Informal summary of special event on "Mobilizing local finance to implement the Post-2015 Development Agenda" (co-organized by the Permanent Mission of France and the Global Task Force of Local and Regional Governments), 10 April 2015

General overview

The special event on "Mobilizing local finance to implement the Post-2015 Development Agenda", co-organized by the Permanent Mission of France and the Global Task Force of Local and Regional Governments, was held in the run-up to the first drafting session of the preparatory process of the Third International Conference on Financing for Development (Addis Ababa, 13-16 July 2015). A full programme and list of participants are available: http://www.un.org/esa/ffd/ffd3/preparatory-process/inputs-by-stakeholders.html (under "Local authorities ").

Considerable backlogs in infrastructure and increased urbanization will continue to generate enormous financing needs for sustainable development at the subnational level within the next decade, which will see 2.5 billion inhabitants in urban areas. Participants at the special event highlighted that if these needs are not met, many of the SDGs will not be achieved. Moreover, in an increasing number of countries, the responsibilities for revenues, expenditures and investments in sustainable development are being devolved to the sub-national level (e.g. municipalities are responsible for 70 per cent of public investments in OECD countries). In this context, there was agreement that local and regional governments (LRGs) will be key players in promoting sustainable development at the subnational level, since they oversee the territories where actual development work takes place. However, it was also noted that, in many countries, LRGs often do not possess adequate resources and lack the technical capacity to perform their roles well. Many speakers acknowledged that the Zero Draft of the outcome of the Third International Conference on Financing for Development (13-16 July 2015) takes a major step in the right direction in its recognition of the important role of subnational actors in financing and implementing the post-2015 development agenda. However, it was emphasized that the draft could go further and recognize the catalytic role LRGs can play in delivering basic services and resilient infrastructures and creating dynamic partnerships between key stakeholders (e.g., among the central government, private sector, and civil society) in financing and delivering the SDGs. In this regard, there were strong calls for greater effective international and national cooperation to direct more technical and financial support towards empowering LRGs and for their importance to be highlighted more prominently in the SDGs and Addis outcome document.

With regard to mobilizing domestic resources at both local and national levels,

- It was noted that decentralization frequently implied the off-loading of responsibilities of the central government to LRGs. However, central governments needed to provide greater financial and technical support to LRGs in meeting their new responsibilities, including through building -capacity in areas such as tax reforms and tax collection.
- Overall, four elements of fiscal empowerment were highlighted that could help strengthen the financial capacity of local governments: (i) greater capacity for raising own revenue through taxes; (ii) wider use of assets for revenue generation (e.g. added land value), (iii) reliable and adequate inter-governmental transfers, and iv) promoting responsible municipal/local government borrowing and access to financial markets.
- With regard to strengthened tax collection at the local level, there was wide agreement that fiscal decentralization is crucial to domestic resource mobilization efforts. Central governments should empower LRGs to raise taxes or share tax revenues at the local levels. In many cases, central governments could help build capacity at the local level to administer taxes. Moreover, it was important to look at a wide range of taxes, including for example some forms of business taxation, natural resources taxation and surcharges on higher-level taxes (e.g. VAT, sales or excise taxes). One of the most potentially powerful but underutilized sources of LRG revenue is capture of the increment in land value generated by infrastructure projects (local roads, sewerage, transit water, etc). Successful examples in this context were the share of VAT designated for municipalities in Morocco and the fiscal decentralization in Addis Ababa, Ethiopia, with an increasing role of property taxes. Recent experiences in Brazil, China, Colombia, India and several OECD countries suggest that the land value contribution could represent an important share of public investment made in the context of development or urban restructuring projects. Nevertheless, challenges exist regarding the reliance on land taxes: there must be a certain level of development of property rights and land valuation systems, and LRGs must have sufficient capacity and political credibility to extract revenues based on increases in land value.
- There were calls for more revenue autonomy at the subnational level to enable cities and municipalities to generate higher tax revenues. Greater local accountability for projects and service provision, reduced corruption and the engagement of businesses and citizens could build mutual trust and facilitate tax collection through better tax compliance. In a broader context, it was also emphasized that policies aimed at enabling and promoting local entrepreneurship would provide a tool to promote local jobs and generate new opportunities for LGRs to increase tax revenue collection.
- With regard to intergovernmental transfers, there was wide agreement that an appropriate share of national resources should be transferred to LRGs to increase their access to finance and encourage them to play a stronger role in achieving the SDGs. Virtually all countries--industrialized and developing--use intergovernmental transfers because of the gap between appropriate expenditure and appropriate revenue decentralization. Equalization mechanisms are also critical to reduce fiscal inequalities across subnational jurisdictions. It was noted that transfers must be transparent,

predictable (rule-based) and adapted to the local context. The transfers should create incentives to adopt critical reforms, but not induce over-reliance by LRGs on transfers.

