

Financing Infrastructure Investments for Local Communities

by Valeria Branca

ABSTRACT

The second Infrastructure Working Group workshop under the Italian G20 Presidency, titled “Financing infrastructure investments for local communities”, was hosted on 4 February 2021 by the Istituto Affari Internazionali (IAI). As the world gradually recovers from the pandemic crisis, most governments are designing strategies to revive long-term growth. A key factor in their success will be the capacity to restart and reorient infrastructure investments. In this context, investments in local infrastructures are particularly important because social needs, work habits and production patterns have been greatly affected by the COVID-19 pandemic, whose impact has been most severe on urban areas, the informal sector and marginalised groups – especially in developing countries. Investments in local infrastructures will therefore be crucial in addressing the need to sustain recovery while tackling long-standing problems posed by climate change and social exclusion.

Infrastructures | Coronavirus | Sustainable development | Local investments



keywords

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Introduction

On 4 February 2021, the Istituto Affari Internazionali (IAI) hosted the webinar “Financing Infrastructure Investments for Local Communities”.¹ The event was organised within the framework of a research project, carried out in collaboration with the Brussels-based economic think tank Bruegel and supported by the Italian Ministry of Economy and Finance (MEF). This project aims to provide analysis and contributions to the Infrastructure Working Group (IWG) of the G20 under the Italian Presidency in 2021. Among the various challenges that the G20 is facing this year, one of the most important is that of defining a strategy for recovery international cooperation and multilateralism at a time when the world is still grappling with the pandemic and its economic and social consequences. In this context, infrastructure investments will be a crucial factor in fostering a sustainable and inclusive economic recovery. The Italian Presidency of the G20 has identified four main priorities for this year’s IWG exercise: (i) resilience and maintenance; (ii) digitalisation; (iii) sustainability; and (iv) inclusion. These issues are now more important than hitherto because of the social consequences of COVID-19. Investments in local infrastructures will be crucial to address the need to sustain recovery while addressing long-standing problems posed by climate change, social exclusion, maintenance and digitalisation. This workshop was devoted to a discussion centred on local infrastructure needs, focusing on how local subnational entities could mitigate the existing financial gaps in infrastructure investments and which instruments and good practices they could implement to attract private investors and improve the enabling environment.

The webinar comprised an introductory session in which Franco Passacantando (Scientific Advisor, IAI) set the scene and opened the floor to the welcome remarks

¹ For more information, see IAI website: <https://www.iai.it/en/node/12671>.

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· Report of the IAI webinar “Financing Infrastructure Investments for Local Communities”, held in Rome on 4 February 2021.

of Gelsomina Vigliotti (Director General for International Financial Relations, Department of the Treasury, Italian Ministry of Economy and Finance) and Ferdinando Nelli Feroci (President, IAI). After these welcome remarks, Andrés Rodríguez-Pose (Professor of Economic Geography at the London School of Economics) gave a keynote speech and Debora Revoltella (Director of the Economics Department, European Investment Bank) presented the “EIB Municipality Survey 2020”.

The first Roundtable was moderated by the financial journalist Viola Caon (Senior Editor, *Investment Monitor*) and saw the participation of Charles Landry (inventor of the Creative City concept and advisor to cities worldwide); Rajeev N. (former Panchayat President, Eraviperoor Local Self Government, Kerala, India); and Neme Al-Qatanani (Executive Director of Engineering, Greater Amman Municipality). The second Roundtable was moderated by Jacopo Dettoni (Editor, *fDi Intelligence*, *Financial Times*) and saw the participation of Neeta Pokhrel (Unit Head, Project Administration, South Asia Urban and Water Division, Asian Development Bank); Monica Scatista (Director, Technical Assessment and Monitoring Directorate, Council of Europe Development Bank); Sergio Gusmao Suchodolski (President, Development Bank of Minas Gerais, Brazil); and Sameh Wahba (Global Director, Urban, Disaster Risk Management, Resilience and Land Global Practice, World Bank).

