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The new private city of Lavasa (India) has become a ghost town

URBANISATION ET FINANCIARISATION

Éditorial

A new situation to master

The financing requirements of developing cities have been estimated at \$57 billion per year for the creation and renewal of urban infrastructure¹ (excluding the financing of housing). COP 21 and Habitat III stressed the need to effectively address this issue, particularly in Asia and Africa. Of course, urban residents contribute significantly to these investments through taxes, as well as through direct investments. However, only an increase in private lending and international financing in the form of development aid can meet these needs by harnessing future savings capacities.

Immersed in the global economy, developing cities must adapt to the new rules imposed by the financial markets. Indeed, through the process of financialisation, the most promising urban investments have also become an asset class that the financial industry has brought into competition with other assets available around the world. Infrastructure, residential, commercial or office buildings become investments or even mere underlying securities for complex financial derivatives.

Their value can then be completely disconnected from their use value, which is what residents and local economic operators are able to pay to meet their needs. In addition, the production of the urban environment needed to develop them competes with public funding for essential facilities.

The 2017 the AdP² study day provided an opportunity to discuss the impact of these developments on the practices of urban development professionals and local decision-makers.

Fresh initiatives will have to be taken to better harness the huge financial resources available and channel them to the priority needs of people and businesses in cities of

*Local authorities have to learn
to engage in dialogue with
new financial partners.*

all sizes. What we must do is enhance the financial engineering of local authorities. There is also a need to strengthen local capacities to prepare and evaluate projects, their social and environmental impacts, as well as their actual impact on public finances.

François Noisette

1 - MacKinsey, 2013

2 - The articles in this issue of «Villes en développement» are based on the presentations made during the AdP study day in September 2017. The full proceedings of the event can be consulted at: <https://www.ville-developpement.org/journee-etude-2017-actes/download/885-journee-d-etude-2017-actes-vf/journees-d-etudes-actes>

DISRUPTING URBAN POLICIES

In 2017, Leilani Farha, the United Nations Special Rapporteur on “adequate housing as a component of the right to an adequate standard of living, and on the right to non-discrimination in this context”, examined the role of financialisation. Her report concluded that financialisation has not and does not provide a right to an adequate standard of living or a right to non-discrimination. Gustave Massiah is a founding member of AITEC (International Association of Technicians, Experts and Researchers). In his turn, he considers the impact of financialisation on urban development. What issues does it raise for current urban models ?

Urban policies define specific ways of acting within the framework of urban models. What are the existing urban models and how can they change? Each development model has its own urban model. The city we know has been formed by interactions between the models that preceded it.

The Fordist model is that of the second industrial revolution. It still exists unquestioned in the minds of many professionals and residents, even though its impact has been very limited in developing cities. This model completely redefined the very concept of wage-earning and linked housing to it. Its architectural and urban form is described in the Athens Charter, the zoning model and the social liberal city. The model of national independence that guided cities during the period of decolonization, with its successes and failures, is also a point of reference. The model we live in today first appeared in the late 1970s and became entrenched in the 1980s: it is that of structural adjustment. It gave rise to an urban model that Alain Durand-Lasserve called «the model of the global liberal city».



Commonspoly is a board game which promotes commoning.

The domination of financial capital

The dominant rationale is becoming that of financial capital, which is in a sense supplanting industrial capital. In addition, it is also superseding land capital. My hypothesis is that this financialisation development model is in a period of crisis. The subprime crisis of 2008 is an expression of this structural crisis. Financial capital has taken hold of the urban sector through debt, which has been integrated within the capital market. One sentence struck me forcefully, because it clearly reflects this rationale: «capital that is looking for projects». In the past, it was projects that were looking for capital.

There are three possible scenarios that combine development models and urban models. The first scenario is that of continuing financialisation. It is in keeping with the model of the green economy and the idea is to create an unlimited market through the financialisation of nature and the commodification of living things. The urban model linked to this idea for emerging from the crisis is that of

the development of financialisation: we do not produce according to needs but according to the sums we have to invest.

