

Minutes of the meeting of the Committee on Local Finance and Development

Haikou – China, Sunday 23 November / 11H30am - 1H30pm

- **Chair** : Fathallah OUALAOU, Mayor of Rabat-Morocco, President of the Committee on Local Finance and Development/ UCLG
- **Introduction** : Nathalie LE DENMAT, Secretary General of the Committee

I. Introduction to the advocacy: fiscal decentralization in China

The President of the UCLG Committee on Local Finance and Development (CLFD) started the meeting and relied on the experience of China in terms of fiscal decentralization, in order to illustrate UCLG advocacy.

- In China, **70% of capital public expenditures are realized by local governments**, divided between provincial/regional levels (20% of investments) and municipalities (50%). This tends to prove that there is currently in China an ongoing trend towards the application of the principle of subsidiarity and more equity in the allocation of financial resources, which constitute the two pillars of physical and fiscal decentralization. Thereby, China places itself within the expanding group of countries which comprehend that a sustainable economic growth must be settled in local territories, and supported by adequate local investments.
- Of course, decentralization cannot be narrowed to these indicators. UCLG World Report on decentralization, GOLD II, displays a number of weaknesses of the Chinese fiscal decentralization system. For instance, the fiscal power and capacity of local governments is still very limited, and therefore the local capacity of mobilization of local resources is low. Yet, **fiscal autonomy** is a crucial element for local governments' access to external resources such as loans and public-private partnerships.
- In many developing and developed countries, local governments' low fiscal autonomy is one of the main impediments to the leveraging of external resources for urban investments. China seems to stand out as an exception as it balances the low-level of structural resources with a facilitated access to borrowing. However, according to some sources, some Chinese local governments tend to cover not only capital investments but also operating deficits thanks to loans, which does not fill in the conditions for a "sustainable" debt at the subnational level. UCLG certainly voices its support to local governments' access to loans, as it constitutes one of the main avenues for meeting the urgent needs in investments, but this support relies on long-term conditions and prerequisites, including prudential standards, in order to avoid over-indebtedness situations.

- The financing scheme of urbanization in China includes the mobilization of land added-value, through the financing of local equipment by capturing part of the land value generated by local public investments. China has undergone a tremendous urban growth over the past years: Taking account of the variations in numbers depending on sources, we can say China has welcomed at least 300 million new urban dwellers over the past 20 years, which equals the total population of the United States. In comparison, Sub-Saharan African is facing a similar demographic challenge for the next 20 years but, on contrary to China, very few countries in the region are enabled to capture land added-value, which mainly benefits to private owners only.

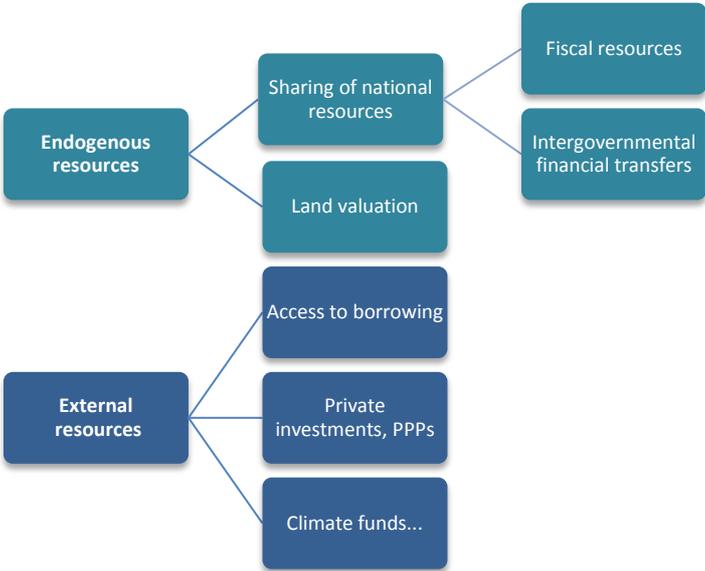
II. Main lines of the advocacy

There is a huge gap between investments needs and the amounts that are effectively dedicated to it: in order to meet these needs, **the current amounts dedicated to urban investments should on average be doubled over the next 20 years**. Moreover, this is an average, and in some countries the amounts should be increased threefold, fourfold or even more! The use of a single financing instrument will not be sufficient: it is necessary to blend financial sources, both internal and external.

