



Financing for Development Office  
Department of Economic and Social Affairs  
United Nations



Implementing the Addis Ababa Action Agenda and the SDGs:

# INNOVATIVE APPROACHES TO MUNICIPAL FINANCE IN LDCs



# MAPPING THE CHALLENGES

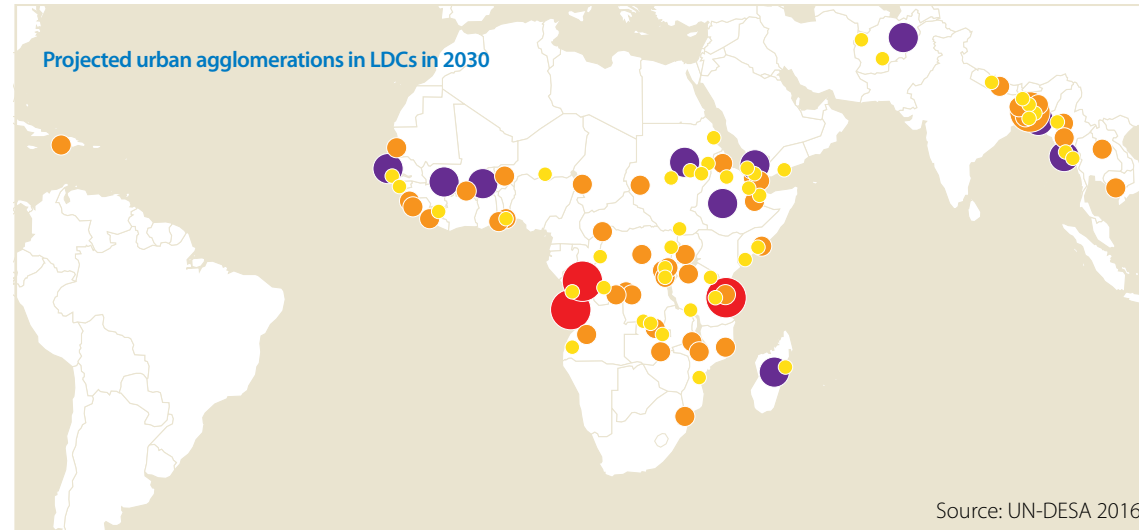
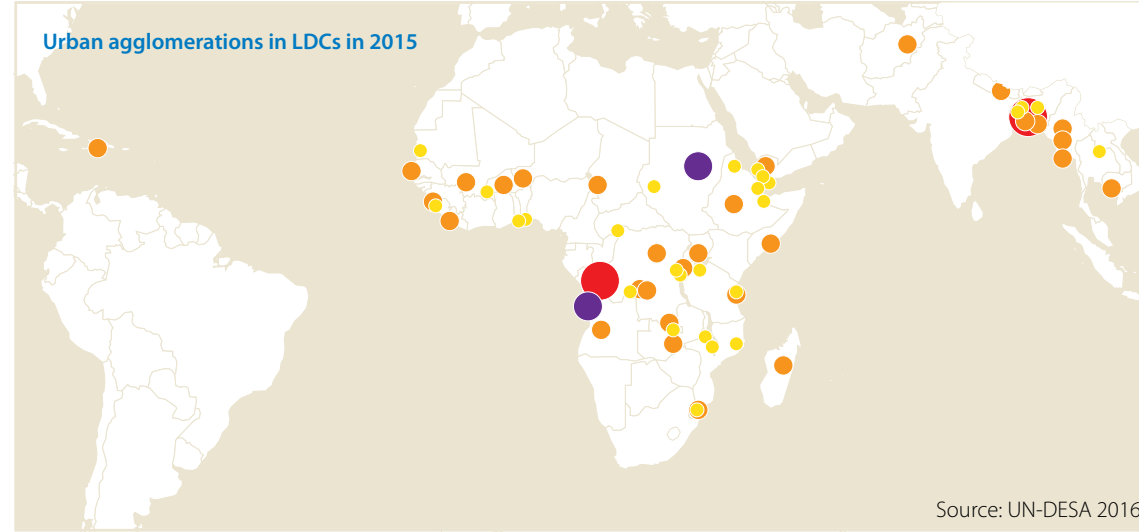
## 11 SUSTAINABLE CITIES AND COMMUNITIES



The implementation of the landmark agreements of 2015 – the 2030 Agenda for Sustainable Development, the Addis Ababa Action Agenda and the Paris Agreement – will depend on strong engagement at the local level. However, local authorities particularly cities in Least Developed Countries (LDCs), are structurally underfunded to match the continuously increasing range of responsibilities, opportunities, and challenges they face. To meet their financing needs, local governments will have to draw upon a wide range of financing sources – public and private, national and international.