Another possible scenario is the Green New Deal. The reference to the New Deal reflects the idea of a new economy linked to a green economy that updates the Fordist and Keynesian model. The urban model would combine fundamental rights and environmental considerations with the use of public regulation.

The third scenario is that of the environmental, social and democratic transition. It proposes new ideas, new concepts that are currently being developed, which are revolutionizing urban thinking now and will revolutionize urban models in the future. For example, commons are another way of thinking about property. *Buen vivir* is another way of thinking about consumption. Social ownership makes it possible to overcome the tension between the State and private ownership. Participatory budgets are among the other possibilities.



The city of the future will be a combination of these three models. Practitioners will have to learn to articulate their proposals with reference to very different situations.

Reinventing urban thinking

Finally, I would like to say that we are in a period of contradictions. 2008 showed that that financialisation and the current phase of globalization are running out of steam. The period immediately after this crisis is important for urban planners and practitioners. It began in 2011 and saw the emergence of 50 or so insurrectional movements or urban revolutions that also produced models for future cities. These movements have revived the idea of the right to the city through the idea of the right to public space, which has been brought back to the fore and promoted as a necessity for the reconstruction of urban models. We are currently living in a period of counter-revolution, with a rise in racist, xenophobic and security-oriented ideologies, as can be observed in many countries around the world.

This counter-revolution blurs our perception of new ways of thinking about and making cities. We are going through five major long-term – generational – revolutions. The new city will start from this point. These revolutions are unfinished and will lead to enormous violence. The revolution in women's rights has challenged age-old relationships. The revolution in people's rights represents the second phase of decolonization, following that of the independence of States. The environmental revolution is a philosophical revolution, that sees time as running out and that challenges the very idea of development. The digital and biotechnological revolutions are changing the way we write and speak and this is a major cultural revolution. Finally, there is the revolution that affects the settlement of the planet and massive migration.

We are living at a time when the way we think about and fashion cities is being reinvented, and the process will certainly be both very challenging and fascinating.



The “buen vivir” concept, which emerged in Latin America, advocates a break with the economic model that is based on consumption and growth.

“VILLES EN DÉVELOPPEMENT”, AN EVOLVING BULLETIN

Since 1988, the Villes en développement bulletin has been assisting stakeholders in their work and thinking on the challenges facing the cities of the South. This quarterly publication is a channel for dialogue between the city's French-speaking practitioners and a recognized forum for sharing experiences that provides guidance to players. Its translation into English, and sometimes into Spanish, means that it can be sent out to a worldwide readership, in both large and secondary cities.

The association AdP - Villes en développement, which had been acting as editor-in-chief since the creation of the bulletin, took over full responsibility for its publication in 2014. In addition to the voluntary participation of AdP members, the publication is made possible thanks to grants from the bulletin's historical partners: the Ministry for an Ecological and Solidarity Transition, the Ministry for Europe and Foreign Affairs, the French Development Agency (AFD), the French Partnership for Cities and Territorial Areas, and Cities Alliance.

Initially published in printed form, the bulletin has evolved to take on a near-digital format in order to reflect new reading practices and the «paperless» approach.

This is the eight-page A4 format that you receive every quarter by e-mail or that you can download from the dedicated page on our website.

In 2018, in order to meet the expectations of a readership that is undergoing a profound rejuvenation, the editorial board initiated a rethink of the bulletin's format. Last December, a questionnaire was circulated to all our readers in order to better understand their habits and expectations. Thank you for your many responses. They have led us to propose a new format based on the flexibility of digital technology, with a thematic organization, which is the hallmark of this publication.

This project to revise the format is accompanied by a complete overhaul of funding, which is necessary for both initial investments and operation. We call on all of you, whether executives working in private companies, government officials or motivated readers. Do not hesitate to let us know about funding opportunities: individual subscriptions, partnerships, corporate philanthropy, support from foundations... We are also counting on your editorial suggestions so that Villes en développement can continue to work with you for cities that are more supportive and environmentally friendly!

Villes en développement has been published since 1988 and has a circulation of several thousand.



