

HABITAT III  
ZERO DRAFT OF THE NEW URBAN AGENDA  
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Quito Declaration on Cities for All

The Quito Declaration has most of the elements of a vision for the aspired urban inclusiveness and sustainability of our cities. In the document cities are categorized as a, "common good essential to a high quality of life". By defining them as a common good, the Declaration presents an engaging proposition for all stakeholders, while at the same time highlights the difficulty of realizing such aspiration.

The Declaration covers many of the fundamentals which, from the point of view of a development institution, encompass an integral approach to the urban challenges ahead and rightly so emphasizes the principle of "leave no one behind". The different dimensions of urban development included in the Declaration, offer a comprehensive framework for IFIs to actively contribute to the New Urban Agenda. It recognizes the need to focus on much more than just the mere provision of urban infrastructure or the provision of accessible quality public services.

It places human beings at the center of the cities and defines cities as spaces where human beings should thrive and have inclusive and equitable livelihoods. Yet the Zero Draft of the New Urban Agenda does not highlight strongly enough the interconnection of the diverse array of dimensions in the urban challenge. This interconnection should be further addressed in order to conceive a truly integral approach, where human beings are viewed as part of larger ecosystems that must be respected in order to achieve the long-term sustainability that is envisioned.

The New Urban Agenda aims to create, as mentioned in the preamble of the Declaration, an action-oriented roadmap for implementation which is globally guided yet that emphasizes the local specificities. In particular, to drive the 2030 Agenda for Sustainable Development as presented in Goal 11, which states that cities should be "human settlements that are inclusive, safe, resilient and sustainable". However, the New Urban Agenda should also be seen as catalyst for other SDGs goals. For example, Goal 8, which "promotes sustained inclusive and sustainable economic growth, full and productive employment and decent work". The type of economic growth and employment that must thrive in the cities as envisioned in the New Urban Agenda. Or for example Goal 16, which "promotes peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels". In an increasingly urban world the making of just, inclusive and thriving societies must be at the heart of the New Urban Agenda.

The importance of the above mentioned SDG Goals, without detriment to other goals, is relevant to one aspect of urban realities, where the Zero Draft seems to be silent: the importance of the existence of a strong and thriving middle-class for achieving long-term sustainability of urban conglomerates. This is relevant for the need of realizing high productivity in urban areas as mentioned in paragraph 5(j) of the Declaration, and for the inclusive sustainable economic growth mentioned in SDG Goal 8. The capacity to innovate, to create value-added and to foster effective finance frameworks requires a committed public sector, an acting global agenda, and a strong private sector. But it also requires a thriving productive middle-class that can positively impact governance, transparency, accountability and responsibility, the rule of law, civic values and principles, and citizens' rights and the somewhat forgotten duties.

Sustained inclusive sustainable economic growth is built on strong societies that create wealth and aims to distribute it in an equitable manner. The pursuit of more equitable societies, cornerstone of long-term sustainability and the "Right to the City" as cities that "...exist as a common good essential to a high quality of life" (paragraph 4 of the Declaration), rely on the existence of resilient societies, which in turn have as key foundation the existence of a thriving middle-class. Cities with high quality of life are made with the work of their citizens and welfare systems to enable it.

Moreover, a strong middle-class is fundamental for sustained municipal finances in the form of revenue generation including tax collections, land and property value, and increase in productivity. A thriving middle-class represents a repository of the human capital (Gary Becker) required to make inclusive, sustainable and resilient cities. It represents the stock of knowledge, attitudes and attributes embodied in the ability to perform labor so as to produce economic value. In this sense it should also be emphasized the importance of the family as the basic unit of society, with its caregiving and value-driven functions, and of course of the access to quality life-long education and training.

A strong middle-class should be considered when highlighting decentralization as mentioned in paragraph 7(a) "...decentralization based on the principles of subsidiarity and the recognition of local self-government that strengthen urban governance with co-responsibility .....within a transparent and accountable framework". Transparency, good governance, and accountability are best achieved when there is a middle-class that closely monitors public policies and government actions, as well as the role of the private sector.