*“Our struggle for global sustainability will be won or lost in cities.”*

H.E. Ban Ki-moon



### URBAN AGGLOMERATIONS IN LDCs, 2015 / 2030

- Megacities of 10 million or more
- Large cities of 5 to 10 million
- Medium-sized cities of 1 to 5 million
- Cities of 500,000 to 1 million

Cities and towns in LDCs will have to enhance financial management, revenue generation and long-term investments as the pillars of municipal finance. Both revenue generation and long-term investments are mutually reinforcing, but only if they are anchored in sound public financial management. Sustained revenues will fund sustainable investment, while long-term investments will strengthen and expand the local revenue base.

### 3 Pillars of Municipal Finance

#### Revenue generation

- + Taxation
- + User fees and charges
- + Intergovernmental transfers

**Enabling regulatory, political and economic environment**

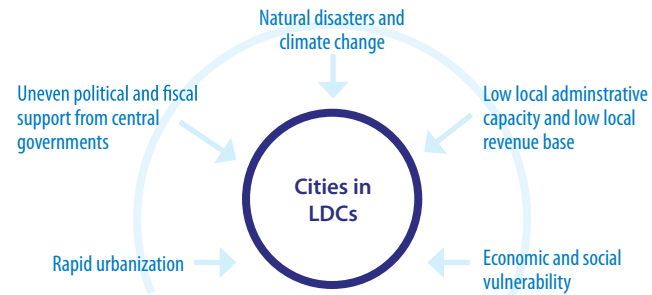
#### Long-term infrastructure investment and capacity-building

- + Local development funds
- + Market-based finance
- + Public-private partnerships
- + Innovative instruments

#### Public financial management

- + Budgeting
- + Accounting
- + Reporting
- + Auditing

### Challenges faced by many cities in LDCs



Rapid urbanization imposes one of the most serious challenges to municipal governments in LDCs. By 2050, an additional 2.5 billion people are expected to live in cities, with almost 90 per cent of the growth located in Africa and Asia. The urban population in LDCs is projected to grow by 600 million people, especially in secondary cities. As a result, there is urgent need for these cities to provide basic services, infrastructure, and economic opportunities to improve the livelihood of their inhabitants. Therefore, strengthening municipal finance is essential.

### Subnational Public Financial Management in LDCs

Top 5 Performance Indicators:	Bottom 5 Performance Indicators:
+ Transparency of inter-governmental fiscal relations	+ Multi-year perspective
+ Accounts reconciliation	+ Alignment of aggregate revenue with budget
+ Procurement systems	+ Tax collection
+ Orderliness and participation in annual budget process	+ Alignment of aggregate expenditure with budget
+ Payroll controls	+ External auditing

*Note: based on Public Expenditure and Financial Accountability (PEFA) assessments in selected African LDCs*



# IDENTIFYING SOLUTIONS

*"We need to build project management capacities at the local level so that we can prepare projects suitable for investments."*

**Mr. Gopi Krishna Khanal**, Joint Secretary, Ministry of Federal Affairs and Local Development, Government of Nepal

Many local governments in LDCs are taking steps aimed at improving the transparency and efficiency of their public financial management systems, revenue collection, and capital investment planning and execution with a view to strengthening municipal finance.

## **Uganda: Facilitating a public-private partnership**

Busia Municipality is located 200 km east of the Ugandan capital city Kampala and its population is about 100,000. UNCDF facilitated a multi-purpose parking project in Busia on the border with Kenya. The project is designed to promote cross-border movement and trade between Uganda and Kenya. De-risking the project through local economic analyses, feasibility studies, and structuring and financial modelling resulted in leveraging 70 per cent of the total cost of this US\$2.5 million project in private equity and debt. The project will greatly improve traffic flow and improve the town's environment; boost business in the region; create over 100 jobs directly or indirectly including lorry, petrol station, and shop attendants; and, in addition to the license fees collected from traders, allow the local government to receive 10 per cent of the project revenue quarterly.

## **Mozambique: Implementing a treasury single account**

Since the launch of the decentralization process in 1998, municipalities in Mozambique have been trying to match new revenue to new responsibilities. One of the main drivers behind the federal government's push for fiscal decentralization has been the implementation of a treasury single account known as e-SISTAFE, a unified electronic system that tracks the allocation, management, and spending of government funds across all levels, from the ministry of finance down to municipal governments. After the implementation of the system, state-to-local government transfers went up from \$23.4 million in 2010 to \$60 million in 2015. Similarly, between 2007 and 2016, district fiscal capacity

increased from just 3 per cent of the total central government budget to 17 per cent.

