BACKGROUND PAPER

2017

Commonwealth Local Government Conference

Fit for the future: resources and capacity for effective local government

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Introduction

Commonwealth local government leaders were at the forefront of the campaign to ensure that the Sustainable Development Goals – universal targets for sustainable economic, social and environmental development endorsed by global governments in 2015 – recognised the role of local government as a key partner in their achievement. SDG 11 speaks directly to the importance of inclusive, safe, resilient and sustainable cities and human settlements, where local government's role is evident; but the other goals all have a local dimension, and the UN Secretary General himself indicated that many of the investments to achieve the sustainable development goals will take place at the sub-national level and be led by local authorities (UN General Assembly 2014).

In many ways this is the starting point for the Commonwealth Local Government Conference 2017 – *Fit for the future: resources and capacity for effective local government* - Increasingly we are seeing public expectations for better services rising, whilst at the same time national governments are actively seeking to reduce the size of their public service, resulting in many cases in falling fiscal transfers from the centre to local government and a consistent push for greater economies and efficiencies at the local level. The debate however needs to move beyond one of only focusing on fiscal transfers from central to local government, or local government's equitable share of nationally raised revenue (which is where the debate historically often gets rooted). The conference aims to seek and explore innovative ways to build resources and capacity and identify the correct partners and modalities of partnership in order to fulfill its expanding delivery and developmental mandate.

The three "think-pieces" which make up this background paper aim to contextualise some of the key issues which will be discussed at the conference and to prompt ideas for further debate and discussion during the sessions.

The first think-piece takes a strategic view of the need for greater local empowerment, particularly with respect to adequately resourcing local development if local and regional governments are to be able to meet growing needs and challenges. It emphasises the importance of systematic and holistic reforms to strengthen local government financing; and highlights the potential for the SDGs to reignite the debate around decentralisation, particularly in countries where implementation has stalled.

The second think-piece considers the changing environment in which local government is working and the growing importance of partnership and cooperation, to take a more practical view of some of the innovative mechanisms for financing local development. It covers central local transfers and own-source revenue mobilisation; the importance of investing in local economic development as the basis for a vibrant local economy to underpin the revenue base of local government; and mechanisms for partnership with the private sector and community based organisations including PPPs, municipal bonds, climate finance, sub-national pooled financing, social enterprise partnerships and utilisation of land and other assets.

The third think-piece is again a more strategic overview of the wider resourcing agenda looking at the importance of building and sustaining capacity at the local level. It touches on human resource management, human capacity and leadership development; the use of ICT as a means of improving the efficiency of service delivery and data collection to support improved monitoring and evaluation. It also puts a focus on the centrality of planning to the work of local government and the value of an integrated approach.

The three papers use case studies and examples from around the Commonwealth to demonstrate how countries and local governments of all types and sizes are actively seeking to build a stronger revenue and capacity base for local development.

The Conference will be an opportunity to hear from experts and practitioners on these themes in plenary and panel sessions; and there will be 12 working groups, each focusing on a specific theme where delegates can share ideas and debate in more depth, with a view to making recommendations to be endorsed in the Conference outcomes document.

Some key questions for debate emerging from the papers include:

- Can we be more strategic in reforming local government's access to resources to deliver on its mandates?
- What resources are necessary to genuinely enable localisation of the SDGs and how are they defined?
- How can we use the SDGs as a driver to re-energise the implementation of decentralisation in the Commonwealth as a means of enabling effective local development?
- Can we do more to open up greater access to own-source revenue and ensure more effective local revenue mobilisation?
- How can local government partner more effectively with the private sector and community based organisations to leverage resources for infrastructure and service delivery?
- What policies and capacity need to be strengthened to enable effective local development through investment in local infrastructure and services, as well as local strategies to address climate change?
- How can the sector use ICT to improve efficiencies, and to access data to support more effective planning, monitoring and delivery?
- How do we continue to empower local government across the Commonwealth with the necessary resources to deliver on its mandate as a partner in achieving the SDGs?
- How will we ensure that local government is fit for the future ?

