citizen and sustainable control of public space, both in terms of land and real estate, to prevent added value from being captured entirely by the private sector, which has not necessarily contributed to its growth, thus avoiding pervasive land speculation;

(f) To improve land management methods and engage in the reforms necessary to create a land and property register (if non-existent), as well as standardizing existing registries to ensure their compatibility, thus improving the effectiveness of taxation by keeping the registers up-to-date and recording land transactions;

(g) To exploit the potential of the national resources of all countries in a manner that ensures that current and future generations benefit from resource earnings, including local development.

3. Access to banking, capital markets and innovative financial intermediation

12. The related drivers for action are:

(a) To recognize that access for local governments to sources of credit under suitable conditions continues to present a bottleneck in many countries, especially those in which sovereign guarantees to obtain favourable financing from international organizations are required. International financial organizations could play a strategic role by creating guarantee mechanisms securing initial working capital and equity;

(b) To provide local governments with an adequate range of debt financing options and subsidized loans and other types of credit for self-financing projects, and to promote and facilitate their access to capital markets when they are already able to borrow and finance their investments through dedicated rules and regulations, incentives for investors, technical assistance, credit enhancement procedures and foreign-exchange liquidity and de-risking facilities, as well as partial and first-loss guarantees;

(c) To support local governments that do not have the capacity to access the credit market directly or alone in developing their creditworthiness over time through incentives and technical assistance to fund guarantee mechanisms that leverage the amounts of investments, including by:

(i) Establishing special credit institutions, such as municipal development banks, and subnational pooled financing mechanisms and appropriate rating agencies;

(ii) Using risk mitigation strategies;

(iii) Implementing financial vehicles that can entice institutional investors, development financing institutions and the public sector to collaborate and jointly finance local infrastructure, including local financing structures.

4. Promoting private sector investments and new alliances

13. The related drivers are:

(a) To establish appropriate financial mechanisms and set up a well-resourced operational fund for facilitating the implementation of the new urban and human settlements agenda, including by strengthening existing financial institutions and implementation arrangements;

(b) To set up an enabling environment to encourage the private sector (including small and medium-sized enterprises, small informal operators and cooperatives) to invest in local infrastructure and work in partnership with national and local governments, including in the development of bankable financing mechanisms and projects and a local public procurement system to prioritize economic development and the creation of quality employment;

(c) To set up local public procurement systems (and national legislation) that prioritize local economic development, the creation of qualified jobs and environmentally friendly practices;

(d) To develop a strong legal framework and strengthen the capacity of local governments to promote, manage and monitor public-private partnerships on the basis of a well-balanced distribution of risks and benefits, and to follow up the annuity plans of the private sector to ensure a constant focus on the efficient use of resources;

(e) To explore ways to lower the cost of remittances and introduce diaspora bonds to attract and channel international private finance towards productive investments in the national and local economy;

(f) To leverage South-South cooperation and innovative aid modalities. In this context, national and local governments will be called upon to harness the potential synergies and complementarities of different actors, whether private or public, traditional donors or emerging development partners, at the global, regional and local levels;

(g) To encourage the private sector to contribute to advancing gender equality and the empowerment of women, as well as through increased investment in female-owned companies or businesses;

(h) To encourage management models for public-private partnerships on the basis of semi-public companies to ensure that local governments are involved in and committed to the administration and management of the public services they provide, including the considerations of the cross-subsidization of public services to ensure a bankable balance between different ranges of service delivery, the funding models of which are affected by socioeconomic and environmental constraints and contexts.

