

UNCDF/FFDO (DESA) – Global knowledge sharing project on subnational finance

Project Title:	Strengthening subnational finance in support of the Addis Ababa Action Agenda and the Sustainable Development Goals
Implementing Organizations:	UNCDF and DESA
Collaborating partners:	UNDP, UN-Habitat, UN-OHRLLS, World Bank, Regional Development Banks, UCLG, FMDV, and Member States
Potential donors:	Member States, Foundations
Mandate:	Addis Ababa Action Agenda, Para 34, Sustainable Development Goal 11

Background: The Addis Ababa Action Agenda (AAAA), adopted at the Third International Conference on Financing for Development (Addis Ababa, 13-16 July 2015), recognizes that “expenditures and investments in sustainable development are being devolved to the sub-national level, which often lack adequate technical and technological capacity, financing and support” (para 34) and calls for greater international cooperation “to strengthen capacities of municipalities and other local authorities” (Ibid). The commitment in the AAAA to strengthen subnational finance is particularly relevant in the context of Goal 11 of the 2030 Sustainable Development Agenda which sets out to “make cities and human settlements inclusive, safe resilient and sustainable”. This increased importance given by the international community to local development finance, including in the Least Developed Countries (LDCs) was evident in the Addis Conference with an unprecedented engagement of local authorities from both developing and developed countries, as well as in the call to action by Mayors at the margins of the UNGA in September 2015.

Rationale for project: While there is recognition of the need for the empowerment of local authorities to finance their local development objectives, in practice, the ability of municipal governments to provide essential services, let alone to make longer-term investment in support of sustainable development, has often been weak. This is due to both capacity constraints and regulatory and/or legislative obstacles. Mobilizing resources to finance investments and improve services at the municipal level is one of the most challenging aspects of local development, especially if the goal is to provide resources on market-like conditions in a sustainable manner, for instance from loans or bonds. Even when government transfers are predictable and generous (which is the exception), they are rarely adequate to finance major infrastructure improvements in growing cities. The capital investment financing that is available to local governments is often provided by national agencies whose own access to capital is highly constrained, especially in LDCs. Winning funding allocations from national budgets requires local governments to compete with line ministries and other priorities of the government in power. At the same time, the devolution or delegation of public service responsibilities has frequently not been supported through fiscal reforms and fiscal decentralization that would help increase domestic revenue generation by local governments. The critical challenges are bringing borrowers and lenders together in a market relationship, and managing the risks inherent in this type of financing.

This is particularly important in LDCs where the financial options available to cities have not kept pace with the growth and increasing complexity of the cities themselves.

Moreover, despite the consensus among bilateral and multilateral donors on the need to strengthen local development actors, external support for targeted improvements has been limited or has had limited impact. There is increased recognition for the importance of strengthening donor engagement at the subnational level and to go beyond one-off engagements to take a longer-term, systematic and sequenced approach to engagement of development partners.

Project design: UNCDF and UN-DESA will promote international cooperation on municipal finance through knowledge sharing among stakeholders in local sustainable development and subnational finance (local government employees, bilateral and multilateral donors, regulators, civil society, private sector). In this context, it is envisaged to hold a series of three or four small regional expert consultations (30-35 participants), which would provide a platform for stakeholders to share lessons learned on how local governments can overcome constraints to access long-term

finance at the subnational level. In line with the mandate in the AAAA, particular emphasis should be put on how international cooperation (both South–South and North-South) could be strengthened and more effectively coordinated in support of municipal finance. Where possible, these meetings could piggy-back on pre-arranged meetings and fora, such as those being organized in the context of the mid-term review of the Istanbul Programme of Action and Habitat III.

Outcome: Follow-up commitments on strengthened international cooperation on subnational finance among relevant stakeholders in local development finance, with a special focus on LDCs.

Output 1: Greater knowledge among stakeholders on how internal (e.g., taxes, user fees, land value capture) and external sources (e.g., intergovernmental transfers, borrowing, aid) can be strengthened for financing sustainable development at the rural, peri-urban and urban levels.

Output 2: Joint publication that summarizes major findings of consultations and provides some general guidelines for more effective international cooperation on municipal finance taking the different local contexts into consideration. The publication could feed into the discussions of the Annual Economic and Social Council forum on financing for development follow-up (Financing for Development Forum), the Istanbul Programme of Action mid-term review process and meeting and the Habitat III preparatory process.

Tentative schedule for the regional consultations (an effort will be made to hold the majority of the consultations in LDCs when possible)

29 February 2016 – 1 March 2016: **Regional consultation in Tanzania (Uganda)**

9 March 2016: **Regional consultation in the margins of the Habitat III thematic meeting on financing the new urban agenda in Mexico City (Mexico)**

April 2016: Side-event in the margins of the Financing for Development Forum in UNHQ NY

June 2016: Side-event in the margins of the Midterm Review of the Istanbul Programme of Action in UNHQ NY

July-August 2016: **Regional consultation in Asia**

October 2016: **Presentation of the outcomes of the consultations in the margins of the Habitat III Conference in Quito (Ecuador)**

December 2016: Presentation of outcomes and launch of publication at UNHQ NY