October 14th 2024

Local and Regional Governments position on Financing for Development

Contribution from the Global Taskforce of Local and Regional Governments to the 4th Financing for Development Conference

I. A global financing framework for the urban under a climate emergency

Today, we know that **local and regional governments are key actors to localize the 2030 Agenda and responsible for a considerable 39.5% of public investment worldwide**, according to the 2022 edition of the World Observatory on Subnational Government Finance and Investment[1]. They are responsible for approximately 65% of the SDG indicators and involved in providing most public services, from water and sanitation to energy and transportation, depending on each country's decentralization framework. Moreover, the increasing challenges posed by climate change and urbanization require local and regional governments to adapt and innovate continuously. These spheres of government are at the **forefront of response and if adequately financed can boost sustainable development, mitigate territorial inequalities and support caring systems that recognize care and the role of women as central** to build a more dignified, inclusive and sustainable society. Ensuring that financing mechanisms are responsive to the needs of local and regional governments is essential to facilitate their contributions to national and global goals.

The Third International Conference on Financing for Development held in Addis Ababa in 2015, saw the **first reference to subnational financing in UN intergovernmental processes: paragraph 34 of the Addis Ababa Action Agenda**. More recent reports, such as the 2024 Financing for Sustainable Development Report, punctually recognize the utility of strengthening fiscal capacities and the role of local and regional governments in public service provision due to their historical responsibility in the collection of real estate and property tax in many countries.

Regardless of the above, **local and regional governments are still not considered as distinct stakeholders in the consultation on financing and access to funding remains limited.** The global financial architecture is not fit to work with local and regional governments nor is it able to address the public investments that the climate and social realities demand at local level. The lack of adequate mechanisms leads to **underutilized funds** that lack adequate pipelines of investments, **and on the other hand, significant numbers of unfunded public services and investments that might not seem backable or suited for immediate financial returns but are critical to maintain the social fabric and ensure no one is left behind.**

As the local and regional government global organized constituency, we call for reshaping the global financial architecture and governance in a way that, firstly, is more sustainable, participatory and inclusive and, secondly, considers the capacities and needs of local and regional governments, and thirdly, redefines the type of investments that need to be prioritized around local and territorial

[1] OECD/UCLG, 2022, Synthesis Report World Observatory on Subnational Government Finance and Investment

service provision with a perspective of system of cities and paying special attention to the role of intermediary cities.

No single sphere of government nor one single actor can carry out the necessary investment to achieve the global agendas; local and regional governments can be a critical part of the solution in direct contact with communities, involving civil society and private sector. **A transversal and cooperative engagement from all actors, led by local and regional governments on the ground, is necessary to effectively fill the SDG financing gap**.

The effective inclusion of our constituency requires strengthening coordination mechanisms at national, regional and international level.

II. Local and Regional Governments call for:

a. Domestic Public Resources

1. **A strengthened local fiscal space and increased financial resources that match the currently devolved competences** through political and administrative decentralization formalized in national legal and policy frameworks based on the principle of subsidiarity.

Local and regional governments' fiscal and financial capacities are directly related to their autonomy to manage own resources for public services and investments that best address citizens' needs and local development priorities. Limited autonomy can hinder the ability of local and regional governments to respond effectively to challenges and opportunities. Linking national and local efforts, such as Voluntary National Reviews and Voluntary Local Reviews, is instrumental in assessing the needs, aspirations and progress made by national and local authorities in achieving such transformation through a structured framework with common language.

2. **Stable, sound and transparent intergovernmental financial transfer systems** coupled with equalization mechanisms to correct fiscal inequalities, both with clear allocation formulas.

Considering that the majority of subnational government income stems from national government transfers, this would provide local and regional governments with predictable, adequate, timely and reliable resources that can enhance their ability to raise revenue and manage expenditures.