WATER, NEW METHODS OF FINANCING INFRASTRUCTURE

The supply of drinking water and sanitation services has undergone profound economic transformations since the end of the 20th century. The economist Claude de Miras, an Emeritus Senior Researcher at the Institut de Recherche pour le Développement, highlights the tension between governments, private operators and residents.



Laying a main sewer in a wastewater treatment plant in Greater Casablanca

The use of the financial market and private operators seemed to present an alternative to the financing model for water, sanitation and stormwater (WSS) due to the explosion in liquidity available worldwide as a result of securitisation¹. Except that as regards finance, public-private partnerships (PPPs) were too quickly judged to provide a new resource, while in fact they were only an intermediation mechanism, admittedly innovative, but nevertheless one whose principal and interest had to be repaid.

In practice, partnership contracts have therefore exhibited shortcomings for financing of capital-intensive and low-profit infrastructure. Higher financial costs than those of public borrowing, the frequently unfair position of the lessor-operator when invoicing additional services, the loss of control by the administration of the ex-post cost of projects, the way PPPs are attracted to activities

with high medium-term profitability, the risks of over-indebtedness among the contracting authorities, have all contributed to the fact that the use of private donors has not delivered all that was promised. Moreover, PPPs have been instrumental in raising the long-term economic cost of providing WSS services.

The financial impact of climate

In addition, the financial impact of climate change will be added into this equation, as indeed, prevention, mitigation and adaptation measures will increase investment and operating costs. This will affect the availability - ever more distant or deeper - of accessible water resources, the vulnerability of cities to risks (floods due to precipitation, rising sea levels, tsunamis) and the ecological transition (low-carbon energy efficiency).

The result will be a continuous increase in the costs of providing services that are doo-

med to seek solutions that are more complex (due to social and environmental constraints, and the extension and renewal of infrastructure), more comprehensive (catchment, supply, household distribution, purification, desalination) and more inclusive (access to basic services for people in poverty).

These accounting costs will themselves be affected by increasing transaction and opportunity costs, resulting from urban governance that increases the number of political, institutional, economic and civic actors. However, this governance is often imperfect, paying scant attention to the additional costs generated by the meanders and delays of decision-making that is deemed participatory.

Segmented service provision

The continuous and increasing rate at which the long-term economic cost of water services is rising and the inability of both

States and consumers to pay for them have led to an implicit questioning of the dominant monopoly supply paradigm, by moving access to services towards a fragmented demand paradigm. Today, in developing countries, and despite

major variations within and outside the sector, the economic model that applies to WSS networks is shifting from vertical service provision, managed by central governments, to a horizontal rationale that involves urgent, segmented and market-based demands in

urban and peri-urban areas. Broadly speaking, it is no longer central government that creates or outsources a monopolistic and universal type of service provision, but what we have is a socio-economically and technically fragmented market for access to water that will redefine distribution modes.

The main feature of the system will be to match commercially appropriate arrangements and variable service qualities with the socio-economic profiles of customer segments, leading to the emergence of a diverse range of distribution companies (NGOs, small private operators², technically autonomous gated communities³ domestic or international private operators and public operators using a large number of private subcontractors).

Faced with the need to muster considerable financial resources to maintain the growth in the provision of services and continue to expand access to them, the urban market economy is therefore tempted to avoid the continuous increase in the long-term economic cost of drinking water by segmenting the supply and adapting it to customers and their ability to pay.

The regulatory State

Confronted by this state of affairs, central governments are tending to ask questions about public water services. These could be transformed, applying a top-down approach, into market and competitive goods, whereas these services would have benefited from a bottom-up approach that made them into a «common good» in order to foster the necessary multi-service synergies and multi-stakeholder equalisation that are the foundation of society.

However, beyond this real process of demand that is undergoing segmentation, the question of which areas States will not be able to abandon in the face of objective market deficiencies will remain unresolved. In this respect, the overall regulation of water service provision (by both large and small public operators) and the guarantee of the availability of essential water resources will become more and more important. The viability of the great water cycle, which used to be described as «natural», is becoming the political responsibility of States.

1 - James Leigland and Henry Russel: Les Effets de la crise financière sur les financements des projets d'infrastructures. PPIAF, Gridlines. Note n°48. Juin 2009.

