



United Cities and Local Governments
Cités et Gouvernements Locaux Unis
Ciudades y Gobiernos Locales Unidos



Committee of Local Finance for Development

For a balanced funding of regions

United Cities and Local Governments (UCLG), a political platform bringing together local representatives around the world, promotes decentralization as a form of social organization that fosters and strengthens democracy. Through its activities, the organization helps its members so that they are effectively recognized as full-fledged participants by their national governments and international organizations. By promoting greater information sharing, and developing tools that support regional development, UCLG significantly promotes and contributes to capacity building of the extensive network of local participants.

In recent decades, decentralization processes have made great strides in terms of the devolution of powers which have improved local governments' abilities to play a central role as to how to face today's global challenges be they related to food, energy, the environment, economic crisis, policies against poverty, or the fulfillment of the Millennium Development Goals.

However, the detailed study¹ of local governments' economic structures show that the process of decentralization is now facing a number of difficulties such as poorly developed financial systems, lack of capacity of local governments, and more generally a lack of resources.

Under these conditions, the improvement of living conditions has been slow to materialize and while strengthening fiscal decentralization remains essential to making overall decentralization credible, it is likely to be perceived as an unrealistic pursuit if the skills transferred to local governments do not help improve the quality of life for citizens and if local elected officials do not have the financial means to carry out the responsibilities entrusted to them by law.

¹ Second Global Report on Decentralization (GOLDII), United Cities and Local Governments, 2010

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The Committee of Local Finance for Development (CLFD)

The funding of local governments is a hot topic of UCLG. Established in 2006 and currently chaired by the city of Rabat (Morocco), its global mandate is to improve local governments' access to finance.

To meet this objective, the four main sources of funding for local governments need to be improved:

Fostering access to finance

1. The legal and financial decentralization frameworks of various countries define the rules for sharing skills and resources between the central and local governments (transfers, local taxes, and other fees...). These determine the communities' structural resources while their consistency largely determines the local government's financial health.

2. Borrowing is particularly suitable for local investment. It allows for the spreading of repayment for infrastructure and equipment over time, which ultimately rewards rapidly expanding urban populations who will benefit from the resulting broader tax base.

3. Urban land development, in particular the harnessing of part of the gains by local governments to fund a portion of public investment is an endogenous source of funding used to "finance a city by the city". While Western cities, and more recently Chinese municipalities, have largely been financing their urban growth this way, many developing countries have so far neglected this option.

4. Local investments may also be funded through **public-private partnerships**. However, the model shows its limitations in attracting investors from developing countries, particularly in urban land development, because of its low profitability. However, this concept is worth exploring, especially with regard to its tendency to favor "management contracts" of public services or semi public companies.

CLFD's Means of Intervention

As an essential tool for the development of UCLG policies, the Committee carries out its activities through three key areas:

1. Advocate, foster dialogue and debate

- During its early years of operation, CLFD produced, among other materials, a body of recommendations for fiscal decentralization, hosted several national debates, and supported several local government associations in their efforts to improve dialogue with national authorities. CLFD also participated in the preparation of the "GOLD II" report on the conditions of local finance throughout the world.
- The global financial crisis has exacerbated the already tenuous situation for most local finances, and the economic and social pressures of territorial development are also particularly acute in terms of employment and poverty reduction. This is why strengthening the international, regional and national dialogue on the topic of shared resources amongst the various levels of government should be seen as an essential element to strengthen democracy and the rule of law.

2. Facilitating a network of experts in local finances

- The idea of forming a network of local finance experts aims to advance the analysis of fiscal decentralization and improve the advocacy capacities of local elected officials.
- Positioned as a decision-making tool for financial decentralization proponents, this network of local finance academics and practitioners relies heavily on the local governments' financial officers who are in charge of assessing the strengths and weaknesses of the funding mechanisms on a daily basis.
- By facilitating access to information, the exchange of innovative experiences and the deepening of local financial analysis, the network helps to strengthen the capacities of local governments and related associations.

