
Local government investment in LDC: A Case for a New Generation of Financial Product

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Outline

1. Impacts of the crisis and structural problems
 2. Decentralization, and land-based financing
 3. What type of financial products?
 4. Toward endogenous solutions
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1. Impacts of the crisis and structural problems

- ❑ Local Governments finally impacted...
 - Financing systems in difficulties (USA, Europe)
 - Decline in revenue, higher operating cost
 - Decline in investment and PPP activities

 - ❑ (LDC) facing growing structural problems
 - ODA increasing slowly or stagnant
 - ODA focused on others topics
 - ODA architecture changing (foundations, vertical f.)
 - Remittances increasing, escaping Local Gov's grasp
 - State budget tapped for state related expenditures
 - Investments needs: 300 million persons/ 2030 SSA
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2. Decentralization and land-based financing

- Focus on decentralization
 - Good governance, local tax system and transfers, looking for virtuous circle
 - Land-based financing to be used
 - Local resources alone adequate nowhere in the past
 - Europe WWR II, PR China: “city finances itself”
 - Land-based financing for infra & land dev.
 - Infra (ex: transports): betterment taxes, contributions
 - Land development: contributions, cross-subsidies...
 - Optimizing economics effects of housing
 - Employment, savings, local taxes, remittances...
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3. Financial products for Land Development

Term and grace period

- Long operations (10-12 years)
- Initial earnings after 4-6 years

Not available in LDC

- Weak financial systems
- Ex: Ghana: approx. 20%, 5-7 years, GP 0
- Vs: Europe: approx. 3,5%, 15-20 years, GP 5-7

Donors products

- Not very involved / not sustainable / not at scale
 - Rarely sub-sovereign, rarely in local currency
 - Local currency could be counter productive
 - Not collecting savings/local investments
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4. Toward more endogenous solutions

Products objectives

- Term, rate, GP adapted, Local currencies
- Collecting savings, local direct investment
- Mobilizing remittances, foundation fund, etc.

Hybridization and leveraging

- C. markets, loans, grants (transfers, found.), others
- Ex: State Revolving Funds (US), Jessica (EU)

Donors focus

- Catalytic actions, seed capital, institutional support
 - Hybridization, guarantees
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Thank you