

The special event on “Mobilizing local finance to implement the Post-2015 Development Agenda”, co-organized by the Permanent Mission of France and the Global Task Force of Local and Regional Governments, was held in the run-up to the first drafting session of the preparatory process of the Third International Conference on Financing for Development (Addis Ababa, 13-16 July 2015). A full programme and list of participants are available: <http://www.un.org/esa/ffd/ffd3/preparatory-process/inputs-by-stakeholders.html> (under “Local authorities”).

Considerable backlogs in infrastructure and increased urbanization will continue to generate enormous financing needs for sustainable development at the subnational level within the next decade, which will see 2.5 billion inhabitants in urban areas. Participants at the special event highlighted that if these needs are not met, many of the SDGs will not be achieved. Moreover, in an increasing number of countries, the responsibilities for revenues, expenditures and investments in sustainable development are being devolved to the subnational level (e.g. municipalities are responsible for 70 per cent of public investments in OECD countries). In this context, there was agreement that local and regional governments (LRGs) will be key players in promoting sustainable development at the subnational level,

*With regard to mobilizing domestic resources at both local and national levels,*

- x It was noted that decentralization frequently implied the off-loading of responsibilities of the central government to LRGs. However, central governments needed to provide greater financial and technical support to LRGs in meeting their new responsibilities, including through building -capacity in areas such as tax reforms and tax collection.
- x Overall, four elements of fiscal empowerment were highlighted that could help strengthen the financial capacity of local governments: (i) greater capacity for raising own revenue through taxes; (ii) wider use of assets for revenue generation (e.g. added land value), (iii) reliable and adequate inter-governmental transfers, and iv) promoting responsible municipal/local government borrowing and access to financial markets.
- x With regard to strengthened tax collection at the local level, there was wide agreement that fiscal decentralization is crucial to domestic resource mobilization efforts. Central governments should empower LRGs to raise taxes or share tax revenues at the local levels. In many cases, central governments could help build capacity at the local level to administer taxes. Moreover, it was important to look at a wide range of taxes, including for example some forms of business taxation, natural resources taxation and surcharges on higher-level taxes (e.g. VAT, sales or excise taxes). One of the most potentially powerful but underutilized sources of LRG revenue is capture of the increment in land value generated by infrastructure projects (local roads, sewerage, transit water, etc). Successful examples in this context were the share of VAT designated for municipalities in Morocco and the fiscal decentralization in Addis Ababa, Ethiopia, with an increasing role of property taxes. Recent experiences in Brazil, China, Colombia, India and several OECD countries suggest that the land value contribution could represent an important share of public investment made in the context of development or urban restructuring projects. Nevertheless, challenges exist regarding the reliance on land tax



- x Some speakers referred to innovative financing arrangement like the Tamil Nadu pooled fund financial structure as instructive cases where inter-governmental transfers enable LRGs break into the credit market.
- x Proposals were made to create an empowering online market place for sharing projects with providers, providing access to best practices, and tool kits and templates and standard contracts.

***On localizing official development aid,***

- x Speakers noted that most of ODA currently flows to the central government. Consequently, international and regional development banks should find innovative ways to lend more widely to LRGs.
- x Localized development assistance can make an important contribution to help enable municipalities borrow and access long-term finance from domestic capital markets.
- x There were calls to ensure LRGs' access to global, regional and national climate change financing mechanisms such as the Green Climate Fund, in order to facilitate investments in adaptation infrastructure.
- x In localizing aid, it was important to carefully evaluate where local governments fit in the decentralization spectrum. The spectrum is different from country to country. For example, in Laos, local governments are not regarded as legal entities.

***With regard to building effective global and national partnerships,***

- x There was wide agreement that more international and national cooperation is required to lay a strong foundation to strengthen LRGs capacities to develop and implement local strategic plans and ensure the long-term delivery of SDGs at local levels.
- x Some suggestions on follow-up and monitoring progress included:
  - o Establishing mechanism to monitor trends in LRGs resource mobilization.
  - o Monitoring the role of IFIs, ODA providers and other actors to support fiscal capacity of cities.
  - o Creating mechanisms to monitor and facilitate sub-sovereign creditworthiness and debt.
  - o Tracking progress of SDG investment borrowing for a few countries and learn what type of SDG project needs what type of financing.

***With regard to LRGs in the Zero Draft,***

- x There were calls to incorporate LRGs more robustly into FFD process.
- x Speakers emphasized that the draft should incorporate LRGs