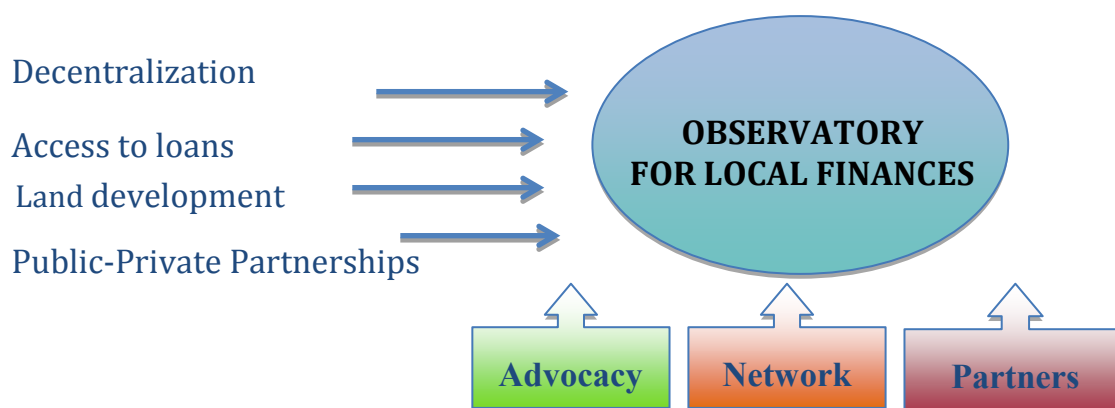
3. Linking together UCLG members and potential funders

- Even when financial markets are capable of raising the funds needed to finance urban investments or development aid agencies grant over U.S. \$ 100 billion per year, or the banks' main activity is to channel funds from lenders to borrowers by intermediating between them, or local governments are a large potential "market" for these very funders, it remains difficult to explain local governments' lack of enthusiasm for financial markets.
- Building on UCLG members and its network of experts, CLFD has created partnerships with key technical and financial development actors. In this manner, the committee facilitates the implementation of funding strategies and capacity building programs tailored to the needs of local governments.

Activities for 2012

Having an Executive Secretary since December 2011, the CLFD has been consolidating its position in Africa in order to extend its activities to other regional sections of the UCLG by 2013.

1. International observatory on local finance : a tool to strengthen advocacy for the financial and budgetary autonomy of Local Governments. By meeting both the four sub-objectives of local government's access to funding and featuring the means of intervention under a single platform, this project is CLFD's flagship project. The feasibility study began in July 2012 and will continue until April 2013



Obtaining accurate and reliable data on the financial situation of local authorities is a prerequisite for understanding the strengths and weaknesses of a decentralization system :

- Local governments need to be able to assess their status vis à vis their counterparts by having a set of reference points to better guide their financial policies. Moreover, the transparency governing such an approach is likely to facilitate access to credit for local communities.
- At the national level: through dialogue with their supervisory ministries, local authorities' associations should have an overview of the various local governments' financial situations so as to be able to propose the required adjustments or reforms.
- Regional and international comparisons are a way to share various experiences and to considerably inform the debate. While no single model of fiscal decentralization is fully transferable from one country to another given their respective individual histories, cultures, and socio-economic contexts, the pooling of various financial systems can provide a wealth of alternative perspectives while promoting healthy competition among partner countries.

In continuation of existing initiatives (country profiles, UCLG, GOLD), the Observatory will provide a dialogue platform between local and national financial decentralization actors, local finance experts, and international institutions. Beyond facilitating more substantive discussions, the tool will help develop capacity building programs that are tailored and coordinated with the appropriate training organizations and donors.

