

**G24/LSE/Coalition for Urban Transitions Seminar:  
Multilevel Finance, Cities, and the Sustainable Development Goals**

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Clean, compact and connected cities are increasingly seen as critical in meeting the SDGs, in providing sustainable employment, and in meeting the objectives of the Paris climate goals. Yet the gap for sustainable urban infrastructure is large and expected to increase significantly with population shifts and demographic transitions. Given that the infrastructure financing gap currently exceeds \$1 trillion per year, a great deal of attention has been focused on using a range of financing instruments to access the significant pools of global private finance for investment in sustainable urban infrastructure, including through bank borrowing, bonds (including green bonds), land based financing, and PPPs. A series of papers for the G24 (see G24 website), and the recently issued LSE/CUT paper on *Scaling up Investment for Sustainable Urban Infrastructure* argue that mobilising additional private financing through the effective deployment of a range new financing instruments requires a greater focus on a systemic approach to urban finance reform including national and subnational domestic resource mobilization, improved governance, and sustainable management of liabilities.

In particular, a complementary set of taxes and public spending instruments should be considered to provide a balance of self-reinforcing incentives which can concurrently achieve efficiency, equity, and climate goals. Recent reforms in China and Mexico, for example, have highlighted the importance of a simple and comprehensive VAT to raise revenues, reduce the cost of doing business, create a level playing field, and generate information that can be used to prevent tax avoidance, including in income taxes. This can be complemented with income and carbon taxation. Yet, national VAT and income tax reforms typically reduce sub-national tax handles, as with the “2015 Business tax for VAT reform” in China. Consequently, the urban finance agenda requires that sub-national tax handles be developed. Piggy-back options on income and carbon taxes are promising options that can be implemented quickly, do not necessarily require a separate sub-national tax administration, but need to be complemented by an equalization framework to ensure similar levels of service delivery at similar levels of tax effort.

City and local tax instruments are challenging to implement and have to be carefully designed. Attempts to replicate US-style property taxes in most emerging market countries have not been wholly successful, given challenges related to land titles, valuation, and subjecting low and fixed income households to market based taxation of property. Betterment levies are subject to similar constraints. Land sales have some promise but need to be carefully designed to avoid urban sprawl and off-budget funding, that typically leads to rent-seeking behavior. Together, these instruments constitute “land value capture.” We posit that alternative mechanisms based around a simple tax on occupancy, linked to local service delivery can offset many of the disadvantages noted above, and raise sufficient revenues (in the range of 1-1.5% of GDP) to finance local services, and anchor access to the private financing instruments such as municipal bonds, as well as PPPs.

These potential sources of own-source revenue are needed, together with prudential limits through sub-national fiscal rules to enable access to green bonds, bank lending, as well as PPPs. In addition, liabilities need to be tracked consistently within and across jurisdictions using international standards, such as the IMF GFSM2014, that generate accurate balance sheets for each level of government. Without these twin requirements, there are incentives for city and local governments to “pass the buck” and potentially engage in irresponsible investment decisions. Additional preconditions for the prudent use of financing instruments include legal and institutional arrangements as well as essential skills and capacities. Some of the needed expertise, for example for PPPs (G24, 2018c), could be provided by specialized offices organized by the central government, particularly the Ministry of Finance, and may also draw on IFI technical assistance. Of course, the depth of the financial markets and investor sophistication are important ingredients.

It is hoped that the seminar will bring the perspectives from different regions to bear on the issues, and also to develop a further work agenda on financing for sustainable urban infrastructure that can be developed to meet the SDG and climate change goals.

List of papers:

G24, 2018 a, *Political Economy of Tax Reforms—Improving the investment climate, addressing inequality and stopping the cheating*, (Ehtisham Ahmad) **G24 Background Paper**.

G24, 2018b, *Public Investment for sustainable development* (Ehtisham Ahmad) **G24 Background Paper**

G24, 2018c *Contracting arrangements and PPPs for Sustainable Development*, (Ehtisham Ahmad, Annalisa Vinella and Kezhou Xiao), **G24 Background Paper**, and **Journal of Public Sector Economics**, June 2018.

LSE and CUT, 2019, *Scaling up investment for sustainable urban infrastructure—a systematic approach to urban finance reform*.