In the work the Inter American Development Bank (IDB) has carried out in Latin America and the Caribbean for over 50 years, it has been identified that fiscal decentralization lags administrative decentralization in most of the region. Municipalities continue to face important limitations in their capacity to raise revenues, including

property taxes and land improvement value, and therefore remain highly dependent on federal or central government transfers, which may be volatile and discretionary. Studies show that property taxes in the region represent only 0.3% of GDP, compared to 1.09% in OECD countries (IDB 2015). Furthermore many local governments are unable to set public service tariffs at levels that allow covering operation and maintenance costs of such services. This limits local governments' capabilities to plan for the medium and long-term and to prepare budgets that support an inclusive, sustainable urban agenda.

The existing gap between urban investment requirements and suitable resources to finance them entail from all stakeholders, including IFIs, a transformative approach to mobilize different potential financing sources such as pension funds, investment funds, hedge funds, wealth funds, insurance companies, non-profit organizations, foundations, etc., to close such gap. Moreover, a crucial element on the required financing, is the availability and accessibility to long-term local currency financing. This type of financing limits the risks by best matching the underlying asset structure with the elimination of currency risk, but also limiting rollover risks on the financing of these long-term assets.

A recent study from the World Bank indicates that of the 500 largest cities in developing countries, only 20% can access domestic capital markets. In this sense, in Latin America and the Caribbean the average rating of most cities is BBB local currency, thus not qualifying for institutional investors' participation. Most local governments have to improve their stance as subject of credit in order to access capital markets. Here again, many institutions, including IFIs, can play an important role in supporting the development of the enabling conditions required by cities to access capital markets and with it build diversified, stable and long-term local financing sources to facilitate the implementation of the New Urban Agenda.

The financing instruments to be used; such as loans, infrastructure, green or social impact bonds, PPPs and other modalities of public-private-civil society partnerships, credit guarantees, etc., must be structured to disaggregate and allocate the risks involved in financing the urban investments. This risk diversification allows for more efficient financial structures. By allocating risks compatible to the risk appetite of the different actors involved to attain price efficiency and project bankability. Public finances, donor contributions, IFs loans, guarantees and technical assistance, non-profits and foundations contributions, and the private sector financiers can play a specific role within the risk spectrum. In essence this implies a "de-risking" of urban investments.

During the last 5 years the IDB has worked in the Emerging Sustainable Cities (ESCI) initiative and mobilized around \$4bn to the region for urban investments. The ESCI initiative is currently being mainstreamed in the Bank and housed in the newly created Housing and Urban Development Division (HUD) of the Sustainability and Climate

Change Department of the Bank. During these 5 years the IDB, thanks to over 50 worldwide strategic partnerships, has been able to work in over 70 cities in the region, of which 34 have concluded their Action Plans. These Action Plans constitute a participatory instrument of diagnosis and planning to support the decision making process for the identification and prioritization of the key interventions cities require to support a planned inclusive sustainable growth. These plans indicate that the amounts required for pre-investment and investment reach to approximately \$650mn and \$20bn respectively. Furthermore, the studies indicate that urban mobility represent around 30% of such needs, while water and sanitation 27% and climate change close to 15%.

The above mentioned amounts represent only a small sample of the financing needs in Latin America and the Caribbean. The actual magnitude of urban requirements continues to be difficult to fully determine. Yet IDB studies grossly indicate it could represent around 4% of the region's GDP. In this sense, the amounts required to finance the implementation of the New Urban Agenda will be significant. Therefore, working on how to develop the adequate financial solutions has to be at the core of the agenda, and to be systematically tackled by all levels of governments and all the stakeholders' participants in the urban space.

"Sustained inclusive sustainable growth" (SDG Goal 8) in urban conglomerates that "leave no one behind" and constitute "a common good essential to a high quality of life" (Declaration) represent an aspiration. Aspiration that is to be constructed based on partnerships with stakeholders to facilitate the implementation, and foster the accountability and monitoring, of the New Urban Agenda.

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