Local Finance and Fiscal Decentralisation

DeLoG 15th Annual Meeting, July 7 – 16, 2020 (online)
Input 1: UCLG‘s Strategy on Localising Finance and Key Challenges
Serge Allou (UCLG)
Will Covid-19 trigger the much-needed overhaul of the local finance architecture in developing economies?

1. Current situation of local government finance
2. Impact and challenges raised by COVID-19
3. Looking ahead: Policy priorities and focal areas for support
4. What role for donors and development partners?
1. Current situation of local government finance

→ LRG spending in Africa and Asian LDCs < US$ 300 PPP/capita, 4% of GDP (vs. US$ 5890 PPP/capita, 13.4% of GDP in OECD countries)
→ Weak fiscal autonomy & limited own-source revenue
→ Uneven and volatile intergovernmental fiscal transfers
→ Extremely limited access (if any) to credit and capital markets

+ Developing economies heavily relying on small and micro businesses and the informal sector
2. Impact and challenges raised by COVID-19

→ **Scissor effect** (additional expenditure vs. reduced revenue) increases financial pressure on local governments’ budget

  e.g. African local governments likely to lose 30-65% of their resources

*Figure 1: Impact on local and regional governments finances on average in the five regions of Africa*

Source: Observatory of local finance of UCLG Africa.
2. Impact and challenges raised by COVID-19

→ **Tax structure** highly reliant on **elastic sources of revenue** - sales taxes, user fees and charges vs. property taxes

→ **Low flexibility of intergovernmental transfers**; focus on capital investment vs. need for operating grants + likely to be further reduced due to the strain on national budgets

→ (Increased) inability to **take on debt** and/or **access to credit** in the near future
3. Looking ahead: Policy priorities and focal areas for support

→ **(Re)build local governments’ fiscal space**
  - Widening local government tax base
  - Increased flexibility to collect better mix of taxes and set tax rates and base
  - Diversification of the tax structure

→ **Rethink the nature of transfers**
  - Stabilisation grants
  - Countercyclical subsidy systems
  - Support of local economic development, with a focus on (new) strategic sectors
3. Looking ahead: Policy priorities and focal areas for support

→ Help local governments to access capital markets
  ▪ Development of subnational banks and special purpose vehicles for risk transfer and pooling
  ▪ Scale up innovative experiences: the International Municipal Investment Fund (blended finance) and the African Territorial Agency (pool financing)
4. What role for donors and development partners?

→ **Providing technical assistance and advisory services**
  - Strengthening planning / programming / project preparation skills
  - Enhancing LRGs’ agency in and control over the fiscal chain
  - Innovating tools: Digitisation of revenue collection, property valuation, etc.

→ **Developing sub-sovereign investment, Leveraging LRGs’ access to capital markets**
  - In the short term: Supporting LRGs current operational expenditure, redeployment of existing resources, flexibility
  - In the longer term:
    - Facilitating LRGs’ access to long term resources, developing domestic markets, crowding in private investors
    - Blended finance, covering risks, providing guarantees

→ **DeLoG**: Promoting donor coordination, facilitating exchange of experiences and information
Input 2: UNCDF‘s Work on Local Finance and Supporting Cities in the Covid-19 Response and Recovery Efforts

Tehmina Akhtar (UNCDF)
Developing local development finance systems in LDCs

Supporting Local Governments in Emergency Response & Recovery
Local Development Finance: Key areas of work and results

A Centre of excellence for local government finance promoting the transformative role of subnational governments to finance the SDGs. 443 local governments in 22 countries have been supported in 2019.

Localized investments in key sectors: In 2019 carried out 363 local investments in areas of climate adaptation, food security, transport, women’s economic empowerment and health services.

Localizing financing of climate resilience: Local Climate Adaptative Living (LoCAL) facility provides climate finance at sub national level in 14 countries covering 280 local govs (reaching 10m people). Expanded partnerships with UNFCCC, GCF and other entities enabled policy change and have mobilized USD 80 million in grants and technical assistance.

Public-private partnerships and blended finance approaches in collaboration with local governments and domestic banks have unlocked $17 million in last mile public and private financing for innovative local investments in LDCs.

Dual Key Investment process supporting local investments that incorporate both financial viability and development impact. Recognized by the International Finance Corporation (IFC) as a productive innovation of the year.

Policy development on local/municipal financing: Part of global partnerships with OECD, UCLG, UN networks on subnational financing. Launched the International Municipal Investment Fund (IMIF) in partnership with UCLG and FMDV, with Meridiam as Fund Manager.
Epidemics and other emergencies are localized and their effects may vary from one region to another and require tailored, effective and timely local response.

Epidemics produce multifaceted socioeconomic effects that may threaten the social, governance and economic fabric.

