

Innovative Urban Finance Instruments Analyzed through the Role of Externalities, Incentives and Collective Action.

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Introduction

We are covering different ways improvements to the urban environment can be funded. There are a variety of different legal, economic, financial and fiscal mechanisms available, with different histories and benefits. In exploring them, we seek to both make them better known and investigate the far reaching consequences that they have. The Seattle Project is particularly interested in externalities, incentives and collective action, topics that have not always been adequately considered with urban development, whether by real estate developers, architects, planners or governments. However, giving these ideas proper time enables both better projects and for the total value of them to be better realized. By grouping such urban mechanisms in this way we hope to reframe their place in urban development and create new ways of considering urban investment.

Through a comparison of the following examples we look for lessons how and when to apply a certain urban finance instrument. We look at: 1) Business Improvement Districts, 2) Tax Incremental Financing, 3) Land Banks, 4) Community Development Corporations, 5) Tradable Development Rights and Floor Area Ratio Bonuses, 6) Public-Private Partnerships/Private Finance Initiatives, 7) Value Capture Finance, 8) Special Government Entities, 9) Usage Pricing and 10) Micro-Finance, -Insurance, -Incentives.

Each urban finance instrument has a different purpose, history, and institutional-legal background. The three interlinking concepts of externalities, incentives and collective action help to frame how the city and the landscape are influenced by economic factors. The notion of externalities in particular plays a crucial role in this paper. It is used as a measure to compare and reflect upon the different urban finance instruments. Their existence in cities forms the central argument why this set of more flexible, negotiation based and dynamic instruments leads to a better way of planning and allocating land, real estate and other scarce assets in the city. Therefore we start with a description of externalities.

The Seattle Project

The Seattle Project is a joint research project into the role of externalities in the built environment and the possibilities to better value, manage and trade positive and negative externalities. The project was started in Spring 2009 by Peter Robinett and Kai van Hasselt with the aim of analyzing the current state of affairs in this field and develop a better understanding of, and create innovative measures and incentives for, organizations, companies and individuals to deal with the externalities they are confronted with in urban and rural areas.

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Externalities

Externalities are economic effects that are not felt exclusively by the initiator and are not traditionally taken into account when looking where the demand and supply of a good find each other. Thus a different equilibrium price and quantity would be found if externalities were taken into account. External effects can take place when producing and/or when consuming a certain good or service. Furthermore they can be both of a positive or negative nature. They can even be positive and negative at the same time, depending on the effects or unintended consequences they have for different involved parties. If externalities are taken into consideration when trying to find the optimal level of production/consumption for society, we will often find a different price/quantity. That will not only maximize the profit level for the producer and the user value for the consumer, but it will also look at the costs and benefits to others, non-consumers/ producers, who are confronted with the external effects of these goods.

The existence of externalities plays a role in many kind of markets. In the natural world and built environment these effects are clearly felt, but not often effectively dealt with. Government traditionally has the monopoly to decide on the distribution of externality costs and profits. In many Western, late modern and late capitalist societies governments generally play a declining role in the functioning of markets and society and often thus also play a smaller role in the distribution of externalities. Furthermore, a case can be made that the traditional fixed distribution of externalities through laws and regulation can lead to reduced total system wealth/value when compared to a more market based system that makes use of negotiation, barter, incentives and collective action to allocate externalities.

In economic theory there seems to be more focus on calculating, pricing and managing negative externalities than on positive ones. This goes hand in hand with the tendency in society to focus on those issues that are un-wanted. The NIMBY (Not In My Back Yard) phenomenon, where citizens justly or unjustly organize strong local opposition to the arrival of a certain unwanted 'good' in their neighborhood, is an issue known to city councils around the world.

Positive Externalities in the Built Environment

This paper focuses on a number of economic, financial, or fiscal instruments that try to stimulate the production and consumption of positive externalities. In contrast to goods with negative external effects, of which there are produced too many unless the producers are forced to internalize their costs, goods with positive externalities tend to be produced too little because the unfettered market (without externalities taken into consideration) values these good at a sub-optimal level. In other words: the market does not correctly price them, failing to factor in the full societal benefits that come from producing or consuming a certain good, because it traditionally has no way of pricing and valuing those externalities.