2 - Suzanne Snell: Opérateurs privés d'eau et d'assainissement : profils et typologie. Services d'eau et d'assainissement pour les populations pauvres des zones urbaines. PNUD Banque mondiale. Programme de l'eau et l'assainissement. 1998.

3 - Intended to shift the infrastructure costs associated with urban sprawl to the purchaser of a closed residential property.

An obsolete economic model

Since the Washington Consensus in 1990, the global urban context has changed dramatically. The supply of drinking water, sanitation and stormwater (WSS) services has been comprehensively disrupted, increasing the long-term cost of the dominant economic model.

The type of WSS service provision that has long served as a yardstick was inspired by the European framework of the early 20th century. The corresponding economic model pitted a State working to provide services to the whole country and its population against users adhering to a social contract and the principle of public service provided by an operator in a situation of a monopoly that was deemed to be natural.

However, the contemporary dynamics of developing countries have clearly propelled them away from this model, gradually revealing two opposing trends. On the one hand, the frantic pace of urbanization coupled with substantial demographic,

economic and spatial expansion in the outskirts of urban areas, as well as increasing socio-economic inequalities in these areas, have led to exponential needs for networks. In addition, it is necessary to replace facilities that are now 30 years old. On the other hand, the great neoliberal transformation has resulted in a decline in the economic and political capabilities of governments, in the systematic reliance on the market and in the global primacy of the financial economy. Since the 1990s, the traditional financing resources for network infrastructures (tariffs, taxes and transfers or the 3Ts), which are essential to ensure the sustainability of a public service in its various forms, have gradually levelled off. In view of the considerable financing needs that arise, these last-resort resources are no longer able to ensure the balance of the dominant economic model. And the mobilization of a fourth T (the spreading of investments over «time») will not alter the situation.

A water point in an informal district in Nadhour, Tunisia

Photo © François Noisette



PROFIT WITHOUT PRODUCTION: TOWARDS THE FINANCIALISATION OF THE CITY

The financialisation of the city is a matter of concern for many players today. These include INTA - the International Urban Development Association - a global network of urban decision-makers and practitioners, from both the public and private sectors. Lola Davidson is the Association's Deputy Secretary General. She summarises here the mechanisms at work and the spatial and socio-economic impacts. A special session was devoted to the subject at the Africities summit November 2018 in Marrakech

As it affects urban areas, financialisation is a form of accumulation characterised by the capture of urban value by many forms of financial intermediation that turn the city into a financial asset. The question of the increased effects of investments on the social and economic organisation of cities is currently being raised. Among the segregating effects it produces are city centres that have become inaccessible to a large part of the population and new cities that remain empty for decades in spite of a housing crisis.

Investment selectivity also affects urban form. The impacts relate firstly to the selection of the type of property (giving priority to commerce, offices or logistics) and secondly to the forms it takes (certification, useful surface area ratio, etc.), to its users (key accounts and long-term leases) and finally to location: this financing mechanism fuels metropolisation.

Towards a coalition between the public and private sectors

The different modes of production of the city point to the existence of a new generation of urban stakeholders, namely property developers who are aligned with banking interests. These networks of private stakeholders (consultants, analysts and developers, investors and banks, architects and urban planners, notaries...) are forming coalitions with local and national public stakeholders and are at the centre of new forms of negotiation for the purpose of locally «embedding» financial capital.

Asset managers create investment agreements, which are a set of shared representations of urban spaces: where to invest, and in what type of assets, etc. The more traditional players are in alignment, the developers construct buildings that meet the managers' criteria. Planners are adapting their schedules to ensure the balance sheet is in good equilibrium through the sale of ground rents.

Finally, there are four major ways in which the production of urban spaces has been

restructured that are linked to the financialisation of the urban built environment.

1 - The actors produce, manage and market. Some sectors are becoming assembly lines for assets that move from the public to the private sectors.

2 - New power relationships are being established with coalitions that are striving to support this financialized infrastructure. Local authorities see it as an opportunity to attract capital, make themselves attractive and sell urban land in order to finance urban redevelopment. This policy of attracting capital is particularly prevalent in the countries of the North, which are suffering from public austerity.