2. Seminars and workshops to deepen fiscal decentralization involving members of UCLG, their supervisory administrations, finance experts, and local donors:

- *Deepening democracy in Tunisia (May 2012)*: Discussions between members of the Constituent Assembly, the Tunisian administration and the National Federation of Tunisian Cities focused on participatory, citizen-oriented local democracy. However, cities' access to balanced finance is one of the essential conditions for them to be able to meet the needs of their populations, particularly in terms of access to basic public services. The speakers highlighted the financial autonomy plans, the establishment of a genuine form of local taxation, and the capacity building of municipal staff as the central points integral to any future reforms.
- *Funding investments in the WAEMU region: the urgency of upscaling initiatives (April 2012)* : a high-level workshop bringing together finance, decentralization and urban development ministers or their representatives, and members of the Local Authorities Council for the eight member countries and UCLG Africa. The discussions helped raise awareness of stakeholders on the poor state of local finances in view of the enormous urban investment needs in this area of economic integration as well as identified possible solutions to mobilize the required funding in the medium-term though still mindful of the necessary implementation of long-term planning tools, tax reforms, and land development in particular.
- *Support the implementation of the African Development Bank's urban strategy: a high level workshop at the «Africities» Summit (December 2012)*: Among the economic, social and environmental challenges facing African countries, urban issues have emerged as the major challenge that governments need to address. However, deficits have accumulated in most cities in terms of infrastructure, equipment and basic services. These challenges significantly hamper the productivity of African economies. The widening gap between investments and actual needs have led to a deterioration of living conditions for the majority of citizens in most cities, especially sub-Saharan cities. Well aware of these issues, the African Development Bank (AfDB) has decided to develop its funding towards local communities, as their expertise in urban investment are now largely devolved. The workshop, organized by AfDB in partnership with UCLG Africa and CLFD, will create ties between the AfDB teams and other donors committed on this issue as well as Mayors of major cities and UCLG Africa to facilitate access to credit for local governments.
- *The PEFA framework² is a tool to help local governments' access borrowing. Special session at the «Africities» Summit (December 2012)*: Introduced in June 2005 to assess the performance of Central Governments' Public Finance Management, the PEFA framework is increasingly being used today to assess sub-national entities and has the advantage of being able to replace a wide number of diagnostic tools within a single framework. This tool is equipped with operational opportunities useful when developing a tailored reform plan seeking to improve the financial management of a local government in particular, or to develop a national program supporting fiscal decentralization in any given country.²

Using the first experiences of African cities, the workshop will seek to understand how the assessment of local governments' financial performance helped optimize predictability and revenue mobilization while fostering access to loans by reassuring potential lenders. The workshop will help discuss the strengths and weaknesses identified and assess the relevance of this approach to construct the capacity building programs agreed upon between the cities, their supervisory administrations, training institutions and donors.

- *Funding urban investments through land development: How does it apply for Africa? Special session at the "Africities" summit (December 2012):* Land development has long played a major role in funding urban infrastructure. Cities like New York, London, Paris, and more recently cities in China, have made it a key component of their finance plans.

The use of various funding techniques through land development seem well-suited to cities experiencing particularly rapid urban growth as it generates immediate substantial revenues, which reduce dependence vis-à-vis debt and fiscal risks associated with loans. However, this type of funding still entices little interest on the African continent.

The workshop will seek to educate local officials and their line ministries on the advantage of resorting to these techniques and on the legal underlying prerequisites. Its goals will also be to promote exchange programs between cities and their operators in view of facilitating the implementation of these methods through pilot projects that could be financed by donors.

² *Public Expenditures and Financial Accountability*

³ *Méthodologie PEFA et collectivités infranationales: quels enseignements pour l'AFD? n°124, juillet 2012.] AFD Research Department*

3: Creating a network of local finance experts: a prerequisite for developing arguments in favor of fiscal decentralization and strengthening of financial management capacity of local governments:

The "FiNet" network⁴, created in 2007, suffered from both a lack of continuous facilitation through the Commission on Local Finance and Development due to the lack of a permanent secretariat between 2008 and 2011, as well as very limited communication opportunities with financial officers of local governments.

