



**MEXICO CITY DECLARATION
FOR HABITAT III
FINANCING URBAN DEVELOPMENT:
THE MILLENNIUM CHALLENGE**

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**HABITAT III Thematic Meeting on
“Financing Urban Development: The Millennium Challenge”
Mexico City, 9-11 March 2016**

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Context

With 66% of the world's population expected to live in cities by 2050 how will the world pay for the increasing demand of quality urban services? In most developed countries, local governments have been the main contributors in terms of public investment for local infrastructures. In developing and least developed countries, the fast-paced urbanization process has led to an increasing demand for basic services that is most often not matched by adequate financing.

We have not yet grasped the implications of this urban future. The future of humanity may depend on the implementation of the Paris Agreement. The well-being of the worlds' population requires the transformational development envisioned in the Sustainable Development Goals (SDGs). The Financing for Development (FFD) agenda promotes blending public and private finance to realize these global goals. Yet increasingly towns and cities are the entities that will deliver this future. Central government agencies alone will not be able to secure the investment necessary for the green cities that we need across the world. Therefore, there is a new imperative for partnerships between levels of government and a new urban agenda. Business as usual will not provide towns and cities with the finance they need. Localizing finance for inclusive change means designing and implementing a new balanced portfolio of financing instruments that meet the needs of all cities, from megacities and their challenges to the rapidly growing towns and secondary cities of the least developed countries. These will include a role for central governments, domestic capital markets, pension's funds, diaspora finance, and the local governments that will drive the implementation of the global goals.

However, despite advantageous conditions for long-term investments as well as the recognition of the stakes of urban sustainability by many international institutions, local government finance systems are not up to the challenge. In recent years, local infrastructure and local basic services investments through public financing has considerably slowed down, partly due to fiscal austerity measures, leading to under-investments in the necessary infrastructure for urban development.

Institutional and private investments are also scarce, partly due to the far-off expected return on investments in public infrastructure, coupled with risks, misconception, uncertainty and lack of incentives. Finding ways to unlock public and private savings for urban development represents a necessity to achieve the SDGs in particular goals 11 and 17, the Sendai framework, the Paris agreement on Climate and implement the New Urban Agenda. However from a macro-economic point of view, the long-term sustainability of our economic model is being threatened by a growing gap between financing needs and investments priorities. The new reality of urban infrastructure financing requires that we understand this complexity, in order to be able to bring not only “technical” responses but also macro, meso and micro-economic ones aimed at raising collective consciousness and developing new case-specific solutions.

In many cases, local governments in developing and least developed countries have depended excessively on central transfers, with weak or even inexistent capacities and/or supportive regulations, to raise significant local taxes. Furthermore, local governments in most of these contexts are confronted with the impossibility to engage with domestic commercial banks.

Although the majority of finances will have to be mobilized at the national and local levels, the development of international financing, both public and private, must be promoted as a lever to mobilize the necessary funds, either through financial markets or through the creation of mechanisms that are more adapted to cities and regions' financing needs and conditions.

The magnitude of the needs to be satisfied implies rethinking financing systems and finding the levers from which global savings, public and private, will be channeled to help national and local actors face the urban challenge.

The Millennium Challenge

As one of the most important challenges that humanity will face in the years to come, financing sustainable urbanization implies empowering local, metropolitan and regional governments and their private and social sector partners, to address the growing needs of the population for quality urban services and infrastructure in an equitable and inclusive manner. The New Urban Agenda should enable the appropriate rules and regulations, qualified human resources, strategies and tools to plan and act, to ensure the adequate access to funding at local, regional, national and international level. This challenge is framed by the following crosscutting fundamentals:

