

VIEWPOINT

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Make Financing Go Further with Partnerships: An Asian Cities Perspective



More than just financing, we also need knowledge and innovation that are driven by productive partnerships to achieve our goal of creating liveable cities in Asia, argues Manoj Sharma, Chief of Urban Sector Group, Sustainable Development and Climate Change Department, Asian Development Bank.



The region's challenges require what we call “Finance++”, a strategic combination of finance complemented by knowledge and innovations and...partnerships.



Two pressing questions that most urban development practitioners often ask are: what resources are required to address infrastructure deficits, and what can make our cities more liveable? A 2017 Asian Development Bank (ADB) study, “Creating Livable Asian Cities”, estimated that the developing Asia and the Pacific region needs about \$1.7 trillion in annual infrastructure investments, starting from 2016 until 2030 to maintain growth, improve essential services and develop climate resilience. The ongoing COVID-19 pandemic has further aggravated the region's inadequate infrastructure and urban service delivery. So, how do we overcome such a huge gap and make cities in Asia and the Pacific more liveable?

Financing alone is insufficient to bridge the huge gap. The region's challenges require what we in ADB call “Finance ++”, a strategic combination of finance complemented by knowledge and innovations (first plus), and collaboration and partnerships (second plus). ADB's experience in the region illustrates that cities which focus on policy, governance and capacity-building levers along with innovative development approaches and knowledge solutions often succeed in creating an enabling environment for attracting diverse financing and strong partnerships, especially with the private sector. Attracting the private sector's interest has eluded most

developing cities because they struggle with the operational qualities that give the private sector confidence in government: sound governance, prudent financial management and creditworthiness.

On the other hand, convincing governments to invest in policy, legal, regulatory and governance reforms can be a challenging “sell” when they are hard-pressed for infrastructure development. Institutional development is less visible yet brings a level of transparency and accountability that attracts a variety of partnerships needed for more visible, transformative and sustainable development. Stronger institutions also make stronger partnerships.

Productive Partnerships

While ADB serves a significant role in making the region's cities more liveable, which is one of the seven strategic priorities of ADB, we are only one of many stakeholders needed to address the scale of the region's urban development challenges. Governments, multilateral and bilateral development partners, the private sector, and civil society organisations can and need to do much more—individually and collectively—to incentivise city-level reforms, generate and share relevant knowledge

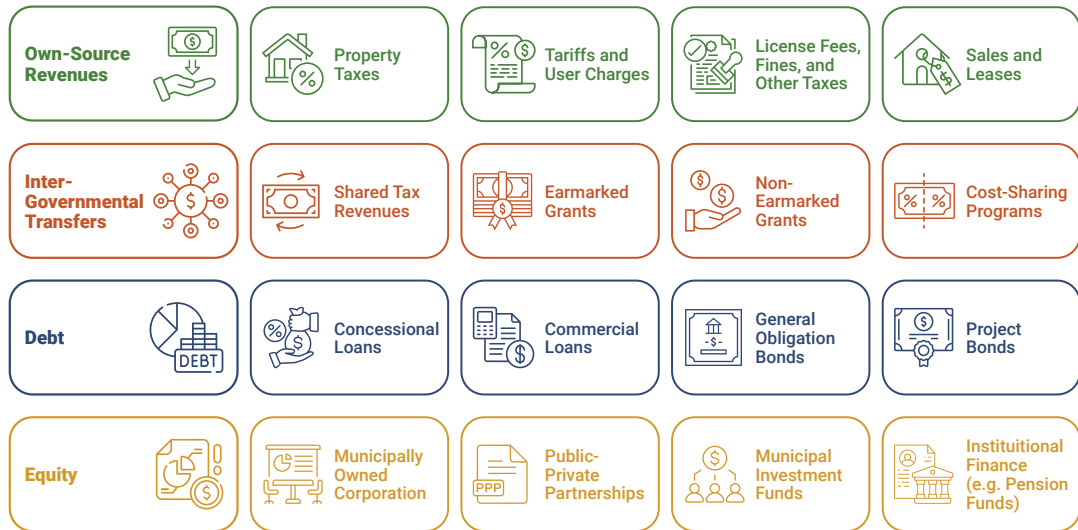


Figure 1. Municipal Finance Sources.
Image: Asian Development Bank

solutions, and foster meaningful collaboration. Partnerships can support transformational development and enhance liveability in the region’s cities in several ways.