One area where the concept of externalities trading has received mainstream acceptance is carbon trading. The right to pollute, to produce carbon as a by-product of another activity, is being traded between large companies, states and NGO's. The market has far from functioned perfectly, and is certainly not without criticism, but has lead to a market based pricing of carbon dioxide emissions. Thus market participants have an incentive to allocate the rights to pollute and the necessary compensation in the most effective way. This leads to a decline of Carbon pollution at the system level. This way of allocating pollution rights is too complex and global to be done by a single government entity. In relation to this field, the area of biodiversity finance has developed where organizations, companies, NGO's and countries invest in or finance biodiversity and get a financial, legal, fiscal or other kind of reward for their investment.

This paper looks at urban finance instruments through the role of externalities, as described above, and the role that incentives and collective action play to facilitate this set of urban finance mechanisms. It is our analysis that through the combination of these three principals urban finance instruments contribute to the creation and just allocation of positive (and negative) externalities in the built environment. These instruments function in particular, but not exclusively, in cities and urban areas where land and real estate are a scarce asset and their high value are crucial to urban development.

Collective Action or Collectivity

The model of a Business Improvement District (BID) is in an interesting example of an instrument to organize the optimal level of collective action or collectivity. The retailers and real estate owners of within defined areas work together to organize collective activities and services such as joint advertising, special (sales) events, waste management and security. Through collective investment they aim to boost the socio-economic value of areas. This links to the idea of value capture, where public and private actors work together for larger area developments and try to capture the value that is established in the surroundings through private contracts, shareholding, taxes, toll systems or other financial mechanisms. In all cases it is important to have a collective mechanism through which these efforts can be undertaken and to create mechanisms to penalize free-riders.

Incentives and Incentive Alignment

Incentives are stimuli to motivate people and organizations to operate in a certain way. In cities they can play an important role tin aligning public and private interests. From game theory – think John Nash in *A Beautiful Mind* or the case of the prisoners dilemma – we know we can only achieve a collective approach if there is benefit for all stakeholders. Through the alignment of public and private interests it is possible to create a gain for all involved stakeholders. The notion of incentive alignment enables private actors to behave in manners that benefit the public good, since governments stimulate and reward desired behaviors. This is done through all kinds of spatial, financial, fiscal and legal advantages.

Comparison of Urban Finance Instruments

Here one finds a comparison of the different urban finance instruments. Each measure is described through a brief definition and a description of its origins, common characteristics, its innovative qualities, the role of externalities, incentives and collective action and some examples. The aim of the comparison is to make the

reader more aware of the different opportunities they present and to give a brief idea of the instruments' backgrounds and contexts.

1. Business Improvement District

Definition: 'BIDs are a legal mechanism to raise funds to enhance the management of a particular place.' (ULI book *Business Improvement District*)

Origins: Toronto, Canada in the mid 1960s; most common now in the US (400 as of 2003) and Canada. Now already more than 1200 in the US and Canada (p. 167 Leinberger)

Common Characteristics: They often do: 'consumer marketing (87%), policy advocacy (50%), capital improvements (52%), maintenance (58%), public space regulation (38%), security (36%), economic development (25%), parking & transportation (18%), social services (6%)'

Innovations: BIDs raise money from the business community, which is traditionally disinclined to fund collective investment. Through the BID money is raised without the moral hazard of free riders thanks to the government requirement that all local businesses participate and the collection of funds through voluntarily increased property taxes. At the same time, the money is spent by the BID. BIDs are a privatization of traditional government responsibilities, giving up traditional democratic accountability in favor of efficiency.

Externalities: Local space is revitalized and maintained, increasing visitors, consumer spending and property values. When BIDs fund security, security increases. This rise in value should pay back the collective investment. This hopefully breaks a downward spiral of crime and poverty for the neighborhood. However, BIDs may have an exclusionary effect, pushing out small merchants and those seen as undesirable and bad for business, such as the homeless.