3. **Fiscal decentralization policies and reforms to expand the revenue base of local and regional governments.**

Own-source revenues are central to subnational financial autonomy and to ensure the continuity of local public services, development and investment in infrastructure for the benefit of local residents. The second pillar of domestic public resources for local and regional governments focuses on closing revenue gaps through fiscal sources. through the mechanisms appropriate in each national context such as land-value capture, property taxes, local taxes, user charges and fees. Improving these revenue sources is also about promoting local government capacity in infrastructure assets management, effective local tax-collection, user fees or business licenses administration and the mobilization of digitalization for automation of payment. Innovative local taxation and fees mechanisms and designs have shown to increase payment and collection rates.

National governments should empower local and regional governments to manage these revenues through context-specific local fiscal strategies and promote revenue-generating policies with principles of progressive taxation that ensure that the poor and vulnerable are not disproportionately affected. Additionally, a shared-revenue system based on redistributing a percentage of VAT or similar taxes would empower local and regional governments to benefit from their role as engines of economic prosperity and allowing them to reinvest locally to promote social and environmental sustainability. Widening the local fiscal space would give local and regional governments the means to fully carry out their mandates with secure revenue streams for better local planning, investment and development, without over-dependency on national governments nor excessive vulnerability to conjunctural crises.

4. **Access to international public and private capital, including mechanisms and conditions adapted to the realities of public actors serving local sustainable development and providing universal public services.**

Strengthening the last mile financing ecosystem overall requires country platforms for urbanization finance gathering all relevant stakeholders to support national and subnational development banks in reforming their mandates, create new funding and financing lines dedicated to urban development, integrating domestic urban project readiness and preparation facilities, as well as create and connect to de-risking and credit enhancement mechanisms.

A streamlined and unified accreditation process for national and subnational development banks is essential to improve their access to crucial resources from major multilateral climate funds such as the Green Climate Fund, Global Environment Facility, Adaptation Fund, Loss and Damage Fund, and Climate Investment Funds. Currently, each of these funds often has its own set of requirements, guidelines, and procedures, which creates a fragmented and complex landscape for institutions seeking funding. This multiplicity of processes can lead to inefficiencies, delayed disbursement of funds, and missed opportunities for timely investments in critical climate and development projects.

b. Domestic and International Private Business and Finance

The principles of interconnectedness and collective responsibility encourage us to develop various and varied partnerships and include all committed actors to reach together our goals for the common good.

5. **Renewed partnerships with the private sector and private investment to unlock finance and investment for local public infrastructure and services**.

Collaboration between national and local public authorities and the private sector, including local businesses, households, finance entities and philanthropies, is pivotal for sustainable development. Private finance actors mobilized through corporate social responsibility are needed to gather sufficient resources to bridge the infrastructure investment gap. Partnership-building led by local and regional governments is key to develop project pipelines and investment funds geared towards common goals of sustainability and resilience.

A new generation of public-private partnerships can create market incentives for innovation, transforming the private sector’s approach to urban development while ensuring that the benefits of these investments are distributed equitably. Here, however, it is critical to support local and regional governments to continuously follow up the contracts and ensure transparency in the costs and benefits of private companies throughout implementation.

6. **Enabling legislative framework and supportive environment to facilitate access to financial markets through borrowing mechanisms, bonds and equity.**

Domestic and regional capital markets have a role to play in financing sustainable development as a complement to domestic public resources. In some countries domestic markets offer investment options that dedicate resources to local infrastructure projects led by cities and regions. This can strengthen domestic currencies and reduce the risk of debt default due to international markets and currency fluctuations. Strengthening municipal bond markets can help local governments finance their necessary local public services, infrastructure and development.

Necessary conditions include debt management training for public sector human resources and capacities and the establishment of fiscal rules that limit excessive borrowing, to ensure that this collaboration with the private sector is realized through safe and balanced interactions. Local and regional governments are also committing to increase the attractiveness of projects, pooling or bundling up projects and bringing together different sources of financing to meet investor requirements.