Local governments are uniquely positioned to shape, adapt and deliver a holistic response.

Cohesive response across sector boundaries needed to ensure alignment and synergies between different sector interventions in a locality.

To implement effective responses local governments require increasing support and speeding the transfer of fiscal grants, and greater flexibility in repurposing budgets and spending.
Expertise, Tools, and Instruments for Response to COVID-19

Subnational Finance

• Performance-Based Fiscal Transfers deployed in emergency context
• Immediate Support for Local Systems for Crisis Response measures
• Medium-Term Support for Public Financial Management and Fiscal Planning

Policy Support

• Policy support in economic recovery efforts, including needs of key sectors, vulnerable groups
• Longer term economic recovery planning for resilient local economies, re-integration of migrant workers, etc.
Local Development Finance & COVID-19

- **COVID-19 Emergency Response** – Local Government Finance Guidance Note for Immediate Action
- **Daily blogs and special podcasts on COVID-19** that highlight, through practical examples, how local government finance can accelerate the emergency response and the recovery from the pandemic
- **Webinars and knowledge sharing:**
  - UCLG Live Learning Experience: Local Governments under Financial Strain – What Solutions in the Face of the COVID-19 Crisis and Beyond?
  - UNDP Webinar: Establishing and Managing Business Continuity at Local Governments During COVID-19
  - DeLoG Webinar: Enabling Local Governments to Tackle the COVID-19 Response and Recovery
  - UNCDF Webinar: Will the Coronavirus pandemic affect municipal finance investment projects?
  - HLPF Side Event (July 15): Inclusive City Investment Agenda: Developing Countries’ Urbanization Challenge
- **Action Note**: Subnational finance initiative to accelerate a **gender responsive** COVID-19 response & recovery
Local Development Finance & COVID-19

• Support to Countries for Local Government Emergency Responses
  ➢ **Lao PDR**: Inter-governmental fiscal transfer with an Operational Expenditure Block Grant (OEBG) that will transfer pooled funding from UN projects directly to local governments
  ➢ **Uganda**: Support local governments to re-programme local budgets, minimize own source revenue losses and create fiscal space for local COVID-19 response through flexible discretionary finance and PPPs
  ➢ **Mozambique**: Support Gaza and Inhambane provinces to strengthen their response to the COVID-19 pandemic and protect rural livelihoods
  ➢ **Mali**: Support 4 communes to facilitate water access, hygiene products and training
  ➢ **Bangladesh**: Channel US$169,000 through fiscal transfer system to 72 LGs as an Emergency OEBG
  ➢ **Senegal**: Support municipalities, project developers and local savers in 9 local jurisdictions to implement COVID-19 responses locally, in partnership with the Diaspora and Local Economies Alliance (ADEL)
  ➢ **Sierra Leone**: WASH investment for markets and unplanned areas and slums, to enable provision of handwashing facilities, toilets, and showers for community access, including women. $542,000 to be spent on 75 investments. Grant agreement directly with city council.
  ➢ **Somalia**: Boost the municipalities’ emergency response through intergovernmental fiscal transfers specifically for COVID-19 protocols, building on the existing local development fund
Operational Expenditure Block Grants (OEBGs)

• An OEBG is a specific type of intergovernmental fiscal transfer that can be a useful and effective vehicle for governments to implement their COVID-19 response strategies.

• It combines the most effective elements of the discretionary capital grant and the discretionary recurrent grant. COVID-19 OEBG disbursement is characterized by transparency and frequency of reporting.

• The OEBG can cover the full range of budget headings and expenditure codes, enabling flexibility for:
  • Top up and co-finance interventions by departments using centrally allotted conditional funds (e.g. to make an ongoing initiative by a local hospital more effective).
  • Combine interventions by different departments (e.g. by the social services or public works department, such as re-fitting installations to promote social distancing).
  • Deploy funds for various expenditures such as hiring temporary staff or consultants, purchase fuel or PPE, or purchase motorcycles for a team of quarantine enforcement officers.
  • Be managed either by the respective departments or by a specific COVID-19 response unit under the mayor or council, or a combination of both.