With regard to strengthening long-term financing through domestic and international private sources,

- Some panellists highlighted that the most formidable challenges for sustainable development at the subnational level included a lack of funds accessible at local levels, as well as the shortage of bankable projects. Therefore, it is imperative to have the right policies, tools, and instruments in place that support local entities in their efforts to access to long term financing and to develop projects that promote well-balanced and fair partnerships with the private sector and communities.
- There was wide agreement that LRGs vary in terms of their economic development and creditworthiness, and that tools and mechanisms need to cater to the specific needs of LRGs. Models of urban development financing are very context specific, and a one-size-fits-all approach should be avoided. Speakers noted, however, that customization and capacity building takes time. Consequently, there is an urgent need to swiftly develop adequate tools that pay heed to the different local contexts.
- Participants pointed out that the long history of bond-based municipal finance in the US and bank-based municipal finance in Europe could yield some important lessons for developing countries. In particular, pooled financing mechanism, which are often established as government entities or agencies that pool a number of local projects for financing, can offer larger debt issues, with better credit ratings.
- In this context, some speakers highlighted the potential for weaker LRGs to pool their resources with stronger LRGs to access the credit market. In addition, special credit institutions like municipal development banks and risk mitigation strategies can be employed to support LRG's access to credit markets.
- Speakers discussed the concrete example of the city of Dakar, which had joined joined two other cities to obtain finance for infrastructure development. With the help of the World Bank and USAID, which provided technical assistance the project managed to access private finance. However, the project managers encountered several challenges in the process, including the extent to which they should pick pro-poor or revenue-generating projects, compliance with multiple and complex regulations and the need for specialized expertise and consultants. In particular, it is critical to carefully manage the relationship between the city and the central government since governments frequently tended to retrieve control of the project.
- Speakers highlighted the need for capacity-building to increase the negotiation capacity of LRGs, especially secondary and tertiary cities, to modernize their tax administration, and improve their project development, as well as their real estate asset management skills. Governments could also consider setting up national finance and facilitation entities to assist LRGs in obtaining financing.
- Speakers highlighted the need for regulatory and rating agencies to incorporate the positive impact of sustainability and resilience into the evaluation of investments in urban areas.

- Some speakers referred to innovative financing arrangement like the Tamil Nadu pooled fund financial structure as instructive cases where inter-governmental transfers enable LRGs break into the credit market.
- Proposals were made to create an empowering online market place for sharing projects with providers, providing access to best practices, and tool kits and templates and standard contracts.

On localizing official development aid,

- Speakers noted that most of ODA currently flows to the central government. Consequently, international and regional development banks should find innovative ways to lend more widely to LRGs.
- Localized development assistance can make an important contribution to help enable municipalities borrow and access long-term finance from domestic capital markets.
- There were calls to ensure LRGs' access to global, regional and national climate change financing mechanisms such as the Green Climate Fund, in order to facilitate investments in adaptation infrastructure.
- In localizing aid, it was important to carefully evaluate where local governments fit in the decentralization spectrum. The spectrum is different from country to country. For example, in Laos, local governments are not regarded as legal entities.

With regard to building effective global and national partnerships,

- There was wide agreement that more international and national cooperation is required to lay a strong foundation to strengthen LRGs capacities to develop and implement local strategic plans and ensure the long-term delivery of SDGs at local levels.
- Some suggestions on follow-up and monitoring progress included:
    - Establishing mechanism to monitor trends in LRGs resource mobilization.
    - Monitoring the role of IFIs, ODA providers and other actors to support fiscal capacity of cities.
    - Creating mechanisms to monitor and facilitate sub-sovereign creditworthiness and debt.
    - Tracking progress of SDG investment borrowing for a few countries and learn what type of SDG project needs what type of financing.

With regard to LRGs in the Zero Draft,

- There were calls to incorporate LRGs more robustly into FFD process.
- Speakers emphasized that the draft should incorporate LRGs as key stakeholders of the process and clearly articulate their critical roles.
- In that context, concrete suggestions on amendments to paragraphs in the Zero Draft were put forward to Member States and other relevant stakeholders.