FINANCING SUSTAINABLE URBAN DEVELOPMENT:
CHALLENGES AND OPPORTUNITIES

Why financing is so important

- The financing gap is huge and is impairing economic growth and living standards in developing countries.

- The battle against poverty, inequality and climate change will be increasingly won or lost in cities, and therefore building future cities is critical.

- Financing urban infrastructure and services is a productive investment which can unlock endogenous growth potential. Increasing the scale and efficiency of urban development financing should therefore be a priority.

Key Actions

- Cities can be enabled and empowered to tap their untapped potential and increase and diversify own-source revenues in innovative ways such as land-based finance.

- Cities need to access capital market to invest in advance of urbanization to avoid unplanned and informal growth. The cost of postponement of investment in planned urban development is huge and mortgages the future.

  - Creditworthiness and transparency are key.
  - Cities must have the capacity to develop bankable projects.
  - Public-private partnerships can help if well-structured.

- Cities can endogenize growth through good planning and by investments in broad-based, locally driven economic activities.

- Countries should take massive development banks alone, are not able to close the financing gaps. If these gaps are not addressed, they will continue to impair growth, and our aspirations of Sustainable Development will not be achieved.

Some countries such as China and Japan are perhaps overinvesting*,* but most countries are not investing enough in infrastructure, and this is a pressing issue in particular in Africa and Latin America. Underinvestment in infrastructure and in particular in urbanization will constrain and even shrink developing economies, since new infrastructure is needed as is maintenance and operation of existing infrastructure.

A maintenance backlog for existing infrastructure will require much greater costs for reconstruction in the long-term if not addressed.
In Africa, according to the OECD, investment in infrastructure can contribute to 2% to GDP growth per year. But the lack of it can also impair growth by 2%. According to the World Bank, poor infrastructure affects productivity of large and medium firms and prevents firms from scaling up (Guash et. al. 2010, World Bank[2] 6ng

While quality urbanization demands huge investment, with the right planning and institutional support, it also finances itself. Cities need the ability to access an increasing share of national wealth and revenue, borrow, increase and utilize local revenues, leverage land values, and apply complex financial products. Many cities may not be yet at the stage