

Strategies for Supporting Investment in Communities Hardest Hit by Poverty and Unemployment

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Mexico City is part of a very large metropolitan area that has grown enormously and in a very disorderly manner, a situation that has exploded exponentially in the past 30 years. Although the local government designed Urban Development Plans every term during the decades of 1980 and 1990, the development model upon which they were based on relied on horizontal growth, thus motivating construction of housing areas ever farther away from the city's center, and provoking a decrease in the population density of the city. During this period, many areas of the city grew without a specific order, creating new housing zones in areas that had no basic services, like water, sewage, electricity, especially for low income citizens, and residential areas in the outskirts of the city, some in elevated areas of the Mexico City Valley, creating serious mobility issues due to an adequate lack of access roads for private vehicles and a lack of appropriate public transport systems to and from these zones. All of these areas also grew without enough public areas for the inhabitants and daily visitors, adding more problems to those already existent. To make things worse, the local government hasn't emitted an Urban Development plan since 2004, leaving an already chaotic city without even a minimal guideline for its continued development.

The costs of creating and maintaining the most basic public services and infrastructure for the low income areas that sprouted during this 30-year period are enormous, being still a huge burden for the city's finances and an urgent pending issue to the eyes of the inhabitants of these zones. The lack of appropriate attention to the development of this basic infrastructures and of more and better public areas within the city are also issues that continually rise among the citizenship and have become a constant point of criticism for the local government. Since there simply isn't enough budget available to cover all the pressing infrastructure needs of Mexico City, several income raising options have been proposed to appease the situation.

We will look at these options from two perspectives:

1. Strategies based on tax policies.
2. Strategies based on Strategic Associations through Public Private Partnerships.

1. Strategies based on tax policies

a.- Redistribution of Property Tax

The first proposal is taking property tax imposed in higher income areas, which already have an existent basic public infrastructure and public services, and redistributing it to areas where there is a lack of this basic public infrastructure and services in low income areas. During the past decade the local government updated the value of properties in middle and high income areas in order to

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reflect in a more appropriate manner their real value, and so impose a property tax more in line with the real revenue that should be collected from these areas. This income is taken into a common budget for the city and from there used for all the expenditure of the city. Under this proposal, a portion of the property tax income from these zones will be classified for its use exclusively in the development of basic public infrastructure such as water, sewage, waste disposal and other services for areas where inhabitants have the lowest income in the city, thus committing the resources exclusively for this tasks. The advantage of this proposal is that the citizenship can perceive that the taxes they pay are being used for the benefit of the areas that more require it. The main disadvantage is that many of the inhabitants of the middle and higher income areas want their taxes to be used to maintain and increase the public infrastructure of the areas they live in, even though there are greater needs in other areas, and so this could potentially cause public unrest among a highly influential portion of the city's inhabitants.

As an example of this we have the development of the Granadas Township, an area just next to Polanco, one of the most exclusive and expensive zones of the city, very close to downtown and right next to the iconic Reforma Avenue. This township used to be an industrial area, which included car assembly facilities and factories for cleaning and sanitation products for homes, among others. The area was rapidly surrounded by residential areas, and pollution and safety concerns soon caused these industries to leave, which left an enormous available space. The development of this area was then the challenge, so the solution was to use the property tax from the affluent and adjacent Polanco zone to urbanize and prepare the plots to allow the construction of residential and commercial buildings in the area, turning Granadas into a vibrant township in the heart of Mexico City.