Fiscal Decentralisation Frameworks for Agenda 2030: Understanding Key Issues and Crafting Strategic Reforms

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I. Subnational Governments and the SDGs: Key Roles and Challenges

The Agenda 2030 commits the international community to achieving an ambitious set of Sustainable Development Goals (SDGs) in little over a decade.[1] If this is to occur, countries will need to work in new ways and with new partners, and they must effectively use the governance, fiscal and managerial mechanisms at their disposal. Local and regional governments (LRGs) will be important actors in ensuring that the SDGs are translated into action that is tailored to the most pressing needs of their communities. They will also need to catalyse local expertise and resources, as well as secure support from domestic and external sources, to support this demanding agenda.

The UN Secretary General's Synthesis Report on the SDGs states "many of the investments to achieve the sustainable development goals will take place at the subnational level and be led by local authorities."[2] The High Level Panel on the Post-2015 agenda claims that the battle for sustainable development will be lost or won in cities. The New Urban Agenda (from Habitat III) calls for "a new model of urban development...to integrate all facets of sustainable development to promote equity, welfare and shared prosperity."[3] The Addis Abba Action Agenda on Financing for Development (FfD) highlights the subnational role in financing development and commits to scaling up international cooperation to support LRGs.[4]

Despite broad recognition of the subnational dimension of the SDGs, the specific roles that LRGs can and should play and the capacities and resources they require have received insufficient official consideration to date. To ground the rationale for Commonwealth countries to take action, it is useful to recall why, for at least several reasons, LRGs need to be key players in sustainable development.[5]

- First, high-income countries (HICs) – and increasingly low and middle-income countries (LMICs) – expect LRGs to perform a range of public functions. In most Commonwealth countries LRGs are responsible for local planning and regulation, provision of a range of public services and infrastructure investment and maintenance, among others. LRGs account for about a third of public spending and 50% (or more) of public investment in HICs.[6] Fiscal decentralisation is more recent and uneven in many LICs--LRGs often account for 10% or less of public spending, although the share is substantially higher in some cases, such as Kenya and South Africa.
- Second, many countries suffer from large gaps in public services and basic infrastructure critical for sustainable development. Needs are expected to surge as population growth and urbanisation advance.[7] The number of urban dwellers in the Commonwealth is projected to grow from 879 million today to 1.3 billion by 2030, with the highest growth in India, Nigeria, Pakistan and Bangladesh.[8] Filling the gaps will demand robust planning and investment, much of it related to functions that LRGs do or could play a key role in delivering and financing. Evidence indicates that LRGs can contribute significantly to development by raising resources, making public investments, and managing service delivery and other functions, advancing both local and national goals.[9]
- Third, many SDGs include multiple components that must be addressed collectively in specific jurisdictions, as embodied in SDG 11. Given

1 UNDESA Division for Sustainable Development (2015).
2 UN General Assembly (2014), p. 22, par. 94.
3 UN Habitat, Habitat III Secretariat (2016).
4 UNDESA, Financing for Development Office (2015), p. 16, par. 34.
5 See a more detailed discussion in UCLG (2015).
6 See UCLG (2010), Frank and Martinez Vazquez (2016), and OECD and UCLG (2016).
7 See UCLG (2010, 2014), Ingram, Liu and Brandt (2013) and UN General Assembly (2014).
8 UN-Habitat (2016).
9 Evidence is reviewed in Local Development International (2013) and EC(2016).

proximity to local residents, LRGs have more potential and motivation than national actors to think holistically about integrated territorial development, as highlighted by the Commonwealth Local Government Forum and others.[10] In addition, while SDG 11 is the only SDG that specifically targets LRGs, 103 of the 169 SDG targets (61%) are considered relevant to cities or have a component and will need action at the local level.[11] National actors need to elaborate frameworks and provide support, but LRGs can often take the lead role in developing and managing integrated sustainable development plans to inclusively meet the needs of their constituents.