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- i. Local development should be focused on strengthening the local economy: this is a major concern that should drive financing for development policies in general. Strengthening a development model based on the mobilization of a territory's own resources is the best case for engaging local stakeholders in strong, long-lasting and resilient partnerships. Without a local economy that produces employment, equity, innovation, commercial fluxes and grids of dynamic entrepreneurs, there is no option for maintaining development policies and pay for basic services provision, operation and maintenance in the long run.
- ii. Cities, small or big, are reliable partners: vulnerable or impoverished cities are defined as such, not because they have no wealth to build on, but because local savings are not invested locally and/or no credit is provided for local development because of lack of confidence and track record of successful transactions as well as lack of adequate financial mechanisms,. This is why a strong emphasis on de-risking options to help raise their credit profile should be fostered. Local governments are as reliable as national governments.
- iii. Innovation is to be supported at local level: many local and regional governments have successfully implemented alternative solutions to finance local investments, proving that they are key actors in setting up innovative models, based on their endogenous human, environmental and economic resources. Many of these innovations have been tested and replicated, and need to be better recognized by financing experts, advisory firms and international development finance institutions in order to be part of the basket of solutions that are provided in times of counseling for financing urban development.
- iv. The right to the city, partnerships and governance: Public regulations have often failed to create a framework that protects general interest from social and spatial exclusion, especially in metropolitan areas. Local governments cannot address, on their own, the multiple challenges and needs especially in times of diminished resources. A successful governance scheme entails the respect of fundamental human rights, age and gender responsiveness, inclusiveness, participation, convergence, co-elaboration and co-implementation of public policies through transparent and democratic institutions and processes as well as participation of all relevant actors in financial decision making. This, together with capacity building programmes and education for citizenship on responsibilities and rights, is essential to gain more appropriation and empowerment by local stakeholders and civil society, including women and the youth. The right to the city requires intentional redistribution of investments, services and infrastructures

prioritizing under-served territories. A full set of instruments that can foster the right to land is needed in order to prevent land to be merely considered as a commodity.

- v. Better articulate macro, meso and microeconomic scales: these dimensions have to be better articulated in financing models in order to match “global-local” realities and impacts. When dealing with solutions to plan the financing of formal and informal settlements, there is a stronger need to propose a hybrid and blended basket of financing solutions to cope with inequalities and cater for the specific nature of each.
- vi. Tailor-made and holistic approach of the New Urban Agenda: the New Urban Agenda will need to be understood and applied taking into account a wide range of realities and contexts, cultures and historical urban landscapes, avoiding a one-size fits-all approach. It must be implemented through differentiated strategies depending on the reality and situation of each settlement with a region, country and settlement specific approach. The Agenda should encourage a holistic focus that avoids partial, sectoral or segmented financing policies.
- vii. Habitat III should be a focused and action-oriented agenda: grounded with country implementation frameworks that ensure the needed cohesion at national and subnational levels, complemented, where appropriate, by high-impact development cooperation. Beyond just technical solutions and sectoral approaches, the New Urban Agenda should deliver a concrete hands-on road map for all types of urban stakeholders. This is the only way to contribute to the achievement of the SDGs, in particular goal 11. Financing urban development is not only about urban services; the challenge aims to contribute substantially to the eradication of poverty and the reduction of the dramatic inequalities and gaps existing within and between the countries that characterize our world today.

Mexico City Declaration for Habitat III

“Localizing finance for inclusive change”

We, the participants to this Habitat III thematic meeting, representing a wide range of stakeholders including national, regional and local governments, organizations of the United Nations system, intergovernmental organizations, civil society, , academy and research institutions, business and private sector, social and solidarity enterprises, community based organizations, philanthropies, women and youth organizations; while thanking the Government of Mexico City and its partners for hosting the event, propose that this Declaration, and in particular the following Drivers for Action, be considered and included as an essential part of the process towards the preparation of a New Urban Agenda to be adopted at the United Nations Conference on Housing and Sustainable Urban Development (Habitat III), to be held in Quito, Ecuador in October 2016:

1. Fiscal and financial decentralization

- Provide timely, predictable, and adequate government financial transfers commensurate with the accountable mandates for service provision by the local government, and ensure that such transfers are able to be utilized in financing mechanisms authorized by local governments.
- Recognize that “bottom-up” national development implies adequate intergovernmental allocation of resources, subsidiarity and sound sub-national fiscal policies that include a greater ability of local, metropolitan and regional governments to raise their own revenues and have access to predictable transfers, coupled with transparent equalization mechanisms or funds. A stronger agenda is to be

promoted on implementing a more articulated cooperation between central government's bodies present locally and decentralized governments.

