

# Rethinking public sector funding

## Why governments must embrace a private sector mindset

**Cities across the GCC are facing a tricky balancing act. On the one hand, rapid population growth and bold urban ambitions will require additional investments in infrastructure and services. On the other, an uncertain global environment and oil price volatility, along with an emphasis on fiscal sustainability, are reducing the flow of funds from central governments to municipalities.**

**How can municipal leaders finance new projects and maintain service levels without unduly burdening their citizens? The path forward isn't austerity; it's reinvention.**

In our work with municipalities and officials across the region, we've seen what's possible: Focused transformation can reduce city-level deficits by up to 30%, increase owned sources of revenue by 10 to 15%, and convert dormant public land into productive, development-ready zones—possibly in less than 18 months.

This path calls for cities to move from budgeting to unlocking value, from spending to investing, and from managing public funds to stewarding capital. Because financial maturity varies across cities, a one-size-fits-all model won't work. Instead, a phased approach—tailored to each city's asset base—can close the gap between vision and execution.

The transformation starts with what we call strengthening the operating engine. Municipalities might be tempted to begin by updating fees or identifying wasteful spending, but those with higher aspirations can create entirely new revenue streams.

As a first step, cities should rethink how they generate and manage their revenue. Leading urban centers are already pulling levers such as dynamic pricing for parking and congestion zones, commercial-use permits for public space, sponsorship and naming rights, and EV charging infrastructure. These ideas could become core sources of revenue for municipalities.

Other cities are unlocking value through zoning changes, special-use districts or development rights linked to long-term planning goals. For example, Hamburg's HafenCity raised €10 billion in private capital through a value-sharing model with developers.<sup>1</sup>



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On the cost side, cities such as Barcelona are applying technology tools to deliver more for less.<sup>2</sup> Predictive-maintenance algorithms, tech-enabled procurement and digitalized public services are helping reduce operating costs while improving service levels. The result: more efficient cities that can prioritize investments in better housing, mobility and public amenities—all without asking residents to pay more.

Beyond the operating budget lies an even more powerful lever: the assets on a city's balance sheet.

Rather than relying solely on public funds, forward-looking cities are raising capital through public-private partnerships (PPPs), co-investment platforms and asset-backed special purpose vehicles (SPVs). These arrangements allow cities to deliver large projects faster and distribute risk while maintaining long-term control and protecting the public interest. For example, Dubai's Roads and Transport Authority is already building major transit corridors using PPPs and monetizing its asset base.<sup>3</sup>

Municipal debt tools such as sukuks and revenue-backed bonds are also becoming increasingly prevalent, with repayments tied to specific assets or fee streams. And cities that reappraise public land and facilities based on market potential rather than historical cost are unlocking borrowing capacity and investor confidence in ways never previously considered. Copenhagen, for instance, financed a significant share of the construction costs for its metro system by collateralizing land rezoned for sale and development.<sup>4</sup>

Perhaps most important, public land itself can become a catalyst for growth. Whether leased to developers, contributed as an in-kind asset or consolidated into investment-grade platforms, land can finance anchor projects, green corridors or housing districts while avoiding tax increases and maintaining public ownership.

We've seen the impact of these levers firsthand. In cities we've supported across the region, leaders who reimaged their fiscal operations have consistently unlocked significant results: trimming deficits, increasing revenue and turning unproductive land into investable opportunities, all while maintaining or even improving service delivery.

Moreover, financial sustainability makes cities more resilient. It gives them the autonomy to act—to set their own agendas and execute on them—rather than wait for external funding or react to fiscal shocks.

Ambitious cities are already undertaking such transformations. First movers are positioning themselves not just for efficiency but also for leadership in growth, quality of life, and the ability to attract talent, residents and capital.

But such strategies need an enabling environment to achieve success. Local governments must be supported by national frameworks that allow them to retain revenue, access capital markets and structure partnerships that deliver long-term value.

It's time for municipal leaders to stop simply managing the budget and start pursuing the full potential of their cities. The resulting opportunities will accelerate growth and transformation.

1. HafenCity Hamburg, "Facts & figures" (<https://www.hafencity.com/en/overview/facts-figures>).
2. Barcelona Digital City, "Municipal Data Office" (<https://ajuntament.barcelona.cat/digital/en/technology-accessible-everyone/accessible-and-participatory/accessible-and-participatory-3>).
3. [https://www.zawya.com/en/business/transport-and-logistics/rta-approves-681mIn-dubai-ppp-projects-portfolio-for-2024-26-tuvj9uvi?utm\\_source=chatgpt.com](https://www.zawya.com/en/business/transport-and-logistics/rta-approves-681mIn-dubai-ppp-projects-portfolio-for-2024-26-tuvj9uvi?utm_source=chatgpt.com)
4. <https://apolitical.co/solution-articles/en/copenhagen-raised-billions-infrastructure-without-raising-taxes>

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