3 - Investments are concentrated in metropolitan areas. Spatial redistribution drives metropolisation and accentuates intra-urban specialisation.

4 - The redistribution of wealth is changing. This is brought about through the monetisation of usage fees, from those who can pay for services and usage to savers and global investors as well as intermediaries who belong to the financialized sector.

The drivers of local action

These effects underscore the importance of awareness, training and the acquisition of tools (land-, finance-, and technology-related for example). Engineering know-how, particularly that of local authorities, is also needed to strengthen negotiating capabilities within the new coalitions of stakeholders.

This requires knowledge of the stakeholders in the sector, the discovery of new intermediaries, in some cases unconventional ones, in order to consider diversifying the modes of financing and action subject to performance criteria that are unrelated to profit maximisation.

In Africa, the new sources of finance, such as philanthropy, diaspora, sovereign wealth funds, carbon finance, Chinese investments in kind, etc., are not available to local authorities.

Universal adoption of the challenges, concepts and financing schemes calls for a fresh examination of the relationship between the public and private sectors in the production and management of cities, that takes into account the general interest and social issues.



Analysis workshop on the establishment of the African Cities Development Fund. Organised by INTA and Kalutere Polis on behalf of UCLG-Africa. Photo credit UCLG-Africa

© photo UCLG-Afrique

PROPERTY INVESTMENTS BY THE GULF STATES IN CAIRO

As part of her doctoral work on property investments by the Gulf States in Cairo, Maïa Sinno spent three years in the Egyptian capital between 2011 and 2014. Here, she describes the main themes of her research.



Although it has been restructured, the cartel between the State and major private investors remains at the heart of Cairo's development strategies

In Cairo, specific modes of governance which were based on the accumulation of wealth by an elite were challenged by the 2011 revolution. The series of transitional regimes and the many trials that have targeted fraudulent land transfers by the country's most powerful businessmen have seemed to be a step forward as regards the revolutionaries' demands for the right to the city. The struggle for more justice has led to a redefinition of the ruling «Asabiyyah», a community of public and private actors founded on marriage and blood ties. But it has not shaken the neoliberal system based on the machinery of corruption and *baksheesh* and the dependence of Egyptian growth on Western and regional aid, quite the contrary.

The inescapable role of the Gulf States

The new regime recreates the neoliberal system of the pre-revolution era by means of an iron fist, enriching a core group of private players who are part of an elite that is close to the regime. This elite includes people close to the previous Mubarak regime, some of whom received sentences after the revolution which were applied, lifted or arbitrarily eased by the State, which thus asserted its power over the community of private players. The emergence of the military establishment as seemingly the only governmental authority has not called into question the role of the centralized State. At the same time, the Gulf States have become indispensable. They are

creditors who must be reimbursed, in cash or in kind, and their presence in the Egyptian economy is growing, particularly in the property sector. The Gulf States have in effect played a fundamental role in the recovery of the property and construction markets in Cairo by investing in these sectors and by announcing increasingly costly building projects.

Confiscation of the right to the city

Cairo is therefore tending to become an outpost of the Gulf, and the fashioning of the official city is being taken over by financial and political elite, even though the Cairo of the revolution called into question the role of capital circuits in the shaping of the city. Despite the violence of some demonstrations since January 2011 and the fervour of activists, Cairo's development continues to widen the cultural and social divide between people living in informal settlements and the others. Legality has a price: the right to the city is not free and does not depend merely on occupying a dwelling.

But the numerous lawsuits accusing property developers of obtaining very low-cost land from the State have also highlighted the fact that the urban development of a megalopolis that is open to globalization does not necessarily mean that the State has withdrawn from the fashioning of the city or that there is a clear demarcation between the public

and private sectors. Egypt is on the way to a neoliberal transition - because liberalisation has not brought about political stability - and heading towards a regional political dialogue that impacts the development of Greater Cairo. This Cairo of the future, imagined and fantasized about like a city outside Egypt, and created in the middle of an Arabian desert, is moving away from the dirty and despoiled thousand-year-old Cairo, as the years since January 25th, 2011 have gone by.