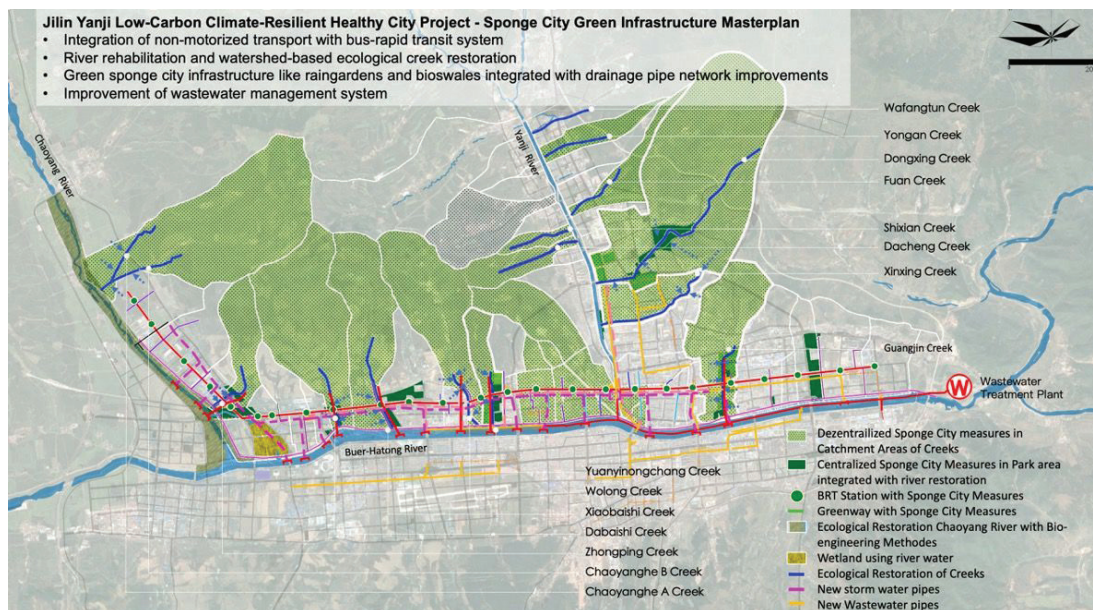
Strong Urban Governance

First, partnerships can support transformational urban governance reforms—fiscal, regulatory and administrative reforms—to create a sustainable enabling ecosystem at all levels and to benefit all partners. Fiscal reforms are the key to unlocking the potential of cities to attract investments and provide better services. Most cities in the region mobilise revenues through what we at ADB call the “3Ts”: central government Transfers, local Taxes and Tariffs. As we all know, the 3Ts are not serving cities to realise revenues at their optimum levels. Many cities need to reform their tax assessment and collection systems, develop own-source revenue streams, enforce sustainable tariffs and user charges, and institutionalise predictable inter-governmental transfers. And to accomplish those reforms, they need the technical expertise and knowledge solutions that partnerships offer.

Our experience of working on ADB-financed urban projects over the past 30 years has taught us that improving local revenue mobilisation and creditworthiness is the first important

step for a city to attract resources from the private sector and public-private partnerships (PPPs). Our experience also tells us that such partnerships with the private sector and PPPs are critical to improving thze urban infrastructure and service delivery at all stages—planning, financing and construction, as well as operations and maintenance. Such partnerships can also leverage alternative financing sources: land-value capture, borrowings from commercial banks, or municipal bonds on capital markets.

Consider the instrument of municipal bonds, which is a debt obligation by a local government agency with the premise to pay the interest at specific intervals and the principal at maturity. A bond works like a loan: the bond issuer or the local government agency is the borrower (debtor) of the amount that could be used to finance infrastructure in the city. Municipal bonds are almost non-existent in most cities in developing Asia. In the United States, however, the municipal bond market is so developed that almost two-thirds of cities’ infrastructure is financed by municipal bonds, with approximately 50,000 issuers of municipal bonds and \$4 trillion in outstanding amounts as of June 2022. Twinning programs that facilitate partnerships by connecting cities for knowledge sharing and capacity, e.g., between US municipal



Regional partnerships are important conduits for sharing innovative urban development project designs. ADB's project in Yanji, Jilin Province, for example, demonstrates how transit-oriented urban development alongside the sponge city concept, can create sustainable ecosystems within cities.

Image: Asian Development Bank

issuers and willing Asian cities, can enhance Asian cities' capacity to issue bonds, particularly with climate and social impacts, at a reasonable cost of capital and with adequate returns to potential investors. Municipal bonds provide not only much-needed finances but also stimulate critical reforms to improve creditworthiness.

Applying the Systems Approach

Second, partnerships can generate and share knowledge on innovative and integrated approaches for maximum development impact. Urban spaces have always been innately complex and competitive, necessitating integrated solutions involving myriad partners delivering results across multiple sectors and intraregional boundaries with a "multiplier effect" while also strengthening institutional capacities and governance systems.

