

LOCAL GOVERNMENT FINANCE – FISCAL NEEDS AND INVESTMENT STRATEGIES

Any consideration of Local Government Finances must be put into a context – the context of demand brought about by people through changing circumstances and changing attitudes on top of it providing for the basic needs of communities which is Local Governments reason for being.

It is almost universal that Local Governments do not receive adequate resources to fulfill their mandates. There is, in many countries, an often cynical attitude by many central bureaucracies in conferring further unfunded mandates on an already over-committed Local Government administration.

The Context:

The World is witnessing an unprecedented urban explosion. The urban population has more than quadrupled since 1950 and should reach five billion people by 2030. Asia is the most heavily affected region in this urban transformation.

Fast growing urbanization is giving rise to a major and pressing need for future infrastructure projects that are expected to cost some \$US200 billion per YEAR over the next twenty five years according to the World Bank.

These needs are not being met. The failure to invest in infrastructure will mean that one person in five in Asia will be living in a slum by 2020.

This is sad but ironical as the current underinvestment in urban infrastructure co-exists with burgeoning economies in many Asian countries but where the wealth is reflected in national savings, overseas investment and disproportionate wealth accumulation by a minority of citizens.

Development Banks finance few urban infrastructure projects and rarely do they lend to Local Governments. Numerous international institutions tend to give priority to Public, Private Partnerships despite the fact that they are marginally focusing on urban infrastructure.

Most donor-driven development programmes are focused on funding small-scale infrastructure projects for local communities often outside Local Government's frameworks and planning. It is also impossible to assess the portion of the



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\$US100 billion spent annually on official development aid that goes to Local Governments and local infrastructure.

In developed countries Local Governments have been successful in investing in urban infrastructure. Positive examples can also be found in developing countries too where they are well places to understand their citizen's demands and priorities and are accountable to them. If done well it not only benefits the citizens themselves but also produce positive national growth outcomes.

If we want to meet the challenge of the growing urbanization in Asia, the Local Government financial system as a whole must be reshaped, rethought and redone. So must Local Government's capacity building mechanisms

To boost local infrastructure:-

- (a) financial autonomy must be increased;
- (b) transfers from central government must be regular, predictable and transparent

(These are all necessary for investment budget planning AND Local Governments must commit to high standards of transparency and accountability.

Significant efforts are needed to provide Local Governments with effective access to finance, credits and loans to realize the needed local public infrastructure.

Investment Strategies:

Local Governments most important role involves getting the basics right. Creating the fundamental conditions for attracting and nurturing investment and employment growth requires:

- leadership and vision
- strong and responsive political governance
- fair and efficient administrative and legal frameworks
- strong financial governance
- strong and forward looking financial and asset management
- long term strategic planning



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- the provision of quality infrastructure and services required to meet the needs of business and the community (a successful city must be a good place to live as well as do business)
- strategies to deliver long term financial, economic, social and environmental sustainability
- containing leakages and wastefulness of public funds
- actively drive out any culture of corruption

These are the pre-conditions for delivering confidence, certainty, direction and a clear vision required to create a climate of investment readiness.

Local Government's primary role is good governance – it is the role of entrepreneurs to be good at business. So Local Government sets the benchmark.

Local Government cannot do this alone. It operates within state, provincial and national frameworks over which it often has little control. It needs the support of other spheres of government. However, local leadership does make a difference and areas with strong Local Government will achieve better investment outcomes than those without. Either Local Government needs to be empowered to have its own source of revenue base (local taxes, land rates, fees, charges etc) and where the revenue base is inadequate, it needs to be allocated a fair share of revenue from central government on a transparent and predictable basis

Local Economic Development:

Many Local Governments have been successful in promoting local economic development with beneficial results for its citizens' prosperity. (It is also noteworthy that smaller and mid-range Local Governments have often increased their economic base and enabled citizens to prosper in their community, rather than joining the mass migration to the mega-cities and swelling the ranks of the slum dwellers. Indeed, at long last many are questioning the notion that the mega-cities need to get overly large and that sensible, planned and sustainable urbanization can be an outcome through a planned local economic development strategy and thereby avoiding the impossible notion of caring for a dramatically large population with totally inadequate infrastructure).