- Allow local governments to piggyback on selected national or regional revenues that are productive but best administered at a higher level, e.g. income-related taxes or Value Added Tax, carbon taxes and taxes on extraction and pollution.
- Recognize the importance of engaging in adequate fiscal reforms that push up fiscal decentralization to ensure local governments have the ability to manage both urban development projects as well as the necessary funding. This fiscal autonomy will allow for securing revenue streams for better planning, borrowing and investment.
- Encourage a shift in behaviors and management culture to start a transition from a financial system based mainly on grants and subsidies from the central government to a system based on a financing mix including performance-based grants and incentives.
- Consider that the structure of national and local taxation is not flexible enough to react to changes in the economic structure (service economy, dematerialization of production, relocation, tax optimization of large companies).
- While the production of wealth is concentrated in cities, few tax systems allow cities to be funded on even a portion of the value added produced within them. The current distribution of resources should be modified to decrease inequalities among and within cities and between urban and rural areas, as well as promote integrated territorial development.

2. Endogenous resources and land-based financing

- Consider that with the support of national governments and partners, local resources can be used to help financing local development and encourage the emergence of virtuous cycles of investment at the local scale, creation of local value chains for financing through the hybridization of funding sources (financial short-circuits engaging local savings in local financing).
- Enhance the capture of the appreciation in land value generated by infrastructure projects (local roads, sewerage, transit water, etc.), with a strong monitoring on land speculation by land owners, through better planning and balanced incentives and constraints.
- Redistribute land value gains and charges, as well as investments to intentionally promote territorial equity and avoid spatial segregation, uncontrolled or inequitable gentrification of neighborhoods, with a special attention to well-located social housing provision and social diversity throughout the city.
- Better orient property development and the capturing of land value, by developing tools in coordination with national governments allowing for a simplified and more effective tax-collection process. Increase knowledge and use of legal land-based financing tools and real estate market functioning, especially considering foreign investors' impact would be positive in local land management.
- Develop a comprehensive public strategy on land management and use regulatory mechanisms, including citizen and sustainable control of public space, both in terms of land and real estate to avoid that added value be entirely captured by the private sector, which did not necessarily contribute to its increment, thus avoiding pervasive land speculation.
- Improve land management methods and engage in the necessary reforms to create a land and property register (if non-existent), as well as the standardization of existing registries to ensure their compatibility, thus improving the effectiveness of taxation by maintaining the registers up-dated and recording land transactions.

- Exploit the potential of all countries' national resources in a manner that ensures that current and future generations benefit from resource earnings including local development.

3. Access to banking, capital markets and innovative financial intermediation

- Recognize that local governments' access to sources of credit under suitable conditions remains a bottleneck in many countries, especially in those where sovereign guarantee to obtain favorable financing from international organizations is required. International financial organizations could play a strategic role to create guarantee mechanisms securing initial working capital and equity.
- Provide local governments with an adequate range of debt finance possibilities, and subsidized loans and other types of credit for self-financing projects; promote and facilitate access to capital markets when they are already able to borrow and finance their investments, through dedicated rules and regulations, incentives for investors, technical assistance, credit enhancement procedures, foreign-exchange liquidity and de-risking facilities, as well as partial and first loss guarantees.
- Support local governments that are not in capacity to access the credit market directly or alone in developing their creditworthiness over time through incentives and technical assistance, including climate finance used to fund guarantees mechanisms that leverage the amounts of investments. This may include also:
 - The setting-up of special credit institutions such as municipal development banks, and sub-national pooled financing mechanisms and appropriate ratings agencies.
 - Risk mitigation strategies.
 - Implementation of financial vehicles that can entice institutional investors, development financial institutions and the public sector to collaborate and co-finance local infrastructure including local financing structures.

4. Promoting private sector investments and new alliances

- Establish appropriate financial mechanisms and set up a well-resourced operational fund for facilitating implementation of the new urban and human settlements agenda, including strengthening existing financial institutions and implementation arrangements.
- Set-up an enabling environment to encourage the private sector (including small and medium-sized enterprises (SMEs), small informal operators, cooperatives) to invest in local infrastructure and work in partnership with national and local governments, including the development of bankable financing mechanisms and projects and a local public procurement system to prioritize economic development and creation of quality employment.
- Set up local public procurement systems (and national legislation) that prioritize local economic development, the creation of qualified jobs and environmentally-friendly practices.
- Develop a strong legal framework and strengthen the capacity of local governments to promote, manage and monitor public-private partnerships (PPPs), based on a well balanced distribution of risks and benefits, follow-up of the annuity plans from private sector to ensure constant focus on efficient use of resources.
- Explore ways to lower the cost of remittances and introduce diaspora bonds to attract and channel international private finance towards productive investments in national and local economy.
- Leverage south-south cooperation and innovative aid modalities. In this context, national and local governments will be called upon to harness the potential synergies and complementarities across different actors whether private or public, traditional donors or emerging development partners at the global regional and local level.

