

Urban Financing

2009 CITYNET Yokohama Congress

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09 September 2009

Sources of Funding

➤ Internal

- Own revenue sources of urban bodies from taxes, fees, levies etc.
- Inter governmental transfer

➤ External

- Borrowing from capital market on the balance sheet (municipal bonds)
- Borrowing from banks at project level (commercial bank loans)

➤ Multilateral/Developmental

- Grants, Soft loans, Commercial Loans

- *Using PPP modality* (private party brings part or the entire funding)

Financing Shortfall: Challenges

➤ Internal

- Urban bodies face chronic budgetary shortfall
- Inter governmental transfers are unreliable and insufficient

➤ External

- Credit quality of municipalities is poor
- Local financial markets are not developed
- Projects are structured poorly and not bankable

➤ Multilateral/Developmental

- Limited source of capital and at times can be bureaucratic and slow moving

➤ PPP modality

- Projects are commonly not structured well from risk return perspective to attract private financing

Bridging the Gap: Way ahead

- Revenues have to equal costs !
 - The starting point of arriving at a sustainable financing model
 - Building of citizen consensus is required
 - Vulnerable populations need to and can be protected
- Urban local bodies capacity and financial strength need to be addressed
 - Devolution of revenue raising ability
- Multilaterals/Development Agencies can play an important role in interim but ultimately a marginal role

Bridging the Gap: Way ahead (2)

➤ Innovative approaches

- Output Based Aid
- Guarantees (Minimum revenue, Credit enhancement)
- Monetizing increase in real estate value
- Wholesale bundling of smaller projects
- PPP

➤ PPP modality

- Many conditions precedent need to be satisfied before it can be successful
- However if structured well from risk and return perspective can provide are very important resource

Thank You

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