Implementing the Addis Ababa Action Agenda at the local level — strengthening municipal finance for sustainable development in LDCs

18 April 2016, 1:15 – 2:30 p.m.
Conference Room 6

Organizers:

United Nations Capital Development Fund (UNCDF), Financing for Development Office, United Nations Department of Economic and Social Affairs (DESA), in collaboration with Global Fund for Cities Development (FMDV)

Speakers:

- Ms. Khady Dia Sarr, Programme Director, Dakar Municipal Finance Programme (Senegal)
- Mr. Paul Smoke, Professor of Public Finance and Planning, New York University
- Mr. Carlos de Freitas, Director of Programmes, FMDV
- Mr. Vito Intini, Municipal Investment Finance Programme Manager, UNCDF
- Mr. Daniel Platz, Economic Affairs Officer, Financing for Development Office, DESA

Summary:

The Addis Agenda 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 Addis Agenda to strengthen subnational finance is particularly relevant in the context of Goal 11 of the 2030 Agenda for Sustainable Development which sets out to "make cities and human settlements inclusive, safe, resilient and sustainable". The side event linked the Addis Agenda and the Financing for Development process with the HABITAT III process and its goal to reinvigorate the global commitment to sustainable urbanization. A joint project by UNCDF and DESA on the topic will result in a publication that will provide a substantive input to HABITAT III.

Speakers highlighted that cities are at the forefront of providing critical services, infrastructure and public goods to their citizens, including the implementation of the Sustainable Development Goals (SDGs) and the fight against climate change. To fulfil their mandate, cities would need more and better financing. Additional research would be required on multiple issues of municipal finance in least developed countries (LDCs). It was stressed that municipal finance is a governance issue that has to be considered in an integrated manner, taking capacity limits and the political economy into account. Public finance reform would have to be part of a broader political reform that demonstrates to citizens the benefits of paying taxes and fees.

The gross deficit in infrastructure in Africa is valued at over $90 billion per year according to the World Bank Group. Side event participants emphasized that a properly designed performance-based grant system could reinforce the decentralization objectives and support efficient service delivery, while shifting from micro-control towards incentives and flexibility. Performance-based grants would require well-prepared systems and guidelines and strong

follow-up. The design of the grant system would also be important for external resource mobilization (e.g. for capital markets and climate change).

Furthermore, it was discussed how credit rating processes could help address the critical aspects of local governance and send a strong signal to markets and institutional investors. Credit ratings could expand the pool of potential investors, thereby increasing competition. However, they are affected by external variables, such as the national political context and macroeconomic developments.

One participant suggested that subnational pooled financing mechanisms could bring together local governments (large and small) to search for financing on the banking or financial markets. Several models exist from United States bond banks to European Local Government Funding Agencies, governed and even created by local governments. Such mechanisms could contribute to market competitiveness, reduce transaction costs and interest rates, provide substantive expertise and allow secondary cities or “small” projects to benefit from the combination for reduced cost of debt. It was stressed that applicability to LDCs merits further discussion.

Another participant presented a case study from Dakar, Senegal. Embedded in the context of increasing urbanization, a growing deficit in infrastructure and urban facilities, and a limited annual budget deriving essentially from fiscal transfers, the city of Dakar, through the Dakar Municipal Finance Programme (DMFP), tried to tap into capital markets as an additional source of finance. The DMFP provided capacity building and prepared the launch of the municipal bonds. The main challenges during the process were high entry barriers (regulation), complex processes and the identification of viable investment projects.
Side event participants agreed that the recent experience of Dakar, which was planning to issue its first municipal bond before the central government raised concerns over potential responsibilities and other implications at the central level, showed the complexity of municipalities gaining access to financial markets. Nevertheless, some important lessons learned could be taken for other municipalities in LDCs to pursue bond finance as a way to fund infrastructure projects.