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Image Source: Regional landscape in Northern China. Image by Nicolas J.A. Buchoud, all rights reserved ©.



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Financing urbanization and the return of the nation state

The 21st century belongs to cities. Without enough investments into their development the needs of the exponentially growing population will not be met. Nor will millions of people receive the chance to improve their lives. The challenge is simple – more investments in cities – the solution very complex. Various levels, actors and factors are involved, besides that every national and local context is unique. Surely, cities need to be in the driver's seat of development, since they are directly confronted with challenges and implement solutions. Logically, they should also be in charge when it comes to public and private investments. This may include a more extensive provision of grants or direct access to external financing supported with guarantee mechanisms.

The focus on cities, however, is only one side of the coin when it comes to financing a sustainable local and global future. The other decisive side is the national level, also in

times of urbanization and globalization.

Fact one: We must be aware that all we build and structure today will last for the coming decades thus determining our future developing path. There is a closing window of opportunity to set development on the right track.

Fact two: Cities in developing countries and emerging economies are rarely ready for mobilizing, accessing and managing vast amounts of financing – not to mention preparation of concrete investment projects. Most cities do not have the right to access external finance, not even in local currency. They lack autonomy and legal frameworks, capacities, own resources and experience. In best case scenarios, it may take two to three decades to fill these gaps in legislation, governance and financial market development

Fact three: Nation states are the major provider for subnational financing. Fiscal transfers from the national level are indispensable for municipal budgets. Within international financial cooperation, development banks and funds generally channel their money through national governments to cities. Few exceptions cannot alter this clear status.

To sum up: Cities must act now but the world cannot wait for them to be ready for action. It needs more than “just” strengthening cities. Nation states must take over a stronger role towards urban development, such as mobilizing more earmarked financing for cities. Since they are part-

ners for international finance, why not use this role more for urban development? And why not extend this mobilization beyond ODA also including private investments, who are essential for meeting the demands?

Economic prosperity, climate change or actions in the COVID-19 crisis, many national measures can only be implemented locally. Still, the missing recognition of the urban importance remains one major obstacle. The local level may even be perceived in competition to the national. A global effort is needed to raise the recognition of cities, starting with (re-)defining the role of nation states. It needs a final consensus that cities are decisive for national and global agendas. Where national reluctance prevails, the international community like the G20 may incentivize action in the right direction.

Enthusiasm that a sustainable world needs sustainable cities versus skepticisms that cities cannot meet this demand calls for a pragmatic twin-track approach: First, cities are supported on all levels and in all issues. Second, a more active role of the nation state is claimed and incentivized. Clear is: Cities need to be in the driver seat, but until they learn how to drive, the nation state needs to take over the wheel. Eventually, both are in the same car.