Incentives: BIDs encourage increasing retail spending and rents. BIDs are in turn encouraged by government pressure for businesses to join.

Collective Action: BID's are private-private partnerships with businesses coming together to improve their retail environment.

Examples: The retailers and real estate owners around Bryant Park, New York pay a yearly 'tax' to a BID to organize activities such as an ice rink, fashion shows, and open air library in the park. Through these activities the park is able to attract more visitors, who become clientele for the neighboring shops. This cycle is possible because of the collective investment in, and vehicle of, the BID.

2. Tax Incremental Financing (TIFs)

Definition: Through a TIF the government selects a neighborhood and issues a bond on the future property tax receipts it expects to receive from it. It invests the capital raised to improve the neighborhood. This is always matched by significant private investors, who are incentivized by the government fixing the property taxes for years at the present rate.

Origins: California in 1952 and now particularly popular in Chicago, USA

Common Characteristics: TIFs are fiscal incentives by local governments for private developers to invest in underdeveloped areas. Private investment is matched with

the capital raised by the public TIF bond. TIFs tend to last for 20 years, as do their bonds.

Innovations: Restrictions on municipal bond issues in the last few decades in the US have made TIFs an increasingly attractive source of funds for municipal development. Likewise, a trend in some places (e.g. California) to earmark or set service funding levels in law out of general tax income both encourages TIFs as an alternative funding source and includes TIFs in the trend.

Externalities: A TIF creates external investment in a place that would otherwise not attract it and cannot internally generate it, unlike a BID. However, it limits future financial freedom, may excessively encourage commercial development, and excludes government from participating in the upside of rising real estate values (p.71-72 *A Better Way to Zone*).

Incentives: TIFs incentivize private developers to operate in blighted areas (p.5, Weber, "Can TIF financing reverse urban design?" Lincoln Institute of Land Policy).

Collective Action: In incentivizing private investment while including public investment, a limited joint effort is developed in TIF districts.

Unintended Consequences: A competition may occur between municipalities, creating a situation in which net value captured by the municipalities approaches zero.

3. Land Banks

Definition: A land bank is a regional or supra-municipal public-private fund that purchases and holds land with the purpose of making the most *desirable* use of the land. The properties purchased may be aggregated or have their borders drawn such that the most profitable portions may fund the rest. In that way a land bank pools the capital and interests of the associated parties.

There are many practices that use the term 'land banking' but we refer exclusively to the practice of forming public-private partnerships to align local governments' interests by sharing costs and profits in avoiding unnecessary or excessive development. We are not referring to private speculative investment schemes, which appear to have been particularly common in the UK recently.

A land bank makes money from the rent it receives or the profit it earns in selling now redeveloped land. Land trusts or community land trusts operate similarly.

Origins: Liberal economies and planning regimes.

Common Characteristics: Land banks have the pooling of risks, costs and profits. This is done to seek a Nash equilibrium above the pure market rate. Therefore, they are essentially a form of cartel.

Innovations: Land bank innovations include pooling and a focus which is not exclusively on profitability or efficiency (e.g. ensuring that if only one cinema is needed to serve several small towns just one gets built but all towns share in its revenues).

Externalities: Land banks lower the price of land for desirable but market inefficient development. They can remove land from the market, creating an unnatural scarcity. Property owners can lose land if local governments exercise their eminent domain powers.

Incentives: Transfer of property ownership into the land bank may involve lower taxes.

Collective Action: Land banks are way for local governments to act in concert and align interests.

Examples: Land banking is popular in the Netherlands. Near the town of Gouda, in the Zuidplaspolder, municipalities created a joint land bank that acquired land with the purpose of creating a collective and orchestrated regional development. In the Zuidas project of Amsterdam there was a plan for a public-private land bank but it failed due to the financial crisis, the state of the Amsterdam office real estate market and the expected complexity of the project.