There is still a lot to do in the field of local finance: fiscal decentralization is not achieved in many regions worldwide, in particular in developing countries, while developed countries have to face the harsh consequences of the global financial crisis. While central governments are assigning increasing competencies to local levels, many countries are concurrently engaging withdrawal reforms as regards with local fiscal autonomy.

Yet, in order to efficiently implement the policies under our supervision, to effectively meet the needs of our citizens and to get ready for the urbanization yet to come, we need to be able to mobilize adequate resources: **“the strengthening of local resources is necessary to make decentralization effective”**.

The Committee on Local Finance and Development is working on several avenues of advocacy:



1. **The mobilization of structural resources** constitutes the pillar of local governments' financial health and thereby their capacity to exercise the mission assigned to them, including the financing and fair delivery of public services, and of necessary investments in local equipment. The quality of this mobilization depends on the sharing of national resources between the various layers of government, which is too often done at the local governments' expense:

- This sharing tends to allocate to local governments little dynamic and hard-to-collect taxes, such as property taxes (which relies heavily on prerequisites such as land registers, cadasters, without mentioning geographical information systems), with poor returns. We are therefore advocating for the widening of local tax bases;
- As well as for the allocation of a real decision-making power on tax rates to local governments, as a crucial part of fiscal autonomy ;
- And for the implementation of efficient equalization mechanisms between layers of government, through financial transfers from the central government.

This advocacy is dedicated mainly to **central governments** that must enable local governments to finance current revenues and basic public services, while ensuring a capacity of repayment of external resources.

2. Self-financing capacity is crucial to **get access to borrowing** in good conditions, as well as to mobilize the private sector on urban equipment. If we want to meet the needs in investments in our cities, we cannot do without these external sources of funding.

This advocacy is dedicated to **international institutions**, which have to include local development in their own strategies of intervention, and allocate the necessary additional resources. The support from international donors is crucial to go along with the transition and to secure investors and local banks.

3. Finally, the committee is strongly supporting financial engineering related to **land valuation as one of the main financing strategies**, in particular in countries where it is not widely used. Indeed, the development of our territories will not be able to progress without this source of funding. Thereby we are currently launching a major study, which should take us to Habitat III well-equipped and with documented recommendations on this topic.

Currently, our line of sight as regards with the **spreading of the advocacy is closely focused on the post-2015 agenda and Habitat III**. These major international meetings constitute great opportunities for central governments to meet together with main international organizations to discuss on the challenges of tomorrow.

And these challenges cannot be overcome if local governments do not own the financial resources to sustainably develop their territories. That is why the Committee is committed, through its activities, to **be convincing and to find trusty allies**.

III. Activities



3.1. Spread the advocacy: Agenda of international events to which the CLFD will take part

Events the CLFD took part to in 2014: 2014 was characterized by a shift of focus from Africa (2012-2013) to an expansion to the whole UCLG regional offices.

- World Urban Forum in Medellin: organization of a session dedicated to the financing of urbanization ;
- «REolutions Europe» conference by the FMDV, in Paris : organization of a workshop on the state of local finance in Europe;
- 1st PrepCom for Habitat III in New-York.

Events the CLFD will take part to in 2015:

- Conference on the financing of development, Addis-Ababa - July 2016: To date, UCLG is not yet a partner of this conference, but our lobbying has been bearing its fruits as the committee of organization will send an official letter to UCLG in this sense in a short delay. The members of this meeting have validated the commitment of the CLFD on this international event, which will also be debated over during UCLG World Council on November 26th, 2014.
- 2nd PrepCom for the Habitat III conference, and possibly also to the thematic conference in preparation of Habitat III dedicated to municipal finances (to be held on request of UN Habitat General Secretary during the 1st PrepCom).