- Encourage the private sector to contribute to advancing gender equality and women's empowerment as well as through increased investments in female-owned companies or businesses.
- Encourage PPP's management models based on semi-public companies to ensure local governments are involved in and committed to the administration and management of the public services they provide, including considerations of cross-subsidization of public services to ensure bankable balance between different ranges of service delivery which funding models are impacted by socio-economic and environmental constraints and contexts.

5. Financial empowerment, capacity building, transparency and accountability

- Ensure that national and local civil servants and administrations are empowered with adequate knowledge and skills to tackle financial issues in the whole project design, development and implementation cycle mainstreaming gender throughout the whole process; and guarantee regular training to local teams on issues related to strategic planning, project management and financial innovation.
- Build investors trust by encouraging local governments to improve their fiscal performance (credit ratings), governance, through supporting the modernization of the local public sector with new information and communication technologies allowing for enhanced transparency, accountability, efficiency and effectiveness in public and social services provision and in use of financial resources, reinforcing fight against corruption and tax evasion.
- Recognize that for the efficient use of resources, better management of city assets and effective delivery of public services is required ("do more with less"); this includes developing a project portfolio in the medium and long term to promote private sector investments in a transparent and planned manner.
- Recognize that, even though the logics of private and public finance may share common references, they yet remain with their core specificities, especially considering that public finance must include social objectives, equity, justice and redistribution of wealth and promotion of the commons; this implies, for the latter, differentiated financial balances and models that cannot be submitted to the rules of free market and private accounting. In particular, new indicators of wealth shall be promoted, in addition to GDP measurements, as well as integration of externalities (especially social and environmental) in the definition of local public budgets and the calculation of prices.

6. Metropolitan finance and intra- and inter-municipal coordination

- To achieve expenditure efficiency, it is critical that local governments find ways to coordinate municipal finance planning with spatial planning and economic development planning.
- Recognize the specific weight of sub-national -especially metropolitan- economies characterized by the "urban complexity", referring to the intertwining institutional network that goes beyond the traditional municipal focus, where multi-level and different administrative structures overlap in the same territory.
- Distinguish metropolitan areas as functional areas, as they do not coincide with the administrative structure, boundaries and sectoral vision of traditional politics. This can promote the harmonious development and prosperity of the various territories and regions, balancing urban and rural areas, centers and peripheries, as a means to reduce inequities and provide more development opportunities to the neediest populations.

- Consider that financing metropolitan areas requires specific responses and institutions granted with professional skilled technical teams, in topics like debt management, planning agencies or metropolitan development funds.
- Promote and develop at national level, a legal and institutional framework that enables inter-municipal cooperation and the support of local financing structures. Encourage inter-municipality cooperation when setting-up, running and investing in public services, for example in relation to water and waste management and treatment, public transportation, energy production and distribution, when applicable, and ensure that they are accessible to all on equal basis.
- Allow the implementation of pooled financing mechanisms that allow local governments to access the capital markets jointly. This can help include peripheral, intermediate or secondary cities to avoid leaving them behind from the mainstream of development.

7. Social and solidarity economy and finance

- Consider that social and solidarity economy and finance constitute a source of resilience to the recurrent crises capable of catalyzing the redistribution of wealth and financial innovation, and are conducive to partnerships that will bring about transformational changes in urban development patterns. This may include adoption of affirmative procurement rules that redress historical social and economic exclusion of disadvantaged groups.
- Underline that, by organizing economically in cooperatives and politically in associations that can engage in policy dialogue and advocacy as well as push for social inclusion, social economy organizations and enterprises can help address market failures.
- Advocate for the creation of enabling environments (especially in terms of regulations and knowledge sharing) through further research, promotion, systematization and scaling-up of strategies and mechanisms such as cooperative and community development banks, solidarity savings, local savings-based retail bonds, energy production citizens' cooperatives, local, complementary and thematic currencies, social stock exchanges, crowd-funding, participatory planning and budgeting, territorial poles for economic cooperation, impact investment, financial and economic short circuits, community supported agriculture or community land trusts, among others. Moreover, public companies or mixed funded companies can be useful tools for Local Governments to manage public services, allowing them to keep the control and the decisions over those services, and manage them efficiently with private tools.