- Fourth, many SDGs centre on alleviating prominent and interconnected global conditions that pose significant challenges--global warming, financial instability, energy deficiencies, health crises, and food insecurity, among others. International and national government measures are clearly essential, but LRGs have already taken action on these fronts in some countries and are well situated to develop additional innovative responses - through climate adaptation policies, energy conservation, green growth strategies, local resource mobilisation, etc.[12]

All LRGs can help advance the SDGs, but urban areas are especially prominent. Cities drive economic growth - urban areas commonly produce a quarter or more of GDP in both HIC and LMICs. Nearly half of the global population is already urban, and urbanisation is expected to near 85% in industrialised and 64% in developing countries by 2050.[13] The urban record in creating jobs, delivering services and promoting sustainability, however, is uneven, and LICs face acutely severe challenges.[14] To achieve Agenda 2030 cities will need to be able to take a lead in ensuring equitable economic growth, planning for resilience and climate adaptation, and encouraging innovation and social integration.

If LRGs are to maximise their developmental impact, countries require robust intergovernmental frameworks and policies that empower, finance, motivate and support LRGs and citizens. Current systems, even in HICs, exhibit weaknesses or need updating, and capacity deficits can be large, especially in LICs. Particularly striking are limitations on the revenue side-own - source revenues, intergovernmental transfers, and development finance - and unfunded expenditure mandates are not uncommon.

Much has been written and considerable action taken to improve fiscal decentralisation.[15] Some reforms have helped, but many fall short, especially in LMICs. Weaker than expected performance results from various factors - inadequately contextualised design, unrealistic expectations, haphazard implementation, and political forces, including central reluctance to empower LRGs and local political dynamics. Conventional approaches to fiscal decentralisation are useful, but their application - and their relevance for the SDGs - must recognise the challenges to be overcome and the extensive variations in goals, structures, functions, capacities and performance across and within countries.[16]

Many considerations are relevant for defining and realising a stronger LRG role in the SDGs. This note focuses on four.

- First, decentralisation reforms are often unduly standardised and inadequately coordinated - more contextually sensitive and holistic reforms could enhance synergies among intergovernmental system elements and improve results.
- Second, efforts to improve LRG finance are often inadequate and piecemeal - more focus on integrated resourcing can support development and the SDGs.
- Third, despite the value of a more holistic and integrated approach to framing reform, not everything can be done at once--crafting a pragmatic implementation strategy is essential for even the best designed reforms.
- Finally, the prominence of the SDGs raises a productive opening to rethink fiscal decentralisation reforms that have not gained traction on their own merit.

10 CLGF (2007, 2013), Romeo (2013), and EC (2016).
11 Greene and Meixell (2017), p. 10.
12 See, for example, UCLG (2014).
13 See, for example, UNDESA Division for Sustainable Development (2015).
14 See, for example, McGranahan and Sattherthwaite (2014).
15 See, for example, Bahl, Linn and Wetzel (2013) and UN-Habitat (2015).
16 Diversity is a theme throughout the decentralisation literature. See UCLG (2010, 2014).

II. Contextually Grounding and Integrating Decentralisation Reforms

Reforms to improve intergovernmental systems and enhance the role and performance of LRGs are common, but they are often based on simplified general principles. These can lead to overly homogeneous reforms and do not provide LRGs with flexible tools to address their distinct development needs.[17] In addition, many reforms target specific elements of the system - for example focussing on either the expenditure or revenue side, only addressing policy design or implementation and management, etc. A principle-driven and targeted approach is pragmatic, but reforms must also account for specific characteristics of each country and LRG, and even narrow reforms must be structured to work harmoniously within the larger intergovernmental system.

Decentralisation is framed as assigning public functions to LRGs along with systems and funds to support implementing these responsibilities to meet public goals.[18] Its multiple forms and accountability channels are well known - deconcentration (local units of higher levels), devolution (elected LRGs with powers) and delegation (certain function(s) contracted to a LRG or private entity), as are key dimensions - administrative, fiscal and political. The dimensions cannot be treated independently if decentralisation benefits are to be achieved, e.g. political decentralisation (elections) means little unless LRGs have the resources and capacity to respond to their constituents. Decentralisation can be undertaken in unitary systems (central government defines LRG powers), or in federal systems (an intermediate tie - state or province - has a role in defining/managing functions of lower tiers). Unitary systems can be used to govern very large countries or small island states. Exactly how the public sector will operate depends on the types of powers decentralised and the position of LRGs in the larger institutional architecture.

