



São Paulo City Hall
Secretariat for International Affairs

Dear member of the UCLG Local Finance Committee,

The context in which local governments are financing their activities is changing. Globalization is increasing the speed of economic change; decentralization frameworks are reshaping the scope for action of local governments, and the challenge of sustained poverty reduction is calling for new ways to finance investment.

Globalization, decentralization of governance, fiscal frameworks as well as the scale of investment requirements are demanding new initiatives to meet social needs, especially in big cities.

The conditions in which local governments operate, however, are not homogenous. These global trends are overlaid onto quite diverse local contexts, in which financing possibilities and constraints vary greatly. The diversity of size, economic activities and fiscal structure of local governments imposes a closer look at the problems faced by each city in terms of financing needs. Foreign Direct Investment and public/private partnerships are examples of recent strategies utilized throughout the world in order to obtain long-term investment in infrastructure for social development.

The City of São Paulo, the largest in the southern hemisphere, with over 10 million inhabitants and a population of 18 million within its metropolitan area, is honored to welcome all members of the committee to share experiences and develop strategies concerning local finance problems and solutions. In the name of São Paulo, it is my pleasure to invite you to the first **Local Finance Committee** meeting to be held on **10 February 2006 in Washington**, during the **UCLG Executive Bureau Event**. A Working Plan for the Local Finance Committee and a Questionnaire will be sent soon to each member along with the meeting's program, and will be both discussed in Washington. Your participation will be greatly appreciated.



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This committee represents a common effort to render local governments more efficient and able to improve living standards by promoting investment, job creation and economic development. I hope all members share this concern and look forward to our first meeting.

Yours sincerely,

Mrs. Helena Maria Gasparian
Secretary for International Affairs
São Paulo City Hall



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PROVISIONAL WORK PROGRAMME OF THE MUNICIPAL FINANCE WORKING GROUP

The context within which local governments are financing their activities is changing dramatically. Globalisation, decentralisation of governance and fiscal frameworks and the sheer scale of the investment requirements are demanding new initiatives to meet the MDG challenge. These global trends are overlaid on to quite diverse local financial market conditions within which local governments are operating.

First, globalization is increasing the velocity of economic change and the need for cities to be responsive to new competitive pressures. For local government, to be competitive requires provision of quality infrastructure so as to attract investments necessary to stimulate growth and employment.

Second, decentralization frameworks are increasingly reshaping the scope for action and role of local government. A crucial dimension of this is creating more autonomy and flexibility for local government to control their finances. In principle this should make it possible for local governments to improve the management of their finances and invest in city infrastructure.

Third, the scale of the challenge of sustained poverty reduction and slum upgrading is necessitating new thinking on how to access and service finance for investment. Increasingly, local governments have turned to *public – private partnerships* to improve the management and operations of urban services. However, more investment is needed if serious inroads are to be made to meet the challenges emerging from the MDGs. Within this context, there is growing appreciation that the mobilization of domestic long term private debt capital will be an essential component of the overall financial package. Critical to this will be getting the policy, regulatory and financing instruments fit for purpose. This in turn is made more likely if local governments are able to learn from the experience of those cities that have successfully demonstrated this financing approach and are able to translate this into local appropriate frameworks.

Fourth, local municipal financing contexts are diverse and thus require approaches and policy responses that recognize this complexity.

Objectives of the Municipal Finance Working Group are:

- To act as an Advisory Body to UCLG members, the Cities Alliance and its recently formed Municipal Finance Task Force on matters relating to municipal finance and resource mobilization;



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- To assist UCLG members access current thinking and innovations on ways to increase the flow of domestic long term private capital to developing cities in support of their city development strategies and citywide slum upgrading.
- To provide policy and technical advice to the Executive Bureau on municipal finance matters;
- To serve as a resource to UCLG members (associations and specific local governments) through provision of a pool of expertise, providing guidance on policy and technical matters and to act as a “sounding board” to members on their proposals and concerns;
- To act as a channel through which information and knowledge may be captured and disseminated to UCLG members (this will work through the existing UCLG web based information gateway and meetings); and

Activities

Gathering of information on practices among the UCLG members and its partners

Raise awareness among the international financial organizations about the importance to create funding facilities for local authorities by representing UCLG in meetings of these financial institutions.

Contribute to the analysis of strategies and frameworks to mobilize long term capital

Contribute to discussions with financial institutions on developing access to funding - domestic and international.

Develop partnership with Financial institutions to make them aware of the funding needs of local authorities.

Develop innovative funding mechanisms for Local Government, namely through actively engaging in the initiative lead by the Metropolitan Section to create of a World Bank of Cities

Provide advice and act as a sounding board to the Municipal Finance Taskforce within Cities Alliance to strengthen the linkages between city finance needs and demands and financing options.

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