Introductory session

Franco Passacantando (Scientific Advisor at IAI), in his introductory speech, recalled the devastating social and economic consequences of the COVID-19 pandemic, which has hit the world economy: an unprecedented crisis that has radically changed our ways of working, living and travelling – leading to a drastic reduction in gross domestic product and an increase in poverty and inequality at the global level. The crisis has had a particularly visible impact on cities. Indeed, cities have seen an unprecedented increase in poverty; according to the World Bank, the pandemic will create between 143 and 163 million new poor people worldwide and these “new poor” are expected to be more likely than not to live in urban areas. In addition, cities are at the centre of green transformations because they are the source of more than 70 per cent of greenhouse gases. The crisis is still ongoing and it is very difficult to make predictions about how, and to what extent, the transformations we are seeing today will last.

Ferdinando Nelli Feroci (President, IAI) thanked the MEF and Bruegel for their support for the workshop. Starting with an analysis of the crisis caused by the COVID-19 pandemic, he emphasised the fundamental role of infrastructures – and, in particular, local infrastructures – for a speedy recovery.

Gelsomina Vigliotti (Director General for International Financial Relations, Department of the Treasury, Italian Ministry of Economy and Finance) emphasised the crucial role that infrastructure plays within the G20 Presidency and the

priorities that have been pursued within the infrastructure strand: resilience and maintenance, digitalisation, sustainability and inclusion. She believes that local infrastructure can be the main driver of recovery while supporting sustainability and inclusion; for this reason, it is important to encourage investment in it. In fact, infrastructure should be designed to smooth out differences between territories and improve levels of inclusion for the most vulnerable groups in society. To ensure an inclusive recovery in which no one is left behind, examining the experience of local entities could provide an alternative, bottom-up approach and create positive spillovers. She stated that our cities are changing, and it is important to understand their evolution – especially regarding inland areas, to avoid their depopulation. She also mentioned the importance of transforming infrastructures: this topic is part of the three priorities “3Ps” of the Italian Presidency – People, Planet and Prosperity – but there are still various problems at the local level that do not allow the rapid and efficient creation of infrastructure and attractiveness for the private sector. Director Vigliotti concluded by anticipating the main outcome of this strand, which will be the final “High-level conference” on September 2021, and emphasised that the purpose of this workshop was to focus on the issue of local infrastructure financing and to stimulate discussion on how to support and strengthen the quality of local infrastructure provision.

Keynote speech

Andrés Rodríguez-Pose (Professor of Economic Geography at the London School of Economics) focused his speech on three points: the pandemic and its geographical implications, the impact on territories and the role of infrastructure investments.²

On the first point, he said that this was not the first pandemic but that it was the first one to be so global and digitally connected. Could it have spelled the end of big cities as we know them? Or was it an opportunity for more balanced growth? In his opinion, the drivers of the pandemic are: connectivity, density, poverty, inequality and crowding, pollution and institutions. In fact, COVID-19 is accelerating pre-existing transformational trends, with the risk of increased polarisation and inequality between populations and countries. For example, looking at New York, one notices that the highest incidences of COVID-19 were recorded in the airport areas of Newark and La Guardia and in poor districts such as Harlem or East Brooklyn; the wealthier parts of Manhattan were less affected. The same pattern can be noted for London and Madrid. The resulting territorial impact will depend on the duration of the pandemic, the economic and political situations and the condition of each area, institutional conditions and luck. He proceeded to explain the three forces of change. The first is *social scarring* – that is, individuals’ fear of the negative event, which is reflected in psychological problems and less inclination

² See: Andrés Rodríguez-Pose, *Regions and cities in a post-Covid world*, presentation at the G20 Workshop “Financing Infrastructure Investments for Local Communities”, 4 February 2021, <https://www.slideshare.net/secret/uC3rPs2ZqoOlbl>.

to interact with other people. The second is *social change* linked to maintaining social distance (at school, in restaurants, while shopping, on transport, etc.). The third is the *forced social experiment* that the lockdowns have compelled everyone to live with. With the pandemic, many places in city centres have been vacated – from offices to restaurants to shops – which will bring the opportunity to rethink these central-city spaces in an inclusive and cultural way for the future.