Land banks can be relevant in shrinking cities because a collective institution buys land that is often unwanted by individual parties. This can help to structure the process of declining land and real estate values in cities like Youngstown, Ohio; Cleveland and Detroit.

4. Community Development Corporations (CDCs)

Definition: A CDC buys and develops land, selling the housing on it at affordable rates to lower income people while retaining ownership of the underlying land. It allows residents to build up assets while giving less incentive for land speculation.

See also <http://www.community-wealth.org/strategies/panel/cdcs/index.html>

Origins: 1960s in the US

Common Characteristics: Characteristics include a focus on homeownership, business incubation and retail development. CDCs keep costs low via tax breaks/subsidies and using affiliated organizations for construction and/or renovation, sometimes using the concept of sweet equity.

Innovations: CDC innovations include using a non-profit status and focusing on particular communities to provide credit, spur business development, teach homeownership classes and help on the process.

Externalities: CDCs lead to higher rates of homeownership and communal ownership, which may create gentrification and create insider-outsider agency problems.

Incentives: There are few direct ones, though tax breaks and some government housing subsidies help.

Collective Action: CDCs are mainly grassroots organizations, though they also may receive funding from governments, large NGOs, and commercial banks.

Examples: Well known CDCs include Row House CDC in Houston and Smith Group in San Diego.

5. Tradable Development Rights (TDRs) and Floor Area Ratio (FAR) Bonus

Definition: A Tradable Development Right is the right to develop a certain piece of land which can be separated from the ownership of the land itself. The rights can be sold, exchanged or otherwise traded so that someone else on the same or another location can use the development rights. Environmental groups often buy rights in rural areas to prevent the conversion of farmland to suburban developments and thus containing sprawl.

A specialized version of TDRs is the FAR Bonus. The Floor Area Ratio (FAR) is the ratio of the total floor area to the total land area. It measures how intensively land is used. In some planning systems rules are not structured around absolute height but relatively height, meaning that building height or volume is averaged across built and open space (this includes streets, parks, etc). The bonus comes when the local government allows the developer to increase a site's FAR if they bring in certain desired aspects like a mix of uses to the building or form the building such that it allows extra sun light to reach the street level.

Origins: TDRs have their background in countries with liberal planning backgrounds like the US, the UK and Japan, though they are also found in Continental Europe and Latin America. FAR bonuses are used in particular in the US and lately Japan.

Common Characteristics: TDRs require a liberal planning regime and feature a barter between the city and developers. The latter is rewarded in increased freedom of action for doing something the former deems desirable.

Innovations: TDRs separate the ownership and/or use of a particular piece of land and the development right that comes with it. FAR bonuses look at the relationship between height and volume across total space and focus on the experience of density, height and space in the city as a whole rather than at a specific location.

Externalities: TDRs create a potential for over-usage. The way that TDRs may be transferred may not be consistent with the relative value of the lands or impact of development. It often leads to the creation of green belts, which in turn focuses and intensifies development on the remaining, unrestricted land. They can also be used in a good manner to create private and social value. Public space and affordable housing or similar desirable civic spaces may be created as a condition to earn TDRs or FAR bonuses.

Incentives: FAR bonuses are only attractive in places where there is pressure on land use and land is highly valued. Relative FAR regimes may perversely encourage low density over high density plus public space development, as the absolute FAR value may be equal but the former may be much cheaper for the developer. Governments may have strange incentives, such as pushing for larger new developments in order to capture potential future tax receipts over the rights of smaller current developments.

Collective Action: There is little collective action. Government either barter directly with a developer or it sets the framework whereby the developer barter with someone else in the neighborhood.

Unintended Consequences: TDRs and FAR bonuses can strengthen the notion of the city as speculative real estate and may lead to conflict between principals of the right to live versus the protection of assets. Rules become much more relative and negotiable; as rights are traded, issues like taxation becomes more complicated (the originator may be lost and chains of responsibility too abstracted). This may lead to a metaphorical losing of the trees for the forest.

