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Three ways to partner with cities and municipalities to mobilize private capital for infrastructure: A look at Latin America

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Authored by: Sara Sigrist and Angela Maria Toro Botero

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When seeking to engage private partners, one thinks of large, high-cost national infrastructure projects. But subnational governments are also effectively partnering with the private sector by leveraging assets, rethinking "infrastructure," and establishing mechanisms to give long-term security.

Some Latin American governments are capitalizing on legislative frameworks for Public-Private Partnerships (PPPs)—in some cases tailoring laws for subnational use, and using experience gained from large-scale national projects.

While not always technically PPPs, this private sector capacity can be harnessed to deliver innovative smaller projects, from using drones to deliver medicines to health centers in rural communities in the Dominican Republic to building market stalls in a new Honduran bus terminal to spur the development of small businesses.

Here are three ways cities and municipalities can mobilize capital and innovation in infrastructure.

1. Leverage Government Assets

While subnational governments may not have the credit rating and visibility of their national counterparts, some are creatively using real estate assets for urban renewal and income generating services. Some examples include:

[Parking Lot in San Borja, Peru](#) - This project leverages municipal real estate to design, finance, construct, operate and eventually transfer 14,320 square meters of space, including an underground parking lot (353 parking spaces) and commercial space at ground level.

[Bus Terminal and Municipal Market of Danlí, Honduras](#) - This urban renewal PPP transforms a city's buildings using government assets to finance upgrades to the existing installations, including 600 commercial market stalls and 20 bus terminals, and eventually transfers ownership to private small and medium enterprises (SMEs). The market stalls will be transferred to a private partner for the construction of the upgrades and then sell or rent to SMEs who will profit from the commercial space and bus terminal stalls at a price preset by the municipality. The project also considers environmental and social impacts in the project planning: smart building, energy savings, ecological handling of solid waste, noise limits during the project's construction, a system of fire risk management, high environmental and ecofriendly obligations, archeological objects' protection, and special design for accessibility for persons with disabilities.

The key here is to ensure value for the government assets by including provisions for universal service delivery and other features described above. Other [sectors where municipalities are employing PPPs](#) are in solid waste management, health care, education, urban passenger transport, and street lighting.

2. Rethink "infrastructure"

Subnational governments have also brought innovation to service delivery through partnering with the private sector. Two examples below successfully challenge the notion of traditional "infrastructure." Colombia, a country with complex geography, has limited road infrastructure connecting the mountain capital and main cities with the coastal ports. While at the national level it has a bold program of [4th generation roads](#), Colombia is also using PPPs for river transport as an alternative for road networks, especially secondary and tertiary roads. This strategy is brilliant since communities are already formed along riverbanks and may be difficult to connect to the main highways.

[PPP for Navigability of the Magdalena River, Colombia](#) - The project is regional in scope, and the coordinating agency works closely with the respective municipalities involved. It uses a Design, Build, Finance, Operation, Maintenance and Transfer contract. Some of the interesting features include: the agreement contemplates compensation measures to give back to the communities, regions, localities and the natural environment by impacts or negative effects generated by the project, which cannot be avoided, corrected, mitigated or replaced by the private partner. Also, the contract provides for the establishment of a "fideicomiso" (trust) to guarantee the contract's obligation fulfillment and to be the "accounting center" of the project.

[Drones for Medicine Delivery, Dominican Republic](#) - The Dominican Republic also has challenged traditional notions of infrastructure by the creative use of drone technology. In a pilot project, the government has contracted with a private partner to delivery medicines to health centers in rural communities that are inaccessible through limited traditional road infrastructure and may not be able to readily stock a wide variety of specialized medication. This project tests the possibility of delivering medicines through the use of drones. Given the experimental nature of the project, the contracts are not yet public.

3. Establish long-term mechanisms

Municipalities face important challenges when structuring PPP projects. The smaller scale and credit rating of subnational entities may limit financing. While subnational guarantees are possible, their use may require

a counter-guarantee from the national government, which it may not be willing to do. Additionally, subnational entities may seek to develop local partners and include SMEs into the value proposition. Mechanisms such as trust arrangements may help to provide long-term stability for the projects. For additional trends in Subnational PPPs around the world, practitioners may wish to review "[A Preliminary Review of Trends in Small Scale PPPs](#)".

Municipal and subnational PPPs are smaller engines in the great machine of a nation's development. However, as in large-scale projects, subnational PPPs face unique challenges and can offer alternatives but are not a perfect solution.

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