

IDB for Cities and Subnational Governments (D2453)

Description:

The **general objective** of this TC is to provide technical and financial support for the implementation of a pilot associated with the program 'IDB for cities and SNGs' (Subnational Governments). This program aims to responsibly increase access to affordable finance through strengthened capacities to take debt and prepare bankable projects. This pilot aims to test and evaluate the new holistic and integrated approach and methodology before bringing it to scale. The pilot will include around five regional cities or SNGs and will be implemented over two years.

The **specific objectives** of the TC are to: (i) develop selection criteria for cities eligible under the program, in coordination with different areas of VPS and VPC, and test it in an initial five cities or SNGs; (ii) elaborate with each of the selected city or SNG governments a work plan, in coordination with the central government agency responsible for subnational financing; (iii) simultaneously evaluate fiscal, planning and investment, and execution capacity needs for each of the pilot; iv) design reform programs (towards creditworthiness); v) structure priority bankable projects (public/PPP) for direct fast-track financing; vi) collect and compile data and good practices and generate a systematized repository of information that contributes to identifying possible lines of work and investment priorities for sustainable development.

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Category:

Research and Dissemination

Tags:

#innovation #institutionalcapacity #planning debt management fiscal reform subnational financing subnational governments

Linked Ideas:**Whiteboard:****Team Leader Name**

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Has the proposal been discussed and authorized by the responsible sector or country department/division, as applicable?

Yes

Team Leader Responsible Department

CSD

Are there specific countries that will directly benefit from your proposal?

Yes

Mark the specific countries that will be directly benefited from your proposal?

Argentina

Bahamas

Barbados

Belize

Bolivia

Brazil

Chile

Colombia

Costa Rica

Dominican Republic

Ecuador
El Salvador
Guatemala
Guyana
Haiti
Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
Suriname
Trinidad y Tobago
Uruguay
Venezuela

**Where applicable, describe how the proposal aligns with the respective country strategy (for each country selected)
Does the proposal align to one or more sector frameworks?**

Yes, the proposal aligns with at least one sector framework

Identify and describe how the proposal aligns to the sector framework(s)

This TC is aligned with the "Housing and Urban Development Sector Framework Document" (HUD-SFD) and the "Decentralization and Subnational Governments Sector Framework Document" (Decentralization-SFD). More specifically, it aligns with (i) line of action 4, on promoting adequate urban governance by strengthening fiscal capacity and coordination between territorial units, data management, and fostering citizen participation, and (ii) line of action 3, on boosting urban productivity by supporting comprehensive urban infrastructure, streamlining urban regulations, and promoting innovation. It also aligns with the Decentralization SFD's (i) line of action 2, on improving expenditure quality and efficiency and service delivery among SNGs, and (ii) line of action three, on 'increasing SNGs resource mobilization and access to finance.' The TC also supports a line of action two under the Climate Change Sector Framework by promoting a multisector approach to tackling climate change.

Select the regional challenges and cross-cutting issues to which the proposal aligns to

Social Inclusion and Equality

Productivity and Innovation

Climate Change and Environmental Sustainability

Institutional Capacity and Rule of Law

Justify the alignment to each selection above

This TC is strategically aligned to the challenges of 'productivity and innovation' and the cross-cutting theme of 'institutional capacity and the rule of law.' Indirectly, it can support objectives of 'social inclusion and equality' and 'climate change and environmental sustainability.'

a.1 Productivity and Innovation (primary)

With more than 80% of global GDP generated in cities, urbanization can contribute to sustainable growth through increased productivity and innovation if managed well. They create productivity by enhancing the number and frequency of interactions. Cities attract skilled workers and productive firms and develop conditions for workers and firms to become more effective through agglomeration economies, human capital externalities, and larger markets for their goods and services (IDB RES Urban Migration Report, 2023). However, adverse economic, social, and environmental externalities can emerge if urban growth is not managed correctly. This is the case for many cities in Latin America and the Caribbean. Despite the relatively high population density and intense concentration of human capital in the largest cities, their productivity lags behind that of North American and Western European cities. An inadequate enabling environment, excessive congestion associated with

infrastructure deficiencies, and lack of administrative coordination within metropolitan areas are the root causes (World Bank. 2018. Raising the Bar for Productive Cities in Latin America and the Caribbean).