The second point of the presentation concerned the impact of the new paradigm created by the pandemic on territories. Reflections on redistribution between the poor and the rich areas are to be expected, as well as a polarisation between large and small cities. Some of the latter will continue to be attractive for their beauty or quality of life, but overall they will be penalised in comparison with the larger ones. In fact, the greatest changes will occur in large cities. Rodríguez-Pose added that there will be a functional shift in cities, with investment in infrastructure moving towards social and inclusive infrastructure.

Finally, regarding the role of infrastructure investment, Rodríguez-Pose argued that development strategies will be needed more than ever in order to avoid social polarisation, and that major infrastructure projects – especially in the field of mass transit – will have to be reviewed. He concluded by saying that large cities will not die but will be transformed, and that many pre-pandemic trends will be accelerated. The local level will have a key role to play, but within integrated spatial-development policies that are focused more on addressing local bottlenecks than on large-scale mega-infrastructure projects. Therefore, new development strategies centred on investments in infrastructure are required. These strategies will need to be territorially integrated and focused on improving human capital skills, the capacity of local businesses and the role of institutions. The COVID-19 pandemic can be seen as an opportunity to pursue more balanced growth in our society.

Presentation of “EIB Municipality Survey 2020”

Debora Revoltella (Director of the Economics Department, European Investment Bank) claimed that the crises of recent decades have primarily sacrificed investment; this time it seems that, at least in Europe, the direction is to support them. It will be essential, in implementing investments, to avoid obstacles and bottlenecks – and this can be done through optimal planning and coordination in order to maximise the benefits of those interventions, and through a complementarity of public and private investments.

Revoltella presented the results of an interesting survey on municipalities that she had conducted with the European Investment Bank (EIB) in the summer of 2020.³ It involved interviews from 685 municipalities, from all EU member states, within

³ European Investment Bank (EIB), *Investment Report 2020/2021. Building a Smart and Green Europe in the COVID-19 Era*, Luxembourg, EIB, January 2021, <https://op.europa.eu/s/oQou>.

the document "Covid-19, the green and digital transition and local investments – a European perspective".⁴ The survey looked in particular at local investments in the almost 700 municipalities surveyed. According to its results, local investments in the EU comprised about 40 per cent of the total investment and had progressively declined due to austerity until 2016, when they slowly recovered until 2018 (the last year of analysis). Moreover, institutions at the municipal level complained of a large gap in infrastructure investment – especially in Eastern and Southern Europe.

These investment gaps are mostly related to climate change (mitigation and adaptation) and digital infrastructure. The survey also asked municipalities whether they have developed the capacity to manage the "green transition": almost 70 per cent of European municipalities are not green, and 44 per cent are not digital. The main obstacle in this regard remains a lack of funds and investment, together with the length of the regulatory process, regulatory uncertainty, and coordination and technical-capacity issues. Public–private investment complementarities are important, and are necessary to exploit green and digital potential. If the green and digital transition is proving a major challenge, it is, however, also an opportunity: the green transition can create 1.1 million jobs by 2030, with around 60 per cent of them in highly skilled positions. Employment in the clean-energy sector is set to increase to more than 1.1 million jobs by 2030 – with, again, around 60 per cent in highly skilled positions.

To maximise the impact of local infrastructure investments, it is proposed that good governance must be ensured; the effective planning and prioritisation of projects must be guaranteed; a life-cycle approach to the work, incorporating sustainability, must be adopted; and, finally, effective coordination must be secured between the various levels of government involved.

Roundtable I

According to **Charles Landry** (inventor of the Creative City concept and advisor to cities), the pandemic crisis has had strong psychological consequences as well as social and economic ones. We are in the midst of a systemic crisis in which our economic order is materially expansive, socially divisive and environmentally hostile. Yet this crisis also provides us with a unique opportunity: to pursue a greater focus on health care, the green revolution, and social and digital innovation. It is an opportunity to uplift transportation in its greenest modes and create collective experiences in urban spaces and services. In this sense, financial innovations will be key to embracing change and making it happen. People will have to be given the opportunity to use new spaces in cities; these will also change through networks

⁴ See: Debora Revoltella, *Covid-19, the green and digital transition and local investment – a European perspective*, presentation at the G20 Workshop "Financing Infrastructure Investments for Local Communities!", 4 February 2021, <https://www.slideshare.net/secret/obLqt0ZkLMmT4y>.

and digitalisation measures that will reduce distances. The most substantial investments will have to be made in the digital and health sectors. This harsh period has changed our sense of time, place and space, but it has also provided unprecedented opportunities for smaller cities.