Planned events for 2016:

- UCLG World Congress, Bogota

- Habitat III

3.2. Developing the advocacy: Planned activities

3.2.1. The project of observatory on local finance: an essential tool for the follow-up of decentralization

- Progress 2012-2013: Realization of the pre-feasibility study and of the terms of references of the pre-feasibility study.

Launch in Africa on 150 cities, together with UCLG Africa.

- Key issues: Difficult collection of data and updating in many countries, and high cost of the project.
- 2015 - Pragmatic approach, and realization of a first deliverable on the main indicators in 80 countries worldwide:
 - Realization by the OECD, funded by AFD : January-Septembre 2015
 - Individual country assessments;
 - Comparative synthesis;
 - Appendix on the methodological barriers and difficulties to be overcome, prefiguring the roadmap for the observatory.
 - Call for national associations to answer to the questionnaires that will be sent to them shortly;
 - Roundtable of partners and definition of objectives for expansion.

3.2.2. Host of the global network of local governments' Chiefs Financial Officers

This network is, first, mobilizing members on the project of observatory on local finance that is dedicated to answer to their needs. It also allows them to express their will to keep exchanging on good practices, strengthening of capacities, in particular on the following themes: fiscal autonomy, financial engineering relate to land, access to loans and public-private partnerships.

- 2012-2012 : Africa, network of 40 CFOs from 33 different countries, hosted by UCLG Africa ;
- 2014 : Commencement of the expansion to Latin America and Europe
 - Latin America: A first delegation of 5 countries has met during the World Urban Forum in Medellin. Its further development is planned for 2015 to around 20 members. This network is hosted by the FMDV;
 - Europe: A delegation of 3 countries, to be developed in 2015 by the city of Bruxelles.
- 2015 : Planning for expansion of the range of CLFD activities to Asia and the Middle-East.

3.2.3. Studies in preparation of the Habitat III conference

Launch of a study on « conditions for mobilization of local financing resources for sustainable urban development ».

The study encompasses three main financing instruments of local governments:



- What are the factors for the success of public policies dedicated to the financing of urbanization?
- A systemic, cross-disciplinary analysis of the effective use of financial instruments.

Joint-methodology for the 3 working streams:

- **Stage 1: literature review**

1st data base;

1st publication;

Assumptions to be studied in-depth.

- **Stage 2: case studies**

1 seminar of exchanges with local spokespersons ;

In-depth assessment of case studies ;

Validation of assumptions and proposal of recommendations.

- Funding has already been allocated to the component « land valuation ». Funding for the two additional working streams is still to be found.

IV Discussions

The members of the Committee have ratified the roadmap for 2015-2016, and have validated:

1. The commitment of the Committee on the « Financing for Development » conference to be held in Addis-Ababa ;
2. The underlying principle of the hosting of the network of local governments' CFOs. The role of the CLFD is to start, promote and host the global network. On the other hand, the management of the regional networks on which the global network is relying is ensured by UCLG regional offices or, if possible, by networks of cities.

3. We will attempt to endow The observatory on local finance with a joint-governance, at the minimum regarding the constitution, management and maintenance of the database, while each partner will independently conduct its own analysis.

Discussions among participants have also covered additional themes such as:

- Corruption;
- Fiscal resources generated by internet activities;
- Local economic development.

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Attendees :

- Marie-Christine BOURGEOIS, Ile de France Region, Metropolis
- Alain LE SAUX, Metropolis
- Boris TONMAUSER,
- Nompumelelo MABASO, city of Durban
- Peter WOODS, UCLG ASPAC
- Desra Hilou DEFRIANA, UCLG ASPAC
- Jacques CARRIERE, FCM, Canada
- Salim KORKMAZ, UCLG MEWA
- Yasin DURDU, Union of Municipalities of Turkey
- Rasikh SAGITOV, UCLG Eurasia
- Mohamed BOUSSRAOUI, UCLG
- Edgardo Bilsky, UCLG
- Jean-Baptiste BUFFET, UCLG