5. Financial empowerment, capacity-building, transparency and accountability

14. The related drivers are:

(a) To ensure that national and local civil servants and administrations are empowered with adequate knowledge and skills to tackle financial issues throughout the entire project design, development and implementation cycle by mainstreaming gender throughout the entire process, and to guarantee regular training to local teams on issues relating to strategic planning, project management and financial innovation;

(b) To build investors' trust by encouraging local governments to improve their fiscal performance (credit rating) and governance by supporting the modernization of the local public sector with new information and communications technologies allowing for enhanced transparency, accountability, efficiency and effectiveness in the provision of public and social services and in the use of financial resources, reinforcing the fight against corruption and tax evasion;

(c) To recognize that, for resources to be used efficiently, better management of a city's assets and the effective delivery of public services are required ("do more with less"), including by developing a project portfolio in the medium and long term to promote private sector investment in a transparent and planned manner;

(d) To recognize that, even though the systems of logic used in private and public finance may share common references, they retain core specificities, especially considering that public finance must include social objectives, equity, justice and the redistribution of wealth and promotion of the commons; for the latter, this implies differentiated financial balances and models that cannot be left to the rules of the free market and private accounting. In particular, new indicators of wealth should be promoted, in addition to measurements of gross domestic product, and external factors (especially social and environmental factors) integrated when defining local public budgets and calculating prices.

6. Metropolitan finance and intra- and inter-municipal coordination

15. The related drivers are:

(a) That to achieve expenditure efficiency, it is critical that local governments find ways to coordinate municipal finance planning with spatial and economic development planning;

(b) To recognize the specific weight of subnational — especially metropolitan — economies characterized by "urban complexity", referring to the intertwining institutional network that goes beyond a traditional municipal focus, where different, multi-level administrative structures overlap in the same territory;

(c) To distinguish metropolitan areas as functional areas, as they do not coincide with the administrative structure, boundaries and sectoral vision of traditional politics. This can promote the harmonious development and prosperity of the various territories and regions, balancing urban and rural areas, centres and peripheries, as a means to reduce inequities and provide more development opportunities to the populations most in need;

(d) To consider that financing for metropolitan areas requires specific responses and institutions granted with professional skilled technical teams in such areas as debt management, planning agencies or metropolitan development funds;

(e) To promote and develop at the national level a legal and institutional framework that enables inter-municipal cooperation and the support of local financing structures, and to encourage inter-municipal cooperation when setting up, running and investing in public services, for example, those relating to water and waste management and treatment, public transportation and energy production and distribution, where applicable, and ensure that they are accessible to all on an equal basis;

(f) To allow for the implementation of pooled financing mechanisms that enable local governments to access the capital markets jointly. This can help to include peripheral, intermediate or secondary cities and avoid leaving them behind the mainstream of development.

7. Social and solidarity economy and finance

16. The related drivers are:

(a) To consider that the social and solidarity economy and related finance constitute a source of resilience to the recurrent crises, are capable of catalysing the redistribution of wealth and financial innovation and are conducive to partnerships that will bring about transformational changes in urban development patterns. This may include the adoption of affirmative procurement rules that redress the historical social and economic exclusion of disadvantaged groups;

(b) To underline that, by organizing economically in cooperatives and politically in associations that can engage in policy dialogue and advocacy, as well as pushing for social inclusion, social economy organizations and enterprises can help to address market failures;

(c) To advocate for the creation of enabling environments (especially in terms of regulations and knowledge-sharing) through further research, promotion, systematization and scaling-up of strategies and mechanisms, such as cooperative and community development banks, solidarity savings, local savings-based retail bonds, energy production by citizens' cooperatives, local, complementary and thematic currencies, social stock exchanges, crowdfunding, participatory planning and budgeting, territorial "poles" for economic cooperation, impact investment, financial and economic short circuits, community-supported agriculture and community land trusts, among other things. Moreover, public or mixed funding enterprises can be useful tools for local governments to manage public services, enabling them to retain control and decision-making authority over those services and manage them efficiently with private tools.