7. **Local government-led sustainable development with favourable financing conditions though subnational and development banks such as through concessional loans but also digital platforms and streamlined processes.**

New investment funds adapted to the needs of cities should be encouraged for local and regional governments to access domestic and international financing. In parallel, countries should use their sovereign funds to invest in subnational projects and create market emulation and a positive track record of financing local and regional government-led projects for which investors usually have prejudices.

We aim to empower local and regional governments to directly access new lines of funding. In complement, to cater for the wide range of local and regional government capacities and needs, we call for access to new channels of funding through partnerships and intermediation by specialized financial institutions dedicated to subnational funding and able to connect the global financial architecture to the local context and capacities.

8. **Risk mitigation mechanisms and guarantees to access local and international capital and banking markets.**

Complementary blended finance tools can support local and regional government access to finance, as a form of public subsidy that mobilizes and leverages private investment by reducing the risk of new financing models and projects for investors. Guarantees, risk mitigation and credit enhancements and other blended financing instruments proposed by development partners and international financial institutions are key for reaching a critical mass of resources required to meet the needs of all cities. A key advantage of multilateral guarantee facilities is that they can enable local government borrowing without affecting sovereign balance sheets.

c. International Development Cooperation

As of 2019, only USD 1.87 billion or 1.3% of total bilateral official development assistance was provided in support of cities and regions in developing countries[2]. Providing additional public aid towards local and regional governments in close collaboration with central governments can increase the impact of international development cooperation.

9. **Renew international cooperation frameworks to better associate local and regional governments in the decision-making process of global and regional agendas on financing for development**.

Channelling international cooperation and official development assistance to local and regional governments is likewise an opportunity for the SDGs. We encourage additional North-South, South-South and triangular regional and international cooperation, as well as decentralized cooperation, to contribute to subnational investment, developing capacities and fostering exchanges of financing solutions.

Decentralized cooperation helps cities in the developing world access direct financial resources and capacities, knowledge and public management skills for improving public service delivery. Community resilience funds and diaspora funds also play a crucial role in ensuring that funds are directed toward community-led projects that address specific local vulnerabilities. These funds finance projects ranging from disaster preparedness and infrastructure investment to capacity-building. Through solidarity initiatives and decentralized cooperation practices, local governments support local communities to localize financing for development and share financial practices with peers to improve collectively.

In order to prevent, plan and respond effectively to social, economic and ecological catastrophes, local and regional governments call for funds to be channelled to them through the Loss & Damage Fund and other support and cooperation mechanisms related to disaster risk prevention and reconstruction.

d. Science, Technology, Innovation and Capacity Building

Local and regional governments and their partners are deploying innovative financing mechanisms and digital technologies for revenue generation that should be adapted and generalized to implement transformative action. For all actors to be able to play their part and establish innovative and harmonious partnerships, local public sector administrations must be consolidated to interact with a wide range of counterparts and in complex financing schemes.

In order to enhance the impact of the local and regional government contribution to the implementation of the SDGs, technical assistance is a key action area. Technical assistance programs must focus on enhancing creditworthiness, infrastructure projects preparation especially in early-stage development and ensuring the continuous feeding of national pipelines of local projects. Local public officials would gain from learning to develop and structure sustainable projects and strategies aligned with the SDGs and that meet investment requirements from public and private funders. Local

[2] 2019, OECD “Decentralized development cooperation”

and regional governments need to develop internal financial engineering expertise through the training of their human resources.

10. **Technical assistance, educational resources and training programs to capacitate and empower local and regional government public officials, for them to act as the financial experts that local development and resilience-building requires.**

Capacity building is essential for local and regional governments to effectively manage their finances, receive better consideration from financiers and drive local development with an increased sense of ownership. Strengthening the capacity of local and regional governments helps them manage and maintain their public infrastructure assets to provide inclusive, accessible, resilient, sustainable and affordable public services for all. National governments can support technical assistance for local and regional governments by promoting local financial management skills in the labour market.