From poor housing to revolution

On 25 January 2011, a series of demonstrations began in Cairo that were to embody the Egyptian revolution and lead to the resignation of President Hosni Mubarak. These events are rooted in the difficulties faced by the capital's inhabitants in accessing housing and urban services, but the demonstrators also took possession of the public space as the subject-matter for demands and as a location for their actions. Many collectives explicitly fighting for the right to the city flourished following the revolution, before becoming invisible once more after the Egyptian regime's crackdown.

Some basics...



FINANCIALISATION

The issue of financing urban investments, whether public or private, is not a new one. As far back as the Middle Ages, merchants from the Hansa cities financed the markets and port facilities needed for their activities. Financial and legal arrangements have evolved considerably over the centuries. However, the direct link between the owner of the capital and the person responsible for the investment project has remained central, and is part of the guarantee system.

At the beginning of the 1980s, this question took a fresh turn with the deregulation followed by the internationalisation of the economy and the financial industry, under the impetus of the monetarists of the Chicago school. Many techniques were devised to ensure the smooth management of rapidly growing volumes of capital in search of high returns at controlled risk. These include securitisation (converting «project» loans into generic financial products) or the dismantling of activities to create homogeneous classes of assets. An example of this is the division of the electricity sector into generation, transmission and customer management activities.

The potential of cities to create varied and fairly homogeneous classes of assets in all parts of the world was identified by the financial industry in the 1980s, for example various categories of trading infrastructure, offices, shopping centres, etc. The financial industry has been involved in the legal and financial restructuring of urban activities, allowing investment funds to move in on a massive scale. Subsequently, it applies its methods in order to develop products that directly meet investors' needs. By offering these stereotypical «world-class» projects to cities, the financial industry has introduced a novel, powerful and attractive approach.

"The Money Lenders" de Quentin Metsys

Some reading...

Understanding the financialisation of the city entails first of all understanding how, since the 1990s onwards, a low-profile, dispersed, non-hierarchical power – «global finance» – has transformed the urban fabric of cities around the world. Dominique Lorrain's article¹ on the history of this influence through the gradual imposition of new players, new types of financing and, above all, new instruments and principles for evaluating urban projects, is essential if we are to understand the issues at stake. It shows, among other things, that the phenomena of financialisation, metropolisation and the separation of local political powers from the decision-making and management processes for new major urban projects appear to be linked. Isabelle Baraud-Serfaty² puts these processes into perspective by situating them among forms of urban privatisation, in which finance plays a decisive role as both a driving force and a catalyst.

Through a study of the financial rationales at work in Egyptian and Indian cities, Eric Denis³ sheds light on the processes that are liberalising and «liquefying» urban land, and that have made possible the creation of urban infrastructure and jobs in these cities. However, this author

also highlights the very wide disparity between the type of urban projects thus created and local demand, as well as the links with the eviction of the poorest households from city centres through the regularisation/transformation of informal neighbourhoods. Although these cities differ from each other they are nevertheless experiencing the same changes, and echo the cases of Beirut, Algiers, Istanbul and Cairo. These last four cities are compared in Dominique Lorrain's recent book⁴ on the governance of these Mediterranean metropolises which in particular discusses the rationales of land rents and monopoly rents that inform both government and investment policies.

This overview is expected to be enriched in 2019 by an article by Antoine Guironnet and Ludovic Halbert⁵ in *Esprit* magazine on the production of the city «for» the financial markets.

Romain Leclercq

1 « La main discrète : la finance globale dans la ville », *Revue française de science politique*, 2011/6 (vol. 61).

2 « La nouvelle privatisation des villes », *Esprit*, 2011/3.

3 « La financiarisation du foncier observée à partir des métropoles égyptiennes et indiennes », *Revue Tiers Monde*, 2011/2 (n°206).

4 « Métropoles en Méditerranée. Gouverner par les rentes », Presses de Sciences Po, 2017.

5 « Produire la ville pour les marchés financiers », *Espaces et sociétés*, n°174. To be published..



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