## Financing for effective, inclusive and sustainable urbanization -----China Case

#### Xu Li

Senior Research Fellow Research Department, ADBI

Sri Lanka, Sep., 2017

#### Main issues

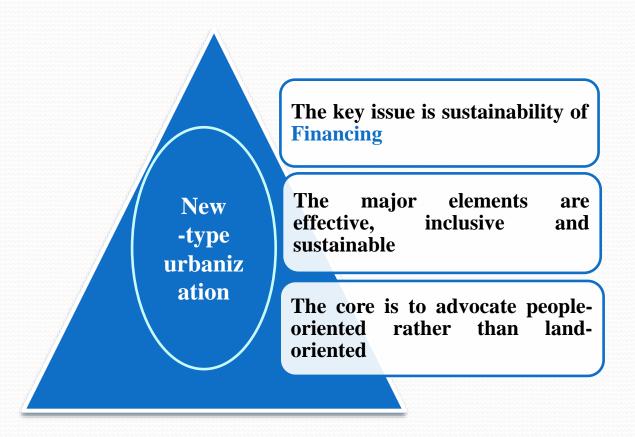
What is new-type urbanization in China?

Features of new-type urbanization from the perspective of financing

Financing bottlenecks and new problems

Strategic choices of financing for new-type urbanization

## What is new-type urbanization in China

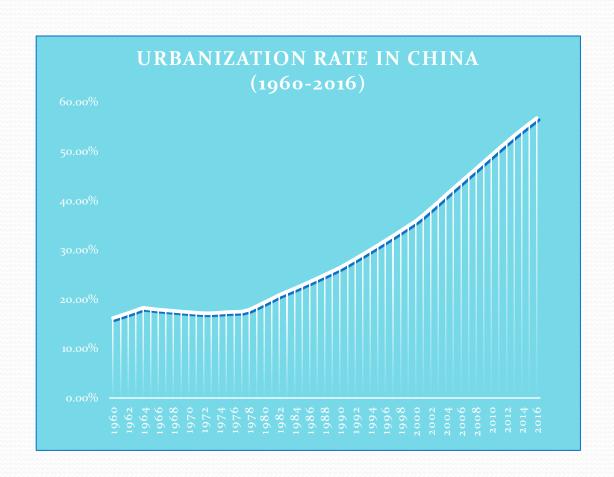


## What is new-type urbanization in China



#### A snapshot of urbanization in China

- Urbanization rate in China is up to 56.7% in 2016 from 35.88% in 2000, but only 16.2% in 1960, above 1 % year-on-year growth since 2010.
- Propels domestic demand growth.
- Calls for sustainable financing mechanism



## Financing for Urbanization will answer three questions

Why to finance for new-type urbanization?

How to finance for new-type urbanization?

How to improve financing efficiency?

# Features of new-type urbanization from the perspective of financing

## Features of new-type urbanization from the perspective of financing



**Different Development Concepts** 

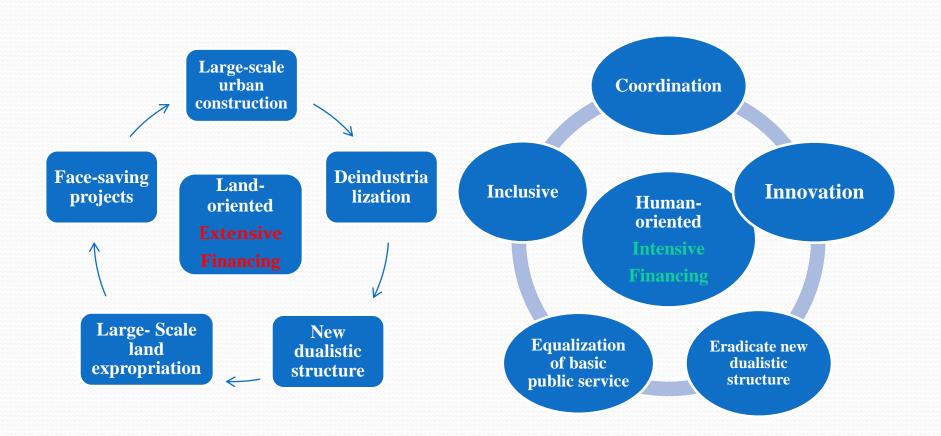


**Different Urban Appearance** 



**Different Financing Mode** 

#### **Different Development Concepts**



#### Different Urban Appearance

"Reinforced concrete" cities of the same imagine

Cities and towns with their own characteristics of "green hills, clear water and nostalgic elements"





#### **Different Financing Mode**

#### **Land Financing**

- Land financing is the most popular method.
- Depends on local government financing vehicle.
- Low degree of participation by social capitals in urbanization.
- Easy to lead to implicit and explicit heavy debts and higher debt risks.