Examples: A historical example of FAR thinking can be found in medieval German towns where only the ground floors of buildings were taxed, encouraging high construction with wider upper floors. In Japan the Tokyo Midtown development was allowed because they built a park next door. FAR rights for the area above the Maranuchi train tracks were used to build a nearby tower. In Chicago FAR bonuses are given to buildings that ensure sunlight hits the streets.

6. Public-Private Partnership (PPP)/Private Finance Initiative (PFI)

Definition: A public-private partnership is a venture that shares risks, responsibilities and rewards between government and private entities. “The PFI is a procurement method which secures private funding for public institutions in return for part privatization.” (Wikipedia article)

DBFMO is a specific form where the government acts more as a consumer, asking for bids and seeking the best implementations, rather than as a co-investor in 'vanilla' PPPs.

Origins: PFIs originated in the UK under the John Major government of the early 1990s. PPPs are common in liberal economic and planning regimes.

Common Characteristics: PPPs are often done in cases seen as beneficial to both the general public and the private sector. PPPs are often created for infrastructure projects but have also been created in the fields of drug research and education.

There is a difference between taking over existing infrastructure, because the risk is low, and new infrastructure, where the risk is only taken over by the private sector if it will be sufficiently rewarded. A contrarian argument would be that complexity and necessary investment that the the key markers of PPPs, rather than infrastructure age.

Innovations: By making a partnership with private organizations, governments introduce market driven efficiencies (cash flow, project management, etc) and correctly price in risk. Also, PPPs are a somewhat unique halfway point between totally private enterprise and public services.

However, their history has been checkered. There is a question whether governments truly gain the cost-savings and efficiencies that they oft cite as the motivation for PPPs, as PPPs seem to often find themselves running over-budge and late. Maybe the prices seemed better not because the risks were lower but because the risks were priced poorly. For example, the Spanish owners of BAA highly leveraged themselves in order to take over the airports and then found it difficult to service their debt, causing them to reduce service and increase prices to pay it off, in contrast to the increased service that the government sought.

Externalities: PPPs lead to the quantification and internalization of previously unknown risks/costs.

Incentives: The question remains open whether private parties have an incentive to perform work efficiently and cost-effectively. Government may put up money as part of the PPP, creating an incentive for themselves for proper project delivery. On the other hand, specifically with DBFMOs, the government may incentivize themselves to seek the cheapest, rather than best, option.

Collective Action: PPPs have little of what may be considered collective action beyond including private and public parties.

Examples: Noteworthy examples include Amsterdam Zuidas, the London Docklands, UK schools and hospitals, and London tube system maintenance (Metronet). The new Dutch Ministry of Finance building was done through DBFMO.

7. Value Capture Finance (VCF)

Definition: Value capture is the attempt to capture the value of the positive externalities (and reduced negative externalities) created by projects. Those that expect to capture, and thus profit, from the added value of the project may fund the project itself in anticipation of the positive outcome. Or, governments may anticipate the positive effect of their own projects and seek to benefit from it via tax (e.g. BIDs) or market-based (e.g. buying and selling land) means. The externality generating action needn't be a physical development but may also be a regulatory one (e.g. increasing zoned density).

Origins: VCF has been popular on both coasts of the US and in some South American countries.

Common Characteristics: The private sector may compensate the government for a facility (e.g. a school or a sewer system) that raises property values. Taking an expansive view, land banking and TIFs may all be considered part of value capture finance. There is also a relationship to transit-oriented development.

Innovations: VCF helps overcome chicken-and-egg situations where desired projects lack an impetus to get started and helps avoid settling for sub-optimal situations. It is also one of the few acknowledgements of positive externalities and their value, particularly of those from access to transit and from urban density.

Externalities: It internalizes the externalities for government, thus promoting the creation of these positive externality-generating projects.

Incentives: Quite simply, VCF incentivizes the provision of public services.

Collective Action: While VCF is generally thought of as one or more transactions between individual actions, it may fund positive externality producing collective actions.

Examples: VCF is often found in transit oriented developments, for instance the London Jubilee Line extension.

