



GLOBAL TASKFORCE  
OF LOCAL AND REGIONAL GOVERNMENTS  
FOR POST-2015 DEVELOPMENT AGENDA  
TOWARDS HABITAT III

## **Analysis of the Habitat III Framework Document**

### **Policy Unit 5 - Municipal Finances and Local Fiscal Systems**

Presented by UCLG Committee on Local Finance and Development

#### *1) A brief analysis of the Framework Paper*

The zero draft is close to UCLG recommendations on local finance, and put a great emphasis on the financing of urban development. It focuses on the gap between local governments' actual amount of resources and the needs in investments. The draft mentions the main financing mechanisms and acknowledges concepts such as local autonomy, capacity building and the role of associations of local elected officials.

#### *2) Identify messages or proposals that are problematic for us: a brief comment or propose an alternative wording.*

Even though the draft mentions all the issues on local finance, it makes only few references to fiscal decentralization and to its pillars, such as subsidiarity that is expected to yield to a better allocation of resources.

It could refer more to the essential link with meeting the SDGs, as well as to considerations on climate, in particular as regards local expenditures. In addition, the issue of funding basic services and utilities to promote social inclusion and resilience is not developed enough in the draft.

#### *3) Are there critical points or questions that are absent in the Framework Paper? Which ones?*

The main weakness of the draft is that it is not selective enough, which might bring to draw a list of proposals non-prioritized and insufficiently ordered. Before March 2016, it is crucial to draw strategic recommendations that we will highlight during Habitat III.

More detailed remarks:

The zero draft focuses on the need for central government to implement a **legal framework** enabling the mobilization of enough resources to meet the needs. Concepts of **transparency and accountability** should be more developed in order to draw recommendations on (i) the creation of national databases on local finance, a crucial tool to follow-up the progress of fiscal decentralization, (ii) the predictability of transfers from the State, as well as (iii) citizens' participation, as an important prerequisite to tax compliance and to the sharing of land and real-estate added value. Multi-level governance as well as the governance of metropolises are also tackled, but it should be more developed, as they represent crucial issues for defining and implementing the SDGs in a global decentralization framework.

The draft mentions the importance for local governments to have some **autonomy on their finance and own resources**, and details the main financing sources, by focusing on local taxation and land

value capture. However, fees paid for public services represent in some countries, in the North and in Latin America, essential sources of recurrent own resources, and some proposals should be made accordingly. As regards local taxation, property taxes only are developed in the document, merely considering that they represent the main components of local taxes. However, at this stage of the debate, we should make proposals of recommendations on diversifying local tax bases to enable local governments to capture part of the wealth created on their territory (residential, productive, commercial economy...) and to keep up with the economic growth at the country-level. As regards grants from the Central State to other levels of governments, they should not be considered separately from the global analysis of local recurrent resources. The good balance between local taxation, fees and grants will depend on the specificities of each national framework. A comprehensive system of local financing, based on subsidiarity, should enable to cover recurrent operating charges, and to generate an investment and debt capacity.

The paper deservedly focuses on **land value capture**, among other types of local governments' own resources. However, many instruments of land value capture make it a levy well fitted to finance investment expenditures instead of generating recurrent resources. It is crucial to draw concrete recommendations on the use of this source of revenues to fill the gap between investment needs and actual policies. In many developing countries, reforms should be undertaken on land rights, regulations and implementation of instruments for land development.

Regarding the funding of investment, various mechanisms acting as a levy on additional funding are mentioned, but the analysis focuses on **access to borrowing**. Indeed, access to loans should have a prominent place among the recommendations, but depending on contexts, other mechanisms such as public-private partnerships (PPP) and climate finance represent promising avenues for research, while we also need to stress their limits. More generally, the issue of long-term external financing should focus on the issue: how can global savings be channeled towards the local level? In this regard, a first step would be to lower the risk associated with local governments for donors and investors. Proposals on the implementation of guarantee mechanisms should be put high on the agenda of recommendations of this policy unit.

This concept of risk is closely linked to the performance in terms of management, and to **capacity building** of local governments, which are well developed in the draft. It relies in particular to the importance of exchanges of experiences and knowledge throughout the world, as well as to the crucial role associations of local elected officials play or could play in cooperation programs.