#### **Multiple Financing Model**

- Fiscal taxation policy, local bonds, public-private partnership.
- Strict constraints on local government debt to lower fiscal risks.
- Abstract more low-cost social capitals to participate in newtype urbanization.
- Lay emphasis on financing efficiency.

#### Financing bottlenecks and new problems



#### **Obscure Boundary**



#### **Capital bottlenecks**



#### **Path Dependence**

#### **Obscure Boundary**

Vague boundary between the government and market

Low efficiency

Government financing scale exceeds the reasonable limit during urbanization

Vague powers or authorities for the central government and local governments

Misplaced resource allocation

Local governments suffer heavy duties of public expenditure

Unreasonable sharing of urbanization costs

#### **Capital Bottlenecks**

Tax system arrangement

 lack of imperfect local tax mechanism Big gap between the demands and the possibility

Transfer payment system

special transfer payment still accounts for a large percentage

Disposable fiscal income is not enough for part of local governments

Obviously lack enough capitals to break new dualistic structure

#### Path Dependence

Depends on land revenue

Land revenue has been reduced due to landoriented replaced by people-oriented

Disguised forms of financing in the name of "government purchase of services"

Attempt to extend financing channels illegally

 Under the strict budget constraints on local government debt

Fake up public-private partnership

Moral risks and adverse selection behaviors still exist



**Clarify Financing boundary** 



Prioritize resources allocation



**Expand financing channels** 



Improve financing efficiency

#### **Clarify Financing boundary**

Clarify the boundary between the government and market Clarify the boundary of authorities and duties of expenditure for respective government

## Clarifying Financing boundary answers Why to Finance for

Financing for the costs of the citizenization of rural migrant workers

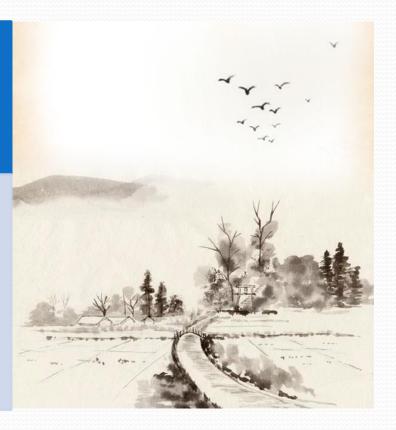
- Maintain appropriate level of fundamental public service
- Education and training, medical treatment, public health and social security
- Municipal utility
- Affordable housing



## Clarifying Financing boundary answers Why to Finance for

Financing for infrastructure

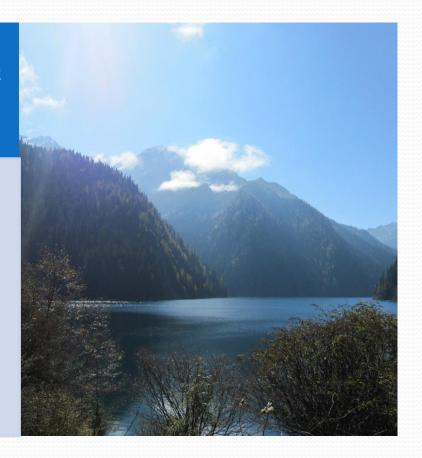
- Public and Private Partnership
- Special local bond



## Clarifying Financing boundary answers Why to Finance for

Financing for good environment and friendly ecology

- Improve protection and management of ecological environment
- Improve the efficiency of resource utilization



#### Prioritize resources allocation

Basic Principle
Focus on solving
equity and
congestion
problems

The first priority
Break
the barriers to labor mobility

Establish

"portable
fundamental
public service
package"

#### **Expand financing channels**

"Financing"
covers
capitals,
resources and
assets

Improve the division of intergovernmental revenues

Measuring reasonable scale of local government debt

Improve financing efficiency

Optimize institutional supply and improve public governance

Accountability system should be implemented

#### Inclusion

As for the relationship among the government, market and society in the process of new-type urbanization,

- Efficiency problems at economic level shall be almost solved by the market
- **Equity problems** shall be resolved by the government through regulations
- Social capitals can participate in urbanization orderly through market mechanism under government guidance to achieve **Sustainable Urbanization**

### Thank you!

#### **Contact details**



#### Xu Li

Senior Research Fellow Research Department

3-2-5 Kasumigaseki , Chiyoda-ku , Kasumigaseki Building 8F Tel: +81 03 35935524 Fax: +81 03 35934270

lixu@adbi.org www.adbi.org