'IDB for cities and SNGs' aims to increase the capacity of cities and SNGs to deliver entrusted services (general administration, transport, economic development, environmental protection, planning, and the built environment, health, education, and social welfare) and associated infrastructure more efficiently. This TC will pilot a new holistic approach to preparing cities and SNGs to mobilize resources and develop project pipelines that will lead to planning and infrastructure required for decongestion and improved productivity. This TC will also help cities improve creditworthiness and management abilities, a positive signal for attracting private sector investors.

b. Social Inclusion and Equality (secondary). There are persistent inequalities in territories across countries in LAC. Inequality within cities can be profound (as demonstrated by city-level Gini coefficients, which are more significant than national averages in countries like Chile, Brazil, and Argentina). LAC has reduced the share of people living in informal neighborhoods from 26 percent in 2005 to 21 percent in 2015 (UN-Habitat, 2016). However, the region cannot thrive while existing levels of spatial inequality continue. Access to employment and educational, cultural, and social opportunities are more significant in urban areas, positioning them as crucial growth and social inclusion engines. However, unplanned, biased, and unprecedented urbanization with low-capacity local governments can result in housing and infrastructure deficits, informal housing and settlements growth, and lead, in turn, to widening social inequalities, worsening the quality of life of already vulnerable people. By prioritizing and targeting services and infrastructure for more vulnerable population segments, cities, and SNGs can reduce inequality and increase social inclusion. This might form part of the selection of interventions to be considered part of a pipeline of investments.

Cross-cutting issues

a. Institutional Capacity and Rule of Law (primary)

Weaknesses in urban governance are a root cause of broader urban challenges. They also limit the SNG's capacity to tackle the complex and interdisciplinary issues they face. Most city governments have limited fiscal autonomy, insufficient financial and human resources, and little access to data and technology. On average, LAC cities' revenues cover only about 30 percent of their total spending, compared with about 60 percent for OECD countries and 75 percent for emerging economies in Asia (Fretes Cibils and Ter-Minassian, 2015). They tend to have low credit rating scores and limited access to credit markets. By conducting comprehensive diagnostics and a road map to reform and service improvements and offering focused capacity building and knowledge in a wide array of topics, this TC aims to improve selected SNGs fiscal and public management, strengthen the human resource base, and promote replicable good practices through digitalization (access to information, procurement, etc.).

b. Climate Change and Environmental Sustainability (secondary)

Cities are key players in climate change adaptation and mitigation. Regarding the former, according to the Intergovernmental Panel on Climate Change (IPCC), LAC cities are highly vulnerable and exposed to climate change. It is stated that 80% of the losses associated with climate risks in the region are concentrated in urban areas. Considering the urgency and scale of the challenge, this TC will focus on connecting local governments (who are at the frontlines) facing similar threats, facilitating knowledge generation and sharing, creating response networks, and testing small-scale solutions to bring to scale. Urban density can lead to lower carbon footprints per capita. However, it can also entail negative environmental externalities such as air or water pollution. In this sense, this TC will support the formulation of pre-feasibilities studies for interventions that will positively contribute to climate change mitigation/adaptation and environmental improvements. It will also support introducing urban planning and management tools to promote sustainable, low-carbon urban growth. A particular emphasis will be given to identifying, testing, and scaling innovative green financing mechanisms.

What is the estimated funding that you need in order to implement this proposal?

1000000

Select the expected outputs of this proposal

Institutional Strengthening Deliverables (Training products, Management Information Systems, etc.)

Policy Dialogues

Knowledge Products

Others

Are outputs strictly Knowledge Products?

Describe the motivation and main question(s) this TC intends to answer.

Describe the methodological approach to be used and the type of data (when applicable) which will be used

Please specify the type(s) of Knowledge Product (s) this TC encompasses:

Magazines and Learning Materials

Databases & Datasets

Technical and Policy Notes

Others

Please provide a brief description of the output(s) selected above (The number of units planned, and the estimated cost). If you selected others, please specify.

- a. Diagnostics in cities or SNGs, incl. data collection, estimated total cost: US\$430,000
- b. Policy Dialogue among selected cities or SNGs, in coordination with central government authorities, estimated total cost: US\$20,000
- c. Capacity building and Knowledge Products: estimated total cost: US\$50,000
- d. Pre-feasibility: 5 interventions, estimated cost: US\$500,000

Outcomes: If the outputs are delivered successfully, what is the change expected (in capacity, knowledge, behavior, etc.)

Outcomes. This pilot supports the launch of the 'IDB for Cities and SNGs program,' which ultimately is expected to generate benefits in the following areas: (i) market expansion: increase SNG access to long-term funding will enable them to implement investments; (ii) capacity: through the TC pilot, the city or SNG is expected to improve the skills of SNG and associate institutions, including in the areas of fiscal and financial management, planning and project portfolio development, and execution, and; (iii) demonstration effects: improved creditworthiness and debt management, and gradual readiness to move from sovereign to non-sovereign to commercial debt.

Outputs. This TC is expected to yield the following outputs:

1. selection criteria for cities to become eligible under the 'IDB for Cities and SNGs' program,
2. set of comprehensive fiscal, planning and investment, and execution capacity diagnostics for around five cities,
3. reform/capacity strengthening programs for around five cities,
4. priority bankable projects (public/PPP) for direct fast-track financing.