8. Informal economy and new patterns of consumption and production

- Foster strong policies and institutions for local economic development and cultural initiatives towards more inclusive, innovative and creative cities.
- Engage in the quest to transform current patterns of production and consumption that have proved unsustainable for the society and the environment. Promote a culture of efficient and smart consumption that allows for savings and rational spending in public service provision also avoiding land consumption based on speculative practices.
- Recognize informal economic activities, which characterize urban development in most cities in developing countries, as a legitimate and historical means of urban production and social development and treat them as such in urban planning. However, in order to enhance its potential it is important to encourage the formalization and growth of the informal sector, including the small and medium sized enterprises, as well as the promotion of "sharing economy" approaches.
- Address the negative consequences of the traditional frameworks of action of economics and finance that result in crises and are exacerbated by them and raise awareness in public and private stakeholders as well as inhabitants about the importance of "rethinking and redesigning" those

frameworks towards more sustainable, equitable and supportive systems. These strategies and mechanisms for relocation of the economy and finance will allow better control and management of resources and the re-valuation of local wealth.

9. Climate and resilience finance

- Consider the economic impact at the urban scale of the transition to a low carbon economy and its financing. Investments will create new markets, address the long-term opportunities and risks from climate change, and promote wider socio-economic benefits, minimizing social and environmental harm.
- Recognize the Cities Climate Finance Leadership Alliance as a major step forward in better connecting demand and supply in resilient and low-carbon local infrastructure financing.
- Ensure that local governments have access to global, regional, and national climate finance mechanisms, directly or through domestic financing institutions.
- Call for scaling up investments in sustainable, low-carbon and climate-resilient development at sub-national levels through strengthening innovation labs on sub-national infrastructure financing models; multiplying project preparation facilities to support the emergence of project pipelines to attract and secure institutional and private investments.
- Allow for the implementation of ecological tax reform, creation of green taxes, local carbon markets and innovations to explore renewed sources of financing for sustainable and resilient development. Including specific financing schemes for adaptation measures which not always benefit from revenue streams like those aimed at mitigation.

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10. Social production of habitat and the right to adequate housing for all

- Recognize that an inclusive city is not only the one that provides universal access to basic services, but the one guaranteeing dignified, fully-serviced housing to vulnerable populations. Adequate housing also means convenient location, proper connectivity to employment and schooling options and access to other urban facilities.
- Consider that urgent measures need be taken to facilitate access to housing for all and specifically for the most vulnerable, through national housing finance policies, aimed at regulating relevant markets, including land, rents and mortgage markets. Existing housing stock should also be considered as a potential.
- Recognize that a very important part of urban growth has been developed and financed by the communities themselves, through a process known as “Social production of habitat and housing”. These processes need to be reinforced, organized and professionalized in order for them to be attractive for private and public funding.
- Consider that urban development is not only about governments financing urban infrastructure, a large part of the funds can be channeled and administered through local populations, including formal and informal land market, via cooperatives and specialized organizations in the social production of the habitat, with clear rules and in the context of transparency and accountability.

11. Local and regional governments as world actors

- Allow and promote at country level a legal and institutional framework that enables international relations of cities and local governments, in those subjects that are of their legal competence.
- Recognize and support city-to-city cooperation and local governments’ networks as a mean to strengthen capacities and facilitate exchanges of knowledge and good practice on urban financial management.

- Better articulate Official Development Assistance (ODA) and cooperation initiatives at national, regional and international levels for a better allocation of scarce resources, on issues related to financial engineering transfer, especially in low-income countries, leveraging their potential as a de-riskers and promoters of public and private investments in local economies.
- Strengthen cooperation among multilateral agencies, national governments and local actors in the construction of the New Urban Agenda, working together for the implementation of the SDGs, as well as the Paris agreement and the Addis Ababa Action Agenda, particularly paragraph 34.
- Create a global observatory on local finance to raise awareness on the investment capacity of local governments, and on the great diversity of local governments, which may necessitate asymmetric approaches and maintain partners' mobilization on fiscal decentralization progress. It would organize a global reflection on local finance and can also boost National dialogues on the necessary reforms and synergies between central and subnational authorities.
- Recognize that financing the New Urban Agenda requires that local governments take a seat at the global table, with a different type of partnership with the United Nations and the international community, not only sharing information but participating actively in strategy and decision making.



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