ADB's projects in Ping Xiang, Jiangxi Province and in Yanji in Jilin Province are good examples of the sponge city concept incorporating urban-rural water resource management, nature-based solutions, and environmental considerations into urban planning, while at the same time promoting rainwater harvesting and integrating green- and grey infrastructure to create sustainable ecosystems within cities. Similarly, ADB's partnership with private water utility, Shenzhen

Water (Group) Co., Ltd., brought together the required expertise of smart water technologies to support climate- and disaster-resilient urban water infrastructure in Shenzhen.

Strong and effective partnerships also yield results for meeting the Sustainable Development Goals (SDGs) while creating opportunities for innovative solutions. Affordable and green housing is one such example. It is heartening to see increasing interest in the private sector and commercial banks in the region to develop new housing finance mechanisms, strengthen housing policies and institutions, and engage communities and other stakeholders in meaningful ways to address the severe shortage of housing, especially for the poor and the vulnerable groups.

ADB works in about 40 developing member countries in Asia and the Pacific and is ideally placed to capture good practices and lessons from one project in one city, and transmit them to other cities for replication and scaling up. ADB's "Inclusive, Resilient and Sustainable Housing for Urban Poor Project in Tamil Nadu, India", for example, supports innovative design of houses for the poor, involves more consultative and participatory processes, and demonstrates the bankability and sustainability of affordable



The ADB-supported “Sustainable Housing for Urban Poor Project in Tamil Nadu, India”, promotes innovative low-income housing design through more consultative and participatory processes.
 Image: Asian Development Bank

housing for low-income urban residents through promoting private sector participation and PPPs. ADB proactively works to replicate and scale up such good examples across the region.

Raising the Bar

Third, partnerships and networks can enhance productive competitiveness and instill healthy rivalry among cities. Partnerships and coalitions are crucial to discovering and promoting successful strategies among all relevant stakeholders. For example, educational institutions can support cities to improve workforce skills through enhanced technical and vocational education and training programs with help from successful industry leaders. Municipal leaders need credible and practical solutions that are most readily available from the experiences of similarly situated cities.

For example, a city in India can learn best practices in solid waste management from the county's best-ranked cities in the annual Cleanliness Competition (Safai Survekshan in the local language), which the Government of India has conducted every year since 2014 for more than 4,500 cities across the country. Interestingly, these participating cities are not only competitors, but also collaborators and

influencers. Such partnerships and networks can flourish and sustain through collaborations with institutional drivers (e.g., governments and development partners like ADB), who play an important catalytic role of providing financial, technical and logistical support. Participants must also embrace partnerships such as twinning programs, engage in a process of learning, and continue to build capacities to sustain the momentum.

Elevating Asia and the Pacific in the International Scene

Finally, our partnerships should support the entire knowledge cycle, pool resources, create accountability and provide good platforms for the Asian developing cities' advocacy role on the global stage. ADB collaborates with other development partners, private sector organisations and foundations to mobilise resources into trust funds to support initiatives for capacity building, analytical studies and pilots, and knowledge generation and dissemination. The cumulative effects of reforms, capacity, knowledge and partnerships are a development ecosystem that attracts private sector investment. Cities need the private sector's participation, which needs to be of a level that is commensurate with the challenge.



ADB's Asia Pacific Water Resilience Initiative and Water Resilience Trust Fund, launched at COP27, are examples of broad-based and high-capacity partnerships that assist developing member countries in pursuing resilient development.
Image: Asian Development Bank

Globally supported regional partnerships can help countries and cities localise global development and climate initiatives, such as the Sustainable Development Goals and Nationally Determined Contributions, for win-win development strategies. Moreover, the knowledge transfer is a two-way street. Global leaders and strategists can learn as much about local challenges, opportunities and innovations as national leaders can learn about global best practices.

ADB's Commitment to Nurturing Purposeful Alliances

The developing world is unlikely to achieve the 17 SDGs by 2030. Nevertheless, we at ADB believe that development processes to make cities liveable in Asia and the Pacific can still be fast-tracked through impactful partnerships. ADB is leveraging its investments and partnerships to create opportunities and facilitate partnerships among all stakeholders. For example, the creation of the Livable Cities Advisory Group in ADB in 2021 provides a network of expertise from the public and private sectors, and enhances the synergy of ADB's work on liveable cities with the current global agenda such as the SDGs and the Paris Agreement Alignment. As municipalities

strengthen their governance systems and become more responsive to partnerships, private sector confidence will grow and bring support for infrastructure finance, technology and market engagement. Partnerships are a major strategic pathway to building an ecosystem where we can all work together and make our cities more liveable in the shortest possible time. 🌱