Although most of the population emerged from a new middle class coming from other urban areas of Mexico City, there were also very few cases of lower income population that had originally settled in Granadas which also stayed there. A very important situation for the "success" of this area, assumed as the backyard of Polanco, is that the inhabitants of this Township live there and work in Polanco and in the same Granadas. Even though this was a strategy of redistribution of property tax, a lack of adequate planning in mobility and availability of public spaces and public services created a poor development, since efficient public transport wasn't readily available, there was no multi-modal transport hub included in the area, and streets and roads weren't prepared for the volume of traffic that was to be in the area.

b.- Instruments for Construction Rights

A second proposal for the development of basic services and infrastructure for lower income areas that require more attention is the creation of instruments that award construction rights to developers looking to carry out projects in zones with highly developed infrastructure and higher income per capita. These construction rights would give these developers the possibility to use more square meters for their projects, which would be taken from land that will not use their full development potential in the same area as that of the developer's project. The interested developers would have to pay for these instruments, thus generating additional income for the

local government, which in turn should be classified for use in the development of basic public infrastructure and services in low income areas that need it the most. As a variation of this proposal, the developers interested in adding square meters to their projects in the aforementioned higher income areas, could also commit themselves to the development and maintenance of social infrastructure in the low income areas that the local government determines, to the amount of the instruments they acquire. The emission of these types of instruments require a careful analysis and regulation in order to have them achieve their objective without creating the perception among the developers and the citizenship that it is another method for the local government to obtain income without any benefit to the city's infrastructure.

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These two projects allowed Mexico City to propose innovative ways to seek the development of both areas, and one such strategy was through the use of Certificates for Added Growth Potential. By means of these certificates, a potential developer could build taller structures for housing and offices, by means of buying the additional Construction Meters to owners of properties in the area that were not going to use their full authorized building potential. These owners would be entitled to a certain number of certificates covering a specific amount of square meters of construction, which they then could negotiate through the local government to the interested developers. This way, the owners of under-utilized properties (In terms of building potential), would win by transferring their unused square meters to developers, who would also win by having greater potential for their developments, and the local government would also win since they would densify the areas to their highest possible potential, with an excellent coverage of public services, public spaces and mobility options through public transport services.

c.- Value Increase Contribution

The next proposal is to share the investment required for social and public infrastructure with the property owners that will most be benefited by these. Under this model, a percentage of the cost of a social development is covered through a special contribution tax which is imposed to all owners of properties adjacent to the project. The logic behind this model is that the value of their properties will increase due to the creation of this social/public infrastructure, and since these owners are receiving a direct economic benefit, they must participate in the investment.

One important issue to attend immediately when proposing this model is that the owners of the properties in question must be involved in the project since the very early stages, or the infrastructure to be developed should be proposed by them, so as to avoid discontent and complaints that could put the project in danger at a later stage.

One such example of this model has recently been used in Mexico City, in the Presidente Mazaryk Avenue, one of the most important commercial passages in the heart of a high income traditional area, Polanco. The whole avenue was completely renovated to provide better walking and cycling conditions, and to control the flow of private vehicles in the area (Speed limits and parking issues).

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The total cost of the project was \$480 million pesos (\$35 million USD at the time), and half of it was covered by the owners of properties along the Avenue, with differentiated costs for residential and for commercial properties (The latter contributing up to 20 times tax). The payment of this Improvement Contribution Tax can be covered through any of the following means:

1. Anticipated payment, with a 7% discount on the total value of the payment.
2. In six bimonthly installments, with no interests accrued.
3. In 36 monthly payments, with a low 4% interest rate.

d.- Incentives for Green Infrastructure

One additional proposal is to provide fiscal incentives to those developers willing to invest in green social infrastructure in zones that lack the basic social infrastructure and public services, in low income parts of the city. This projects should be designed for those low income areas where there is a very high density of population, as for example in the southeast part of Mexico City (Iztapalapa), an area with a very high amount of inhabitants, concentrating over 20% of the city's population, 37% of them in the lowest income percentiles of the city (Coneval, Censo de Población y Vivienda 2010). Large areas of Iztapalapa lack or have very limited access to basic public services such as running water, sewage, waste recollection services, etc.; they also have no public spaces available, giving interested developers a huge window of opportunity. The fact that these areas lack the mentioned public services offer providers of green technologies the opportunity to invest in these zones and cover those services with innovative and sustainable projects. In turn, the local government should provide incentives and other financial mechanisms to make investment in these zones and in these technologies an attractive approach for solving the issues that surround these marginal and low income zones.