Capacity building can also be enhanced through peer-to-peer learning and training, but also by counting on partnerships with more specialized actors such as enterprises that can become the spearheads of scientific research. At the same time, capacity building is also necessary at the national level (civil servants in the ministries of finance and national development banks) on local governance, local finance and the capacities of local governments to drive transformative change, manage funds effectively and combat corruption. National poles of public financial experts would serve to train, identify and attract these financial engineers at domestic level to avoid depending on international or regional experts. For example, a share of the funding in every development program led by a multilateral development bank should be directed to knowledge sharing and enhancing, ensuring legacy of the methodologies, templates and logics used in the program.

The development of a regulated market for advisory firms is key to plug the gap of non-existing generations of public financial engineers. Local and regional governments need to be able to contract with firms with a real track record. Further, partnerships with local universities and research centres can create a stimulating environment and provide new experts that are better integrated in their territory and institutional ecosystem.

III. Data, Monitoring and Follow-up

Rebuilding trust in government can be tackled from the bottom up and from the finance realm. With adequate fiscal policies and sound public financial management, **local and regional governments, as the level of government closest to the citizens, can promote transparent practices and accountability for public resources.** These basic principles foment trust between citizens and any level of government that puts them in place. Accountability starts with communication, public information, disseminating knowledge and evidence.

11. **Investment in local and subnational data gathering such as the World Observatory on Subnational Government on Finance and Investment managed by the OECD and UCLG.**

By publishing detailed data on local finances, the World Observatory enables the wider public to better understand how funds are allocated by country and utilized at the local level.

The availability of public finance data and information is still limited and of difficult access in some countries but would gain to be shared openly to facilitate citizen appropriation and understanding of investment priorities and budgeting decisions. **We encourage all levels of governments to disclose and communicate financial and budgetary information, on time and with transparency, for increased accountability** to the international community, other levels of government and the general public. Global data governance should be inclusive and based on a conscious, democratic use of data, including public finance data. Based on reliable, easy-to-understand information, local communities can be better involved in participatory financial practices and decision-making related to the financing of services and infrastructure for which they are the first target users. **Active community involvement and the mobilization of local knowledge and experience can redirect funding towards development assistance, foster solidarity and create pathways to urban and territorial equality**.

V. Towards inclusive societies for all

12. A seat at the table of the 4th International Conference on Financing for Development

Finance must be put at the service of humanity, of each local community and of next generations, with SDGs and care as the guiding path. Connecting the national and subnational levels of action as well as their ecosystems of stakeholders to the global financial architecture and players is the opportunity of the decade to leverage global efforts, providing untapped resources and thriving partnerships with co-benefits.

Financing the sustainable societies of the future requires an immediate cultural shift beyond technical reforms. It must tackle our understanding of development and reshape our economic and financial systems to the core.

In order for local and regional governments to scale up social investment and SDG finance, prioritizing local public services for social protection, care, common goods and equal opportunities for all, a new financial architecture is needed, one that gives priority to the protection of common goods and culture as driver of development and promotes equality social justice driven by human rights.

The role of local and regional governments extends beyond immediate service delivery; they are crucial in shaping inclusive policies that address systemic inequalities. As the voices of communities, these governments must be empowered to influence financial decisions that affect their jurisdictions. Investing in local governance capacity not only enhances service provision but also fosters resilience against socio-economic shocks. Therefore, strengthening the connection between local government initiatives and global financial systems is paramount to achieving comprehensive sustainable development.

Global initiatives such as the Cities Climate Finance Leadership Alliance, the Global Commission for Urban SDG Finance, the Malaga Global Coalition for Municipal Finance and the Global Alliance of Subnational Development Banks all represent valuable multi-stakeholder and multilevel forums and platforms to foster dialogue and cooperation and leverage opportunities for a more resilient and sustainable development for all.