Yvonne Aki-Sawyerr (Mayor of Freetown, Sierra Leone) claimed that the challenges for the city of Freetown stem from its population explosion and internal migration flow. She also focused on the topic of mobility and development, emphasising the value of urban planning as an efficient way of delivering services in the city. One of Freetown's most recent accomplishments has been the digitisation of its property rates. Access to funding and investment is a major constraint, because most of the time some regions are totally overlooked while others receive a large percentage of funds. Indeed, many people in Freetown live in slums and are often uninvolved in city life due in part to a lack of basic services such as water. The city's transformation plan focused on four clusters: resilience, development and the inclusion of individuals, health, and urban mobility. Technical groups of stakeholders, ministers, agencies, academics, citizen representatives, development partners and nongovernmental organisations were created for each cluster and sector. We need to aim for equity and transparency – but for this to happen, bottlenecks in funding need to be unblocked by funding local infrastructure directly, without having to go through national channels. Aki-Sawyerr reiterated the importance of working as a system and integrating all the various levels of government, from national to local, together with the development banks and international organisations in order to channel and program funds in the best way possible.

Rajeev N. (former Panchayat President, Eraviperoor Local Self Government) described the experience of his institution, reporting his experience from the field, which has focused on e-governance, making local administrative action citizen-centred and fully digitised. Much has also been done from the point of view of waste recycling. Working groups have been created for the development of each sector and to involve the population in the choices needing to be made.

According to **Nemeh Al-Qatananai** (Executive Director of Engineering, Greater Amman Municipality), cities are facing numerous challenges in planning funding – especially with regard to the implementation of local projects in the field of infrastructure. The city of Amman, in particular, is facing significant obstacles: besides the scarcity of natural resources (water and energy), the flow of population emigrating from the city due to geopolitical circumstances is continuously increasing. The loss of agricultural land, unemployment at 40 per cent and the effects of climate change are having a very high social impact. The city is experiencing a situation bordering on economic segregation, which is also due to a lack of sufficient urban public-transport provision. The investment budget (mostly in digital and transportation systems) was funded by city taxes, not government: 45 per cent of the budget went to local infrastructure. Development-finance organisations had helped by funding environmental, energy, transportation, and urban-planning projects. They had also invested in improved procurement. Finally, they had used partnerships through PPPs (public–private partnerships) to

cover and deliver many of the essential services required.

Roundtable II

Neeta Pokhrel (Unit Head, Project Administration, South Asia Urban and Water Division, Asian Development Bank) argued that at a time when enduring economic disparities in India are affecting the country's most vulnerable population, the local sector is a very important target for the Asian Development Bank (ADB). She stressed that the ADB directly finances the local level and that the real ability to mobilise resources comes from the relocation of funding. To effectively achieve this end, there must be enough capacity to reform the structure of local governments so that these funds reach local communities as far as possible without intermediation. One of the issues raised was the lack of digitisation in South Asia, where most ADB clients do not even have double-entry bookkeeping and still rely on very old scientific taxation tools. There is a need to unlock the region's digital potential and look to the private sector for helping small municipalities to invest in the realities of these "left-behind" populations. In this regard, land development banks and local development banks must be strengthened and integrated with sustainable development policies. There is a need to unlock their potential, and to focus on blending finance and reducing risk at the national and local level for private lenders.