• OEBGs are currently being employed in Bangladesh, Lao PDR, Mozambique, and Somalia as a way to provide much needed finance to LGs to address critical needs to address the emergency within an immediate and medium terms perspective.
Municipal grant - 14-day turnaround time

**Timeline**

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<thead>
<tr>
<th>Day 1</th>
<th>Proposal</th>
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<tr>
<td>Preparation and submission of application / proposal.</td>
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<tr>
<th>Day 8-9</th>
<th>Award acceptance</th>
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<td>Acceptance of all terms and conditions, signature of contract and re-submission to UNCDF.</td>
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<tr>
<th>Day 10-11</th>
<th>Deployment</th>
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<td>Operational delivery of COVID-19 local government response activities.</td>
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**Local government**

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<tr>
<th>Day 13</th>
<th>Day 14</th>
<th>Day 17 till end of contract</th>
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**UNCDF / Partner**

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<tr>
<th>Day 1-7</th>
<th>E-notification</th>
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<td>Direct communication with individual/networks cities and municipalities on local government response protocol and requests for assistance.</td>
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<tr>
<th>Day 1-7</th>
<th>E-review</th>
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<td>Review of applications / proposals using dual key (public financial management capacity and response adequacy) and initial selection of applicants.</td>
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<th>Day 11-12</th>
<th>E-selection</th>
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<td>Finalize selection of applications / proposals, and notification of selected local governments, and contract submission.</td>
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<tr>
<th>Day 15-16</th>
<th>E-contract</th>
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<td>Review and countersign grants contracts, and vendor setup in PeopleSoft ERP.</td>
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<th>Day 15-16</th>
<th>E-grant set-up</th>
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<td>Apply joint performance monitoring and payment triggers through PeopleSoft ERP.</td>
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<th>Day 15-16</th>
<th>E-monitoring and disbursements</th>
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<td>Transfer of successive financing tranches according to proposed work plan and monitoring of progress.</td>
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E-tools to manage grant process

- Power BI
- Oracle PeopleSoft
- DocuSign
- Apply

- E-review
- E-selection
- Award acceptance
- E-contract
- E-grant set-up
- Deployment
- E-monitoring
- E-publication
- E-notification
- Proposal
Input 3: Delivering on International Urban Climate Finance Needs

Ruben Werchan
(German Federal Ministry for Economic Cooperation and Development)
Delivering on International Urban Climate Finance Needs

Ruben Werchan, BMZ
Challenges for Urban (Climate) Finance

Global investment needed for climate-friendly infrastructure: **USD 93 trillion**
- -> 70% urban

Challenges for cities:
- Lack of fiscal autonomy
- Poor accessibility to public funds
- Barriers to enter financial markets
- Additional burden due to coronavirus pandemic
Areas of Support to Urban Finance

House of Municipal Finance
Cities Climate Finance Gap Fund

- **Relevance:** Cities often have climate action plans, however, cannot implement their project ideas (lack of capacities or resources)
- **Gap Fun:** bridges this gap – support for early stage project development - from concept to investment maturity
- **Goal:** Development of a low-carbon and climate-resilient urban infrastructure
- **Donors:** BMZ/BMU + LUX (potentially more to join)
- **Capitalisation:** 100 Mio. € to leverage an investment of 4 Mrd. €
- **Trust Fund Holder:** Worldbank & European Investment Bank
Cities Climate Finance Leadership Alliance (CCFLA)

Relaunch and strengthening of CCFLA through joint financing of the Secretariat (CPI: Climate Policy Initiative) in cooperation with BMU

Targets:

- Advocacy: relevance of urban climate financing
- Knowledge production and exchange between national governments, funding agencies and city networks
- Cooperation through the design of common governance approaches
- Replication and good practice solutions for increasing climate financing in cities
C40 Cites Finance Facility (C40 CFF)

Supporting city governments in the project preparation of sustainable infrastructure and its financing

- 19 projects in 17 cities in Asia, Africa and Latin America
- Focus: Mobility, energy and adaptation to climate
- Funders: BMZ, BEIS, USAID, CIFF

**Supporting Activities:**

1. Project Preparation
2. Capacity Development
3. Knowledge Management/Sharing
4. Partnerships
C40 CFF – Results & Updates

Colombia’s First Large-Scale Cycle Avenue (25km)  
Mexico’s Zero Emission Bus Corridor  
Durban: river management program
News from Members and Partners
World Observatory on SNG finance and Investment: SNG-WOFI

- 84% of the world surface area, 86% of population and 89% of GDP
- 19 federal countries and 103 unitary countries
- 51 low and lower middle income economies, including 23 LDCs

Fiscal indicators database

http://www.sng-wofi.org
SNG-WOFI: Making Fiscal Decentralisation Work

- Effort should be put into helping countries worldwide collect, consolidate and disseminate subnational fiscal data.
- Effort should be put into helping countries adopt/upgrade a SNA harmonised according to international standards.
- Data are necessary but not sufficient:
  - Data are crucial to design, implement, evaluate public policies, in particular decentralisation as well as to ensure accountability, transparency and trust.
  - Going beyond data remains crucial to get the facts right:
    - Developing qualitative information.
    - Developing further research to assess spending and revenue indicators.
Contacts:

OECD: Isabelle Chatry: isabelle.chatry@oecd.org
UCLG: Serge Allou: s.allou@uclg.org

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THANK YOU FOR YOUR ATTENTION!

See you next week for:

Urban and Territorial Governance