8. Special Government Entity (SGE)

Definitions: A Special Government Entity is a government entity usually set up to fulfill a specific role and responsibility. It is funded through a combination of fees for services and special or even general taxes. These organizations operate at some distance from traditional government hierarchies and often operate along functional lines across traditional government divisions.

Origins: Medieval city corporations like the City of London can be thought of as SGEs, while 20th Century transit authorities can be seen as the archetype of the modern SGE.

Common Characteristics: In the US SGEs often have an elected supervisory board but not everywhere. Very often SGEs focus on public transportation.

Innovations: SGEs work across vertical and horizontal layers of government. SGEs can be seen as the bundling of infrastructure elements into one entity.

Externalities: SGEs lead to more efficient provision of (quasi-)public services, can prevent duplication of efforts (along the lines of land banking) and can create a

broader metropolitan spirit. However, they also can be quite bureaucratic and lead to intra governmental conflict; there may also be agency problems.

Incentives: Streamlining services (e.g. transport) for users makes them more attractive, while creation of greater connections into the metropolitan whole can create greater incentives to development (see VCF). SGEs are issue focused and so incentivized by the growth of metropolitan areas across government boundaries.

Collective Action: Collective action occurs through government and the tax system.

Examples: There are numerous examples of SGEs, including the Port Authority of New York & New Jersey and Hamburg Haven City, responsible for the redevelopment of part of Hamburg harbor. Even the US Army Corps of Engineers can be thought of as an SGE, as it is responsible for, among other things, the levees of New Orleans which are necessary for the city's continued inhabitation.

9. Usage Pricing

Definitions: Usage pricing is the process in which users implicitly or explicitly pay for their individual cost of using a collective service.

Origins: Usage pricing has a very long history, particularly in the form of toll roads and bridges. Modern usage pricing takes many forms, such as road pricing in France and congestion pricing in Singapore and London.

Common Characteristics: Via the use of increasingly sophisticated technology, individual users may be charged for their use of a collective resource. Because the pricing is often for something traditionally considered a public good, it is a (often very controversial) political decision to start charging, not a business one. For instance, efforts to introduce congestion pricing in Manhattan have so far failed. Usage pricing is common in Mediterranean countries because of historically limited public infrastructure investment and thus large demand for private investment. Congestion schemes are pricing externalities such as congestion and peak usage, while toll road pricing is more related to market costs (construction, maintenance, etc).

Innovations: Recently usage pricing has incorporated an acknowledgement of externalities, charging for positive externalities provided and creating incentives to develop good ones. It has been used to manage demand, creating incentives for users to change their usage patterns of high demand infrastructure.

Externalities: Usage pricing is essentially a direct charge on a user for creating a negative externality, for example a motorist driving in central London is adding to London's traffic congestion. As the absence of a negative externality can be seen as a positive externality, usage pricing is also a form of payment for positive externalities. Following the motorist example, the driver is also paying for the positive externality of less congestion and faster travel time.

Incentives: Usage pricing encourages optimal/most efficient usage, whether by number of users or revenue or another metric, and flattens out peak usage.

Collective Action: Usage pricing may be seen as a sort of diffuse form of collective action, as users are collectively individually paying.

Examples: Recent examples of usage pricing includes congestion pricing (Singapore, London) and even Privium, a Dutch system whereby people pay to speed through airport security lines.

10. Micro-finance, -insurance, -incentives

Definitions: Microfinance is the lending of ultra low amounts of capital to lower income individuals and communities. Quite high relative lending costs are offset by relatively high interest rates (while still lower than informal loan sharking) and very low defaults, thanks to community involvement and customer quantity.. Most loans are for the creation or expansion of very small businesses and in providing capital for female-run businesses is an effective tool in emancipating women. Micro-insurance and micro-incentives work in similar fashions.

Origins: The Grameen Bank of Bangladesh is the contemporary initiator of microfinance, though Raffeisen and rural community banks in 19th Century Europe can also be seen as pioneers.