Monica Scatasta (Director, Directorate of Technical Assessment and Monitoring, Development Bank of the Council of Europe) noted the set of challenges that we are facing due to the pandemic – above all, the gap in infrastructure (and especially social and local infrastructure). The Council of Europe Development Bank focuses on investments that promote social cohesion by focusing on strategic plans for environmental sustainability and climate action. The concept of governance is important not only at the territorial level but also as a theme for cross-sectoral territorial development: the importance of making sure that the "voice" of cities is taken into account. Through the consultative role of the Council of Europe Development Bank, the capacity of local governments to interact with each other and the dialogue between local and national levels have been strengthened.

Scatasta asserted that strengthening the capacity for dialogue with local populations, and supporting quality, could help private finance to recognise infrastructure as an attractive asset. The elements of capacity building and facilitating dialogue are certainly fundamental to overcoming today's economic crisis.

Sergio Gusmao Suchodolski (President, Development Bank of Minas Gerais) analysed the role of subnational development banks and the commitment of institutions to local communities. He stated that 11 per cent of the Development Bank of Minas Gerais funding portfolio was dedicated to municipalities and smaller entities. One of the strategies to bridge the local infrastructure gap and help municipalities is to also support them in the planning of funding projects, including through the preparation of pro forma documentation that shortens

timelines and facilitates the arrival of funds.

In order to close the wide infrastructural gap present among Brazilian municipalities, it is necessary to start identifying and financing local infrastructure. In addition, development banks at all subnational, regional and multilateral levels must be mobilised in order to provide loans and guarantees to local communities. The task of development banks should not only be to finance infrastructure but also to become sustainable. In this regard, they can play a crucial role in unlocking investment in infrastructure projects – especially in the recovery of the economy and the preparation of projects targeting local communities.

Sameh Wahba (Global Director, Urban, Disaster Risk Management, Resilience and Land Global Practice, World Bank) examined how the pandemic has affected urban populations, pointing out that cities are invariably facing reductions in municipal budgets of between 55 and 40 per cent in the current financial year. This year, it is estimated that the contraction could be as much as 60 per cent for municipalities in countries such as Romania, India and Morocco. In this context, mayors have become much more industrious in exploiting scarce resources, including with a green dimension. Cities have begun to invest with more co-funding situations and less money, focusing on the recovery and renovation of public buildings, energy efficiency, the creation of alternative and non-motorised mobility and also focusing on “15-minute cities” – i.e. those in which the main services are reachable in 15 minutes by foot, bike or public transport.

It is crucial to analyse how some large cities such as Singapore and Seoul managed, despite their high population densities, to cope better with COVID-19 than much less densely populated cities where the pandemic had devastating consequences. The focus should therefore be not on the density or size of the urban area but on how its population density is managed. Cities need to make investments with fundamental environmental benefits in order to accelerate the green transition; these types of green investments also aim to make them more livable places. Cities have activated their safety nets to support poor and vulnerable populations, with important implications for financing. From this point of view, the solution, in the opinion of Wahba, is to diversify sources of financing and return to more basic forms that can be mastered even by small entities. Right now, the normal types of financing such as transfers, loans and development-bank interventions seem to be the best. Finally, the participation of the private sector needs to be allowed in order to speed up the creation of new partnerships. Innovative financing, transparency and new formulas for local incentives are also needed.

Monica Scatasta pointed out that the Development Bank’s action also included special programmes and instruments for small entities or projects. For these, however, traditional financing must be envisaged: one can try to get private individuals to participate in the financing of a project but the preeminent solution, in many cases, remains public financing. There is a strong focus at the Bank on microfinance to support the reuse and renovation of spaces for qualitative improvement.

Sergio Gusmao Suchodolski raised the problem of how at the local level some forms of financing are not possible – not only because of the capacity of the entities involved but also from a legal point of view, such as the matter of bonds. In any case, behind the latter instrument there remains the problem of rating as a means of attracting private investors. In some cases, grouping projects with MDBs and issuing a bond, as the Development Bank of Minas Gerais has done, makes it possible to finance local entities and at the same time use the triple-A rating of the most important development banks.

Sameh Wahba noted that collaboration between levels of government and national and supranational development banks is essential. He affirmed that we must focus on traditional instruments such as intergovernmental transfers, taxation and loans. The real added value is collaboration and cooperation.