*"We have to strengthen local authorities in Africa to tap into capital markets to respond to the needs of populations."*

**Ms. Khady Dia Sarr**, Programme Director, Dakar Municipal Finance Programme

## **Bangladesh: Establishing a municipal development fund**

In response to the lack of institutional capacity to provide urban infrastructure services, the Government of Bangladesh, with technical and financial assistance from multilateral institutions, set up the Bangladesh Municipal Development Fund (BMDF). The BMDF is financed by loans from development partners to the Government of Bangladesh. It disburses loans to municipalities based on its own reviews of project proposals. Over the course of the last decade, 154 municipalities have received BMDF financing for infrastructure projects. In addition, the fund's tax revenue requirements and the competitive nature of its allocations have helped municipalities to increase their tax revenue by an average of 17.5 percent.

*"Collaboration between banks and local government in Africa has to step up. Both actors have to meet in a middle area called trust where they share strategy, ambitions and solutions"*

**Ms. Zienzi Musamirapamwe**, Head of Public Sector, Corporate and Investment at Barclays South Africa



Current ODA to LDCs:  
**\$41 billion**

Total ODA for urban  
projects in LDCs:  
**\$0.3 billion**

An insufficient share  
for capacity-building  
for municipal finance

## How international cooperation can strengthen capacities of municipalities and other local authorities

Official development assistance (ODA) to LDCs increased in 2015 for the first time in several years but still remains far below the United Nations target of 0.15-0.20 per cent. Data on subnational finance are difficult to obtain. The limited available evidence points to a very low share of total ODA (0.85 per cent) for urban projects (low cost housing, housing policy, urban development and management) in LDCs. Moreover, very little ODA has been directed towards capacity-building for municipal finance.

Implementing the historic mandate in the Addis Ababa Action Agenda for scaled up international cooperation on municipal finance (paragraph 34) requires a concerted effort involving all stakeholders. The joint UNCDF/UN-DESA project has already identified multiple entry points for global action. These include:

- + Increasing ODA directed to the subnational level, especially for capacity building in local finance
- + Using part of ODA to de-risk investments and leverage other financing sources
- + Promoting access to reliable and disaggregated data on subnational finance to track progress and create mutual accountability
- + Improving donor coordination and division of labour
- + Developing new partnerships, including South-South cooperation
- + Using long-term, well-sequenced and programmatic approaches to donor engagement in close cooperation with local governments.

*"We commit to scaling up international cooperation to strengthen capacities of municipalities and other local authorities."*

Addis Ababa Action Agenda Paragraph 34

# ABOUT THE PROJECT

**Comment now on the draft publication!**

Available at [www.un.org/esa/ffd/topics/inclusive-local-finance/municipal-finance.html](http://www.un.org/esa/ffd/topics/inclusive-local-finance/municipal-finance.html)

“Implementing the Addis Ababa Action Agenda and the Sustainable Development Goals: Innovative Approaches to Strengthen Municipal Finance in LDCs” is a joint project organized by the FfD-Office (UN-DESA) and UNCDF. The project links the Addis Ababa Action Agenda and the Financing for Development process with the HABITAT III process, including the New Urban Agenda, and its goal to reinvigorate the global commitment to sustainable urbanization.

## Key project objectives

- + Publish major findings from regional consultations, including policy recommendations
- + Build regional hubs to facilitate innovative partnerships, including South-South cooperation
- + Support national action plans by LDCs to strengthen municipal finance



## About the FfD-Office at UN-DESA

The Office provides secretariat support for follow-up to the agreements and commitments contained in the Addis Ababa Action Agenda, which builds on the Monterrey Consensus and the Doha Declaration on Financing for Development, and the delivery of the means of implementation of the 2030 Agenda for Sustainable Development. In this connection, the Office leads the implementation of the two major new elements of the FfD follow-up process, namely it supports organization of the new annual ECOSOC forum on financing for development follow-up and coordinates work of the Inter-agency Task Force on Financing for Development. The Office also promotes an inclusive intergovernmental process, with the participation of all relevant stakeholders, to review and follow up on a range of financing for development action areas in an integrated, cross-cutting and holistic manner. The Office works in close collaboration with the secretariats of the major institutional stakeholders of the Financing for Development process and actively engages with other stakeholders, including local authorities, civil society and the business sector.

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## About UNCDF

UNCDF is the UN's capital investment agency for the world's 48 least developed countries. With its capital mandate and instruments, UNCDF offers “last mile” finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments — through fiscal decentralization, innovative municipal finance, and structured project finance — can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

*Executive Secretary: Judith Karl*

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