The year 2012 brought the opportunity to reconnect with its members, particularly those which would most benefit from the organization of the 5 above-mentioned workshops, as well as through a feasibility study to be carried out by the observatory for local finances. The Africities Summit planned for December 2012 will provide an opportunity to enhance the network of the local

government's financial officers.

While few of them are part of the cities' delegations, funding has been provided by several donors to finance the arrival of one financial officer per African country. By enabling the participants to meet, discuss, and potentially organize themselves as a network, their decision-making role will be strengthened when helping city officials identify issues faced by local governments in the areas of financial management, resource mobilization, and access to loans among other things.

It is also an opportunity to gather documentation and expertise that the local observatory for local finances will need in its implementation phase, as well as identifying innovative projects to either capitalize on or disseminate.

Beyond their involvement in preparing two special sessions dedicated to financial performance and land development, several working sessions were held on site to better define the training and capacity building needs.

These debates will help structure working groups and define capacity building programs in conjunction with national and international training institutions of territorial managers and interested donors.

⁴UCLG Local Finance Network

Forecasted Activities for 2013

- **Local finance monitoring institution:**
Completion of the feasibility study and initial implementation for 10 to 20 countries;
A first publication on the state of local finances for members of the International Observatory for Local Finances program;
- **Workshops:**
Regional seminars with two regional chapters outside UCLGA;
Conference of the African Development Bank Governors;
Rabat 2013: UCLG World Congress;
- **Network:**
Facilitation of the network will continue through all CLFD activities with the aim of extending it to two other continents;
Implementation of an interactive website to disseminate information, documentation and research;
- Follow-up of the first capacity building programs and pilot projects stemming from "Africities"; expanding partnerships with donors;

Committee of Local Finance for Development

Chair: Fatallah OUALALOU, Mayor of the Urban Community of Rabat (Morocco)

Vice President: Marvin HUNT, Canadian Municipalities Federation

Members:

Moyen Orient et Asie de l'Ouest

- Bahreïn, Ministère des Affaires Municipales et de l'Agriculture
- Jordanie, Municipalité du Grand Amman
- Jordanie, Municipalité du Grand Irbid
- Liban, Bureau technique des villes libanaises
- Palestine, Municipalité de Ramallah
- Turquie, CGLU MEWA

Afrique

- Burkina Faso, Mairie de Ouagadougou
- Congo RD, Mairie de Brazzaville
- East African local governments association
- Guinée, Commune de Kindia
- Kenya, Association of local government authorities of Kenya
- Madagascar, Région Alaotra Mangoro
- Mali, Mairie de Bamako
- Mauritanie, Communauté urbaine de Nouakchott
- Mozambique, Mairie de Maputo
- Sénégal, Association des maires du Sénégal

Asie

- Corée du Sud, Province de Jeju
- Nepal, Association of district development committees of Nepal
- Pakistan, Local councils association of the Punjab
- Philippines, Makati City
- Sri Lanka, Fédération des autorités locales du Sri Lanka

Amérique latine

- Argentine, Federacion argentina de municipios
- Bolivie, Federacion de asociaciones de municipios de Bolivia
- Brésil, Prefeitura municipal de Belo Horizonte
- Brésil, Prefeitura municipal de Porto Alegre
- Colombie, Federacion colombiana de municipios
- République Dominicaine, Federacion dominicana de municipios
- Mexique, Federacion national de municipios de Mexico
- Mexique, Municipio de Pachuca de Soto

Europe

- France, Cités Unies France
- France, Conseil régional d'Ile de France
- France, Mairie de Houdan
- France, Ville de Sceaux
- France, Association française du conseil des communes et régions d'Europe
- France, Département des Yvelines
- Allemagne, Association of cities in Rhineland-Palatinate
- Italie, Comune di Cerisano
- Espagne, Ajuntament de Barcelona
- Espagne, Deputacio de Barcelona
- Royaume Uni, Local government international bureau

Eurasie

- Kazakhstan, Public policy research center
- Fédération de Russie, Ville de Kazan
- Ukraine, Agence ukrainienne pour la démocratie et l'autonomie locale