Common Characteristics: Micro financial systems tend to focus on providing business loans to women in very low income populations. They are common emerging economies, serving the 'unbanked', particularly in rural areas far from traditional, urban financial institutions. A community focus is essential for the systems success, as it provides a key support network and ensures effective use of funds.

Innovations: Key innovations of microfinance include extending financial services to people traditionally ignored by banks and insurance companies and using community involvement to ensure repayment. Furthermore, it has shown that the poor are an under-served market that can be entered in a non-exploitative, mutually profitable fashion. Mobile technologies help operations be distributed and reach rural communities previously prohibitively expensive to operate in.

Externalities: The positive externalities created by micro financial mechanisms are numerous, from the availability of capital in poor communities to the empowerment of people through businesses and greater wealth, creating more economic opportunities. Likewise the availability of insurance helps optimize people's risk choices, even allowing them to make choices where they previously could not. From a business perspective the micro financial services can even be seen as priming the pump/making a market.

Incentives: Micro financial instruments can encourage mutual responsibility within the community. Micro-incentives are payments to people for certain actions which are sponsored with the belief that they create large positive externalities for society (e.g. paying for school attendance will lead to a better educated population).

Collective Action: The success of microfinance rests upon collective action: the collective acts as a guarantor.

Examples: Grameen Bank is the best known example of microfinance, but other initiatives have succeeded across the world, from funding honey bees in Kenya to flood insurance in Jakarta to micro-incentives in Mexico and throughout Latin America that see families paid for ensuring the health and education of their children.

Concluding Remarks and Suggestions for Further Research

Which of these instruments would be most useful for urban (re-) development in Sub-Saharan Africa?

The aim of this paper is to make the reader more familiar with externalities and then give an overview of different urban finance instruments used for urban development and transformation and to optimize the allocation of externalities in the built environment.

The topic for discussion, and a suggestion to further research, is the question of what extent these instruments are useful for/in the rapid urbanization of Sub-Saharan Africa. These ten urban finance instruments can be compared along the following juxtapositions to see how well they would function in the urbanization of African countries and regions.:

1. Urban versus Rural

To what extent do these financial mechanisms only take place in cities, i.e. where land is limited and land/rights to build are highly valued? Can they also help to adjust in/with the process of urbanization, when rural areas become (semi-) urban described for example in the *Desakota* phenomenon, or when settlements and economies are mostly informal?

2. Developing World versus Developed World

Most of these instruments stem from modern economies with liberal planning regimes. To what extent is their use limited in the developing world? Does their use in the developing world increase or decrease the GINI coefficient and the distribution of wealth? Does it help to create a fairer allocation of costs/benefits or only strengthen vested interests? Think of the difficulty to implement, and the unintended consequences of the South African Black Economic Empowerment programs. Are there certain aspects to poorer societies through which these instruments function less well?

3. Liberal Planning & Economic Regimes versus State Planned Regimes

How do these instruments function differently under different planning regimes? Liberal economic policies do not necessarily mean liberal planning/land use regimes and vice-versa. Think Singapore and Hong Kong where the state actively controls the amount of land available for development.

4. Efficient and Strong versus Inefficient, Weak States

You need some form of state to set up the urban finance instruments discussed above and to enforce sophisticated contracts, even if the state itself plays a limited role in the economy and the allocation of urban resources and assets. Is it still worth discussing them in states that do not meet these conditions?

5. Corruption versus Transparency

Because the instruments are more flexible, negotiation-based and dynamic than traditional law and regulation, they are also more open to the dark side of bartering, corruption. To what extent can this be overcome through due diligence, external monitoring and other safeguards? Or should certain instruments not be used under weak city or state regimes? How do these instruments function under and/or add to transparency and good governance?

We have touched upon the above aspects only briefly, as they are not yet part of our research, but we are very interested to hear reflections from theorists and

practitioners who have worked with, or otherwise have experience with, these kind of planning and urban finance instrument on the African continent. Together we can use the Seattle Project's analytical focus on externalities, incentives and collective action to improve cities and the built environment both throughout Africa and throughout the world.

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