Financing innovation for smart, sustainable cities

Minsk
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From Smart Cities 1.0 to Smart, Sustainable Cities 2.0

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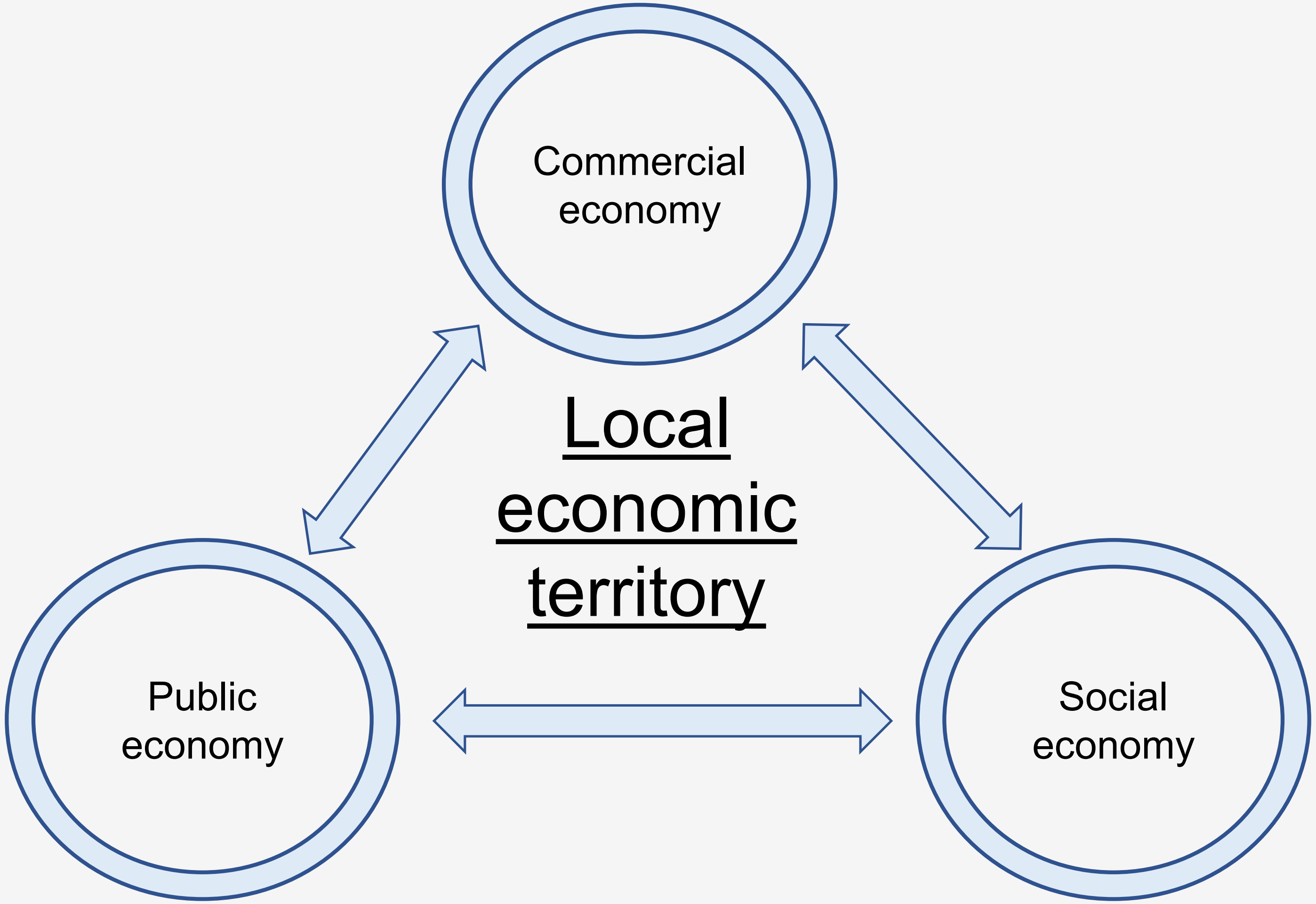
Smart cities 1.0

- Large scale projects;
- Technology driven;
- Residents as consumers;
- Focus on traffic control, transport, crime prevention;
- View of cities as machines to be optimised;
- Paradox: this approach can stifle innovation.

Smart, Sustainable Cities 2.0

- Bottom-up: citizens the first link, not the last;
- Smart citizenship at the centre;
- Continuous and radical innovation rather than one-off;
- Connections and freedom to experiment rather than predefined solutions.

This means working together – easier said than done.



Paying for the transition: the problem is not on the supply side – at least globally.