8. Informal economy and new patterns of consumption and production

17. The related drivers are:

(a) To foster strong policies and institutions for local economic development and cultural initiatives towards more inclusive, innovative and creative cities;

(b) To engage in the quest to transform current patterns of production and consumption that have proved unsustainable for society and the environment, and to promote a culture of efficient and smart consumption that allows for savings and rational spending in public service provision, as well as avoiding land consumption based on speculative practices;

(c) To recognize informal economic activities, which characterize urban development in most cities in developing countries, as a legitimate and historical means of urban production and social development, and to treat them as such in urban planning. However, in order to enhance its potential, it is important to encourage the formalization and growth of the informal sector, including small and medium-sized enterprises, as well as promoting "sharing economy" approaches;

(d) To address the negative consequences of the traditional frameworks of action of economics and finance that result in and are exacerbated by crises and raise the awareness of public and private stakeholders, as well as inhabitants, about the importance of "rethinking and redesigning" those frameworks as more sustainable, equitable and supportive systems. These strategies and mechanisms for the relocation of the economy and finance will enable better control and management of resources and the revaluation of local wealth.

9. Climate and resilience finance

18. The related drivers are:

(a) To consider the city-wide economic impact of the transition to a low-carbon economy and its financing. Investments will create new markets, address the long-term opportunities and risks relating to climate change and promote wider socioeconomic benefits, minimizing social and environmental harm;

(b) To recognize the Cities Climate Finance Leadership Alliance as a major step forward in better connecting demand and supply in resilient and low-carbon local infrastructure financing;

(c) To ensure that local governments have access to global, regional and national climate finance mechanisms, either directly or through domestic financing institutions;

(d) To call for the scaling up of investments in sustainable, low-carbon and climate-resilient development at subnational levels by strengthening innovation laboratories on subnational infrastructure financing models and multiplying project preparation facilities to support the emergence of project pipelines to attract and secure institutional and private investments;

(e) To allow for the implementation of ecological tax reform, the creation of green taxes, local carbon markets and innovations to explore renewed sources of financing for sustainable and resilient development, including specific financing schemes for adaptation measures that do not always benefit from revenue streams such as those aimed at mitigation.

10. Social production of habitat and the right to adequate housing for all

19. The related drivers are:

(a) To recognize that an inclusive city is not only one that provides universal access to basic services, but that guarantees dignified, fully-serviced housing to vulnerable populations. Adequate housing also means convenient location, adequate links to employment and schooling options and access to other urban facilities;

(b) To consider that urgent measures need be taken to facilitate access to housing for all, specifically for the most vulnerable, through national housing finance policies aimed at regulating relevant markets, including land, rental and mortgage markets. Existing housing stock should also be considered as having potential;

(c) To recognize that a very important part of urban growth has been developed and financed by the communities themselves through a process known as the “social production of habitat and housing”. Such processes need to be reinforced, organized and professionalized in order for them to be attractive for private and public funding;

(d) To consider that urban development is not only about governments financing urban infrastructure; a large part of the funds can be channelled and administered by local populations, including the formal and informal land market, through cooperatives and specialized organizations in the social production of habitat with clear rules and in the context of transparency and accountability.

11. Local and regional governments as global actors

20. The related drivers are:

(a) To enable and promote at the country level a legal and institutional framework that enables international relations for cities and local governments in areas that are within their legal competence;

(b) To recognize and support city-to-city cooperation and networks of local governments as a means to strengthen capacities and facilitate exchanges of knowledge and good practices on urban financial management;

(c) To better articulate official development assistance and cooperation initiatives at the national, regional and international levels for a better allocation of scarce resources to issues relating to financial engineering transfer, especially in low-income countries, leveraging their potential to reduce risks and promote public and private investments in local economies;

(d) To strengthen cooperation among multilateral agencies, national Governments and local actors in the construction of the New Urban Agenda, working together for the implementation of the Sustainable Development Goals, as well as the Paris Agreement and the Addis Ababa Action Agenda, in particular paragraph 34 thereof;

(e) To create a global observatory on local finance to raise awareness about the investment capacity and the great diversity of local governments, which may necessitate asymmetric approaches and maintain partner mobilization for progress on fiscal decentralization. Such an observatory would organize global thinking on local finance and could also boost national dialogues on the necessary reforms and synergies between central and subnational authorities;

(f) To recognize that financing the New Urban Agenda will require local governments to take a seat at the global table and have a different type of partnership with the United Nations and the international community, not only sharing information but participating actively in strategy and decision-making.

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