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Cities tackle a funding crunch

By Vivianne Rodrigues

As urban population and infrastructure requirements swell at unprecedented rates, securing access to financing at a reasonable cost has become crucial to thousands of cities and municipalities globally.

Government transfers are shrinking, so the challenge for city officials in countries as diverse as the US, Malawi, Vietnam and Peru is to ensure their municipalities can continue to finance services and to bridge funding gaps, while becoming more resilient and self-sustaining entities.

Taxation has been the main source of city funding but in many countries, cities and municipal agencies also sell bonds and other securities in capital markets. The $4tn US municipal bond market, the world's largest, is often considered a role model.

Still, policy makers say the outlook is grim for many cities if they do nothing to address the fact that infrastructure and maintenance needs are outpacing tax collection rates.

In low- and middle-income countries, the World Bank estimates that more than $700bn is needed each year to finance urban infrastructure.

Richer cities also face the prospect of large expenditures. In just one example, a study by the Center for an Urban Future estimates that New York City needs to spend $47bn over the next four to five years to repair decaying assets such as schools.

Matt Fabian, a managing director at Municipal Market Advisors, says municipalities in developed nations are moving to improve the efficiency of services and infrastructure already in place. Cities have cut staff, while increasing oversight of how budgets are allocated and taxes are collected, minimising misappropriation.

But cities are also looking at increasing their revenue streams.

"From smarter monitoring of parking spaces, to the legalisation of marijuana in some states, and progress on taxing internet transactions, which have remained largely untouched for years, the idea is to boost efficiencies throughout the system," says Mr Fabian.

An idea that is growing in popularity with city officials adopts marketing concepts such as branding to attract particular industries, services and specialised working professionals to cities or entire regions.

Proponents say the concept goes beyond use of catchy "nicknames," such as Silicon Valley, in California, and focuses on establishing municipalities as industry strongholds. The idea is reminiscent of places in Europe such as Grasse in France, known for being a hub for the perfume industry since the 18th century.

There are risks in promoting strong ties between cities and just one industry, as Detroit has found with the auto industry. Still, officials say a strong identity raises the potential for higher economic growth.

But for a vast pool of cities in developing nations, still struggling to provide basic services to residents, gaining access to a larger pool of capital remains a high priority.

The World Bank, through its Low-Carbon, Livable Cities Initiative and in partnership with the Public Private Infrastructure Advisory Facility (PPIAF), has been working to promote sustainable development in emerging markets by facilitating private investment in infrastructure.

A key portion of the work is devoted to raising the creditworthiness of cities in developing nations, to boost their access to capital markets, broadening their financing options.

Only a small percentage of the 500 largest cities in developing countries are deemed "creditworthy" — about 4 per cent in international financial markets, and 20 per cent in local markets.

"Cities are more sustainable if they have a diversified capital base," says James Close, a programme manager at PPIAF.

...hat's particularly important for many cities in emerging markets, which need to move beyond their reliance on public funding."

Citizen innovation: City dwellers challenge traditional methods of shaping their environment

When New Yorkers scrambled to find web and mobile connections in the wake of Hurricane Sandy, residents of one Brooklyn neighbourhood communicated via the decentralised wireless mesh network they had developed themselves. Whether building peer-to-peer networks or using mobile apps to cut their carbon footprint, urban residents are playing an important role in the resilience of their cities, writes Sarah Murray.

"Cities are cauldrons of innovation," says Richard Florida, an urban studies theorist and professor of business and creativity at University of Toronto's Rotman School of Management, "because they attract eccentric, ambitious people who think differently — and because they are big, diverse and messy places that raise all kinds of issues that need to be solved."

In the process, command-and-control methods of urban planning are being challenged, as citizens do more to shape their own environments.

Accelerating this is technology. "For the first time in history, information technology is incredibly democratised," says Anthony Townsend, senior research scientist at New York University's Rudin Center for Transportation and Management and author of *Smart Cities*.

Everything from wireless sensors and open-source software to cheap networking and new hardware platforms mean individuals can interact with urban infrastructure in fresh ways.

Cyclists using the Copenhagen Wheel capture the energy generated while cycling and braking and can use it when riding uphill. Controlled through a smartphone, the wheel — developed by the Massachusetts Institute of Technology's Senseable City Lab — generates real-time data on everything from traffic congestion to emissions levels, so cyclists can plan cleaner, faster bike routes.

However, technology is not the only driver of citizen ingenuity. Part of what compels residents to become involved in their cities is the emotional ties they have to the places where they live.

In this respect, psychological studies tracking responses to different levels of government are illuminating, says Mathieu Lefevre, executive director of the Paris-based New Cities Foundation.

When questioned about their country, people's answers are generally rational and dispassionate. "But if you talk to them about their city, neighbourhood or block, the needle swings to a more emotional response," says Mr Lefevre.

In some cases, urban innovation emerges in the absence of government, particularly in developing countries where citizens in informal settlements collaborate to create infrastructure or manage waste disposal. This is the case in Brazil's slums. "You have many organisations in the favelas that get together for self-management and construction," explains Miguel Robles-Duran, assistant professor of urbanism and design strategies at Parsons The New School for Design in New York.

Keenly aware that citizens are a source of ideas, some governments are establishing initiatives to tap into this creativity. But Mr Lefevre thinks these are the exception rather than the rule.

Sometimes, the challenge for urban residents is not lack of government support, but restrictive regulations.

And yet peer-to-peer movements can help municipal authorities, particularly in a crisis. For example, after Hurricane Sandy hit, New York City, the authorities worked with Airbnb, the room rental website, to house those displaced by the storm.