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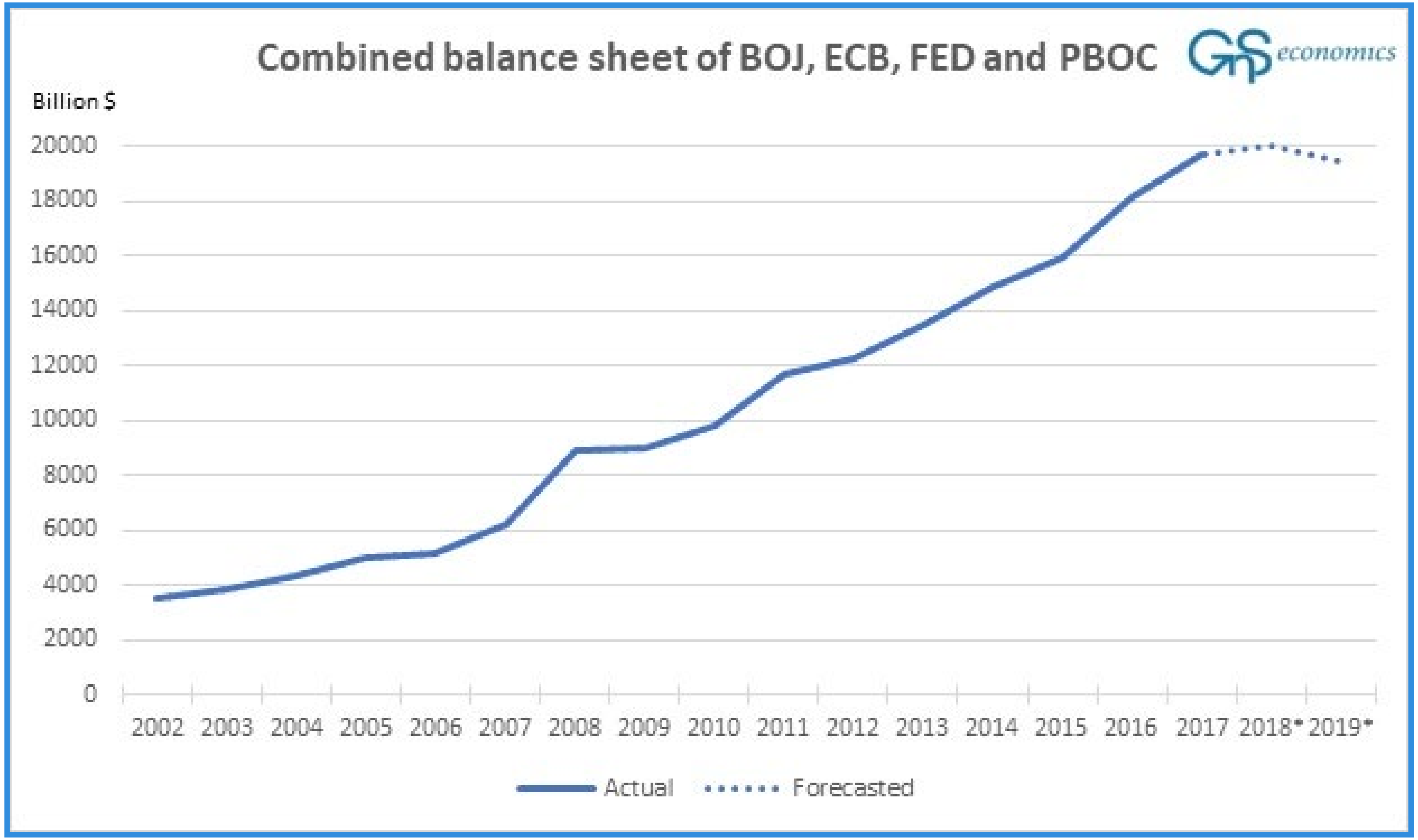

…and while there is some movement on the demand side – obstacles remain.

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- Cities are actively exploring new sources of financing; municipal bonds; privatising under-used assets; securitisation; PPPs; Crowdsourcing.
- But several obstacles remain:
  - Local tax gap: 6.4% in developed countries;
  - Lack of dynamic links between revenue and impact;
  - Lacking credit rating and access to collateral; compounding the problem of country risk;
  - Lack of instruments, knowledge, and incentives to manage foreign currency risk;
  - Planning approach stymies ability to explore and support opportunities systematically;
  - PPPs carry higher risks and costs of capital – many things can go wrong.

Three steps in financing innovation

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Understanding project and value

- Understand business model: funding gap, risk profile and transfer potential; revenue streams
- Understand value generated: direct value, indirect value, asset recycling

Funding options

- Public funding
- Private funding
- Monetise value

Procurement and delivery method

- Public provision
- Contracting
- Joint venture
- Lease, franchising
- PPP
- Privatisation

Several emerging instruments may be interesting to cities in Belarus

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- Tax-incremental finance;
- Social impact bonds;
- Venture capital in urban development;
- Urban real estate finance – pooled finance development fund schemes;
- Distributed ledger technology as a platform;
- Private sector solution for mass transit.

An emerging model for promoting innovation in public procurement and PPPs: the rationale

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- Public procurement, from supply purchases to PPPs, can make up as much as 20% of aggregate demand – by far the most important demand driver in the economy;
- But this lever is poorly used – tenders often leave little room for innovation;
- Modernization of public services – improving the quality and efficiency of public services and tackling societal challenges
- Smart use of the procurement budget
- Benefits to the local economy – boost economic activity, catalyse learning
- Creating platforms for further activities

Many barriers to such an approach remain…

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- Policy and legislation can lead to risk aversity
- Procurement is not always linked to wider priorities
- There is not always a link between commissioners and procurers
- Procurement is often undertaken on the basis of cost
- Municipalities do not always understand where there spend is going
- Organisations do not always understand what goods and services municipalities are looking to buy
- Procurers do not always understand their markets
- The wider impact of procurement is not universally monitored

Thank you!

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