Conclusions

Franco Passacantando concluded by emphasising three points.

Firstly, this is the first G20 to deal with this important local issue. From 1 December 2020, Italy holds the Presidency of the G20, the international forum that brings together the world's leading economies. In 2021, the international community will be called upon to show courage and ambition in order to overcome today's major challenges – from the pandemic to climate change, from support for innovation to the fight against poverty and inequality. For the first time in its history, the G20 will focus on local infrastructure – raising the attention of the international community. This workshop aimed to develop some principles that could be applied to the topic of local infrastructure in order to raise awareness and to share further comments and suggestions.

The second point concerned the importance of the bottom-up approach and integration between levels of government – especially between the national and the local.

And finally, Passacantando explained how, through a bottom-up approach to this topic, the webinar aimed to combine top-down principles and bottom-up suggestions regarding local infrastructure, with a focus on improving partnership communication across local and national levels.

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Programme

Webinar, 4 February 2021

Introductory session

Chair **Franco Passacantando**, Scientific Advisor, Istituto Affari Internazionali (IAI)

Opening speeches

Ferdinando Nelli Feroci, President, IAI

Gelsomina Vigliotti, Director-General for International Financial Relations, Department of the Treasury, Ministry of Economy and Finance

Keynote speech

Andrés Rodríguez-Pose, Professor, London School of Economics and Political Science (LSE)

Presentation of "EIB Municipality Survey 2020"

Debora Revoltella, Director of the Economics Department, European Investment Bank (EIB)

Roundtable I

Moderator **Viola Caon**, Senior Editor, *Investment Monitor*

Speakers **Yvonne Aki-Sawyers**, Mayor of Freetown

Charles Landry, Inventor of the Creative City Concept and Advisor to Cities

Rajeev N., former Panchayat President, Eraviperoor Local Self Government

Nemeh Al-Qatanani, Executive Director of Engineering, Greater Amman Municipality

Roundtable II

Moderator **Jacopo Dettoni**, Editor, fDi Intelligence, *Financial Times*

Speakers **Neeta Pokhrel**, Unit Head, Project Administration, South Asia Urban and Water Division, Asian Development Bank (ADB)
Monica Scatasta, Director, Technical Assessment and Monitoring Directorate, Council of Europe Development Bank (CEB)
Sergio Gusmao Suchodolski, President, Development Bank of Minas Gerais (BDMG)
Sameh Wahba, Global Director Urban, Disaster Risk Management, Resilience and Global Practice, World Bank

Conclusion

Franco Passacantando, Scientific Advisor, Istituto Affari Internazionali (IAI)

Istituto Affari Internazionali (IAI)

The Istituto Affari Internazionali (IAI) is a private, independent non-profit think tank, founded in 1965 on the initiative of Altiero Spinelli. IAI seeks to promote awareness of international politics and to contribute to the advancement of European integration and multilateral cooperation. Its focus embraces topics of strategic relevance such as European integration, security and defence, international economics and global governance, energy, climate and Italian foreign policy; as well as the dynamics of cooperation and conflict in key geographical regions such as the Mediterranean and Middle East, Asia, Eurasia, Africa and the Americas. IAI publishes an English-language quarterly (*The International Spectator*), an online webzine (*Affarinternazionali*), three book series (*Global Politics and Security*, *Quaderni IAI* and *IAI Research Studies*) and some papers' series related to IAI research projects (*Documenti IAI*, *IAI Papers*, etc.).

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- 21 | 05 Alessandro Marrone and Karolina Muti (eds), *Europe's Missile Defence and Italy: Capabilities and Cooperation*
- 21 | 04 Eleonora Poli, Monika Sie Dhian Ho and Brigitte Dekker, *Van Wittel/Vanvitelli Roundtable Policy Report*
- 21 | 03 Leopoldo Nuti, *NATO's Role in Nuclear Non-Proliferation and Arms Control: A (Critical) History*
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- 21 | 01 Jacopo Venturi, *L'Unione europea oltre il trauma. Secondo Dialogo di cittadinanza sul futuro dell'Europa*
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