Once again, citizen participation is of utmost importance for the success of such initiatives, so they should be involved since the very early stages of any such project to be developed, since their active cooperation and involvement will be critical if any of these green sustainable projects is to have any long term continuity. For example, there are already projects in certain areas of Mexico City where inhabitants are invited to place their organic wastes in special containers that create a composting fertilizer. This compost is then used to fertilize public areas of the zone. Yet projects such as these could not only provide solutions for the inhabitants of the area, but they could also become a means of generating income for them. All of this makes citizen participation an essential element for any of these projects.

2. Strategies based on Strategic Associations through Public Private Partnerships

Another possibility to improve and create social and public infrastructure for low income communities excludes the use of public resources for the development of such projects, using resources from private investors instead. In this scenario, the local government doesn't need to use public money and also avoids having to incur in debt. A private investor partners with the local government through a legal instrument and provides all the resources required to develop the social infrastructure or public service required. Return on investment comes from commercial applications from the infrastructure, and once the developer has recovered his investment, the local government takes ownership of the whole project.

But what if developers are not quite interested or unwilling to invest in social infrastructure projects for low income areas since their perceived risk is higher?

There are options once again for such scenarios. The following strategies present Public Private Partnership models for the development of social infrastructure and public services.

a.- Certificates for Citizen Participation in Social Investments

Under this model, citizens in general, investors or other entities are entitled to participate, through the investment of their resources in Certificates emitted by a local government or any of its entities, in the development of projects of social infrastructure or public services carried out by the public sector. These Certificates will offer a return or dividend, either in cash or in-kind, to the respective holders.

This specific model, due to its nature, offers a great opportunity to involve the inhabitants of the area into the project, since they become part of the whole concept. It also gives citizens the opportunity to take active participation in solving the problems of their communities and gives them a sense of shared ownership of such solutions.

b.- Certificates of Investment in Economic and Social Development

By means of this model, any government or any of its entities creates a financial instrument through which they commit, within a certain and definite term, to carry out a contract to acquire public services, to purchase or repurchase tangible or intangible assets (Mainly for the development of a patent, an industrial model or similar), and fulfill strategic associations with the citizenship, academy, investors or other governments, whom guarantee beforehand the achievement of services directed to the compliance of the public sector's objectives.

This instrument allows the private investor to generate a public offering with the objective of attracting seed and risk capital based on a certain and determined promise from the State. This capital will permit the development of the project which will provide the expected public services, mainly with innovative technological solutions from the private sector for the benefit of the public sector.

c.- Transport Oriented Development

This model changes the paradigms of urban development, which now is centered on public transport hubs, preferably a multi-modal hub, and focused in ending any incentives to urban expansion. The heart of this model is mobility through public transport means, be it bicycle, buses, trains, etc., and also pedestrian traffic. Housing and commercial policies center on vertical development in the cities, at distances within reach of these multi-modal public transport hubs, with efficient guidelines and rulings to control growth in the peripheral areas of the cities and foster internal growth of existent urban areas. These rulings must then apply a moratorium to projects that foster horizontal expansion of the cities and the use of private vehicles, and create conditions for vertical housing and commercial projects within the cities, which must be available for all income levels, both in sale and in rental formats. The local government will have to apply measures that insure especially the construction of living and working spaces for lower income population, also known as social housing policies.

This strategy requires then of a close alliance between the government entities and private investors, so development can be guided by the public interest and by official rulings, but also with participation and approval of the citizens and projects aligned with the model and funded preferably with private investment.

All of the models mentioned above provide options to support the development of social and public infrastructure and public services for areas or regions which lack these basic requirements, and that due to their low income situation have to overcome enormous financial and social obstacles in order to carry out the development of such projects. The first models use tax strategies to fulfill such projects, while the last two models take advantage of the use of private resources, eliminating the need for the government to use public resources or to incur in debt for the development of this required infrastructure. These models provide the additional benefit of involving directly the citizens, the investors, the academy and the government in the development of very required social infrastructure and public services for the benefit of all.