A model of a successful Local Government led economic development outcome has been replicated in many locations and may include:



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- The establishment of a business incubator
- The setting-up of a 'one-stop-shop' business advisory and export centre
- The strengthening of links with a University and other educational institutions
- Facilitating and promoting tourism
- Developing a newsletter for the business community
- Creating a life long culture
- Building a business database for research and communication purposes
- Identifying and strengthening business clusters/networks
- Ensure citizens are aware and supportive of the initiatives

Good local economic development, properly planned and executed will bring great prosperity to a city. It will enhance the financial capacity of the Local Government, give a stimulus and a source of funding for infrastructure development and will promote a positive attitude amongst the citizens and a pride and commitment to their community.

Enabling Effective Local Government Access To Local Infrastructure Financing:

The United Cities and Local Governments Committee on Local Finance and Development, on which I served as a member, has made twenty-five recommendations relating to redirecting aid to the sphere of government closest to the people. This can only be achieved through encouraging a strong and collective voice of the people through cohesive Associations of Local Government.

Local Government Association Action

a) Towards National Government

1. Enable Local Government effective access to local public borrowing
2. Review specialized financial institutions
e.g. Municipal development funds
3. Actively promote the development of domestic financial markets for Local Governments
e.g. Municipal bonds, municipal insurance companies, pension funds as investors



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- b) Towards Bilateral and Multilateral Financial Institutions and Donors
1. Develop a coherent strategy to address the investment needs of small and medium sized authorities
 2. Support supply side reform and especially Municipal Development Funds in raising their performance and in involving Local Government representatives
 3. Increase the volume of loans directly channeled to Local Governments
 4. Present mechanisms for extending the period of loans and for reducing the interest rates offered to Local Governments
 5. Ensure that Local Governments benefit significantly from public development aid
 6. Systematically include Local Governments in the design and implementation of aid instruments intended for Local Government
- c) Towards Local Governments
1. Promote innovative mechanisms such as "Bank of Cities"
 2. Be proactive in proposing new policies
e.g. not waiting for National Governments, donors etc to engage in necessary reform on the supply-side
 3. Share better practice models across the board

So the financial matters for Local Government must be looked at creatively and laterally and with collective determination.

There is a need to link urban and financial planning and to elaborate realistic multi-annual investments plans with funding sources identified against a master plan. There is a need to review fiscal tools to discourage urban sprawl and promote compact urban development. There is a need to develop National Agreements (or Compact) to ensure:

- Central Governments would commit to review fiscal decentralization frameworks and engage into a five year plan ensuring regular transfers to Local Government
- Local Government would agree to improve their tax and fees collection



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- Municipal Development Funds to enhance access to credit and
- Donors and development banks would support the reforms by offering grants and loans to the partners

There is a way to financial enhancement if only the spheres of government and agencies would truly engage with Local Government.

In any consideration of Local Government finances there must be a relationship to action and actions.

This topic cannot be looked at in a vacuum . It is not just an issue of accounting, important though this

is. It is not just an issue of isolating financial considerations as if it is a discrete discipline bearing no interrelationship to the bricks and mortar of communities and their social fabric. If there was to be a sound criticism of many Local Governments it is that they do not approach the analysis of Local Governments as a whole. Too often the structures are compartmentalized and looked at as if they are separate items and not a part of the whole. Many Local Governments operate , not as integrated wholes but in separation such that the administration has a life of its own divorced from the body politic which is, or should be, the expression of the will of the people. In this context there seems no hope of establishing the problems and collectively finding the fiscal solutions which are so fundamental to the well-being of the community and its associated economic development consequent quality of life.

A sound financial management approach needs the active interaction of accountants with planners with engineers with environmentalists with health professionals with educationalists with financial institutions with sponsors with Local Government politicians and above all with the people who are the common variable across all the spheres of government. Financial issues and problems cannot be addressed unless there is a willingness to engage in a most lateral manner.

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