LRG service provision - especially under devolution where citizens directly elect councils - is expected to improve delivery through better governance. Increased proximity of decision makers to their constituents increases accountability and responsiveness, and a more precise tailoring of actions to local needs increases efficiency in the use of limited funds. Relative to central actors, LRGs in principle have greater incentives to innovate (and compete with peers). LRGs can also think holistically about local development compared to specialised sectoral agencies working in silos, which often dominate at central level. Still, inadequate systems, undue central interference, problematic local politics and weak capacity can work against potential benefits of decentralisation.

Fiscal decentralisation starts with the division of public functions, both those unique to LRGs and those shared with other levels. LRGs are typically given legal authority over a set of functions, but murky legal provisions or obstructionist central behaviour can hinder implementation. Ambiguity can create gaps or redundancies in service delivery, complicate resource mobilisation and allocation and create uncertainty about what central governments and citizens should hold LRGs accountable for.

There have been recent efforts to promote a broader view of decentralisation that advocates empowering LRGs to meet a general mandate to develop and provide for the welfare of their territories rather than simply to assume roles and functions assigned to them by the central government.[19] Often referred to as developmental local government, such an approach sees LRGs as proactive drivers of integrated development and can benefit the SDGs, but this places greater demands on LRGs.

As per the "finance follows function" principle, each level needs adequate funding to meet its obligations and general development mandate, which is often a challenge (more below). Effective fiscal decentralisation also depends on systems to manage generation and expenditure of LRG resources, including public financial management (PFM) and fiscal responsibility frameworks. Much effort has been devoted to developing such mechanisms, including use of new technologies for assembling and using information.

LRG performance also depends on the definition, implementation and enforcement of the broader constitutional, legal and administrative framework

17 See Bahl, Linn and Wetzel (2013) and Smoke (2015a).
18 Overviews include CLGF (2007), Boex and Yilmaz (2010) and Eaton et. al. (2010).
19 See CLGF (2013), Romeo (2013), and EC (2016).

in which LRGs operate. This goes beyond fiscal and managerial dimensions that focus on LRG powers and functions, planning and budgeting, etc., Property rights, for example, affect property tax policy and administration and have implications for governance and accountability. Civil society rights open space for civic engagement, which can influence LRGs behaviour and the types of partnerships and relations they develop with different sections of the community.[20] Such factors can have a significant effect on the extent to which LRGs are accountable to their constituents in how they generate and use public resources.

Finally, it is vital to highlight the significance of the institutional diversity noted above. Countries may have multiple levels that blend devolution, deconcentration, and delegation in varied ways. One may dominate or forms may vary, e.g. devolution at one level and deconcentration at another. Intermediate tiers (states, provinces) may have more power than lower tiers (municipalities, districts, etc.), especially in federal systems like Canada, India, Nigeria and Pakistan, or the opposite may be true, as in South Africa, Indonesia and the Philippines. Relations among levels may be relatively independent or more hierarchical, affecting accountability and the autonomy with which LRGs operate.

Relations among units at a particular level, including within key metropolitan areas, can range from well coordinated to highly fragmented, shaping service delivery across multiple jurisdictions.[21] Other governmental (e.g. service delivery boards) and/or private actors may have specific responsibilities, and these may or may not be well linked to LRGs. In some cases, other actors trespass on the legally defined functional territory of LRGs. In Sri Lanka for example there is overlap between the responsibilities of various levels of government (central, provincial and local) as well as among elected and appointed actors operating at the local level.

Small island developing states (SIDS) face additional challenges in that they are often characterized by fragmented and weak administrations and governance structures, limited sources of revenue, small populations, and in island atolls large distances between jurisdictions, limiting opportunities to take advantage of economies of scale. They also face significant impacts from climate change and have limited resilience to economic or environmental shocks. In such environments LRGs are on the front line in terms of service delivery but have limited financial tools at their disposal, and the blurring of responsibilities between central and local administrations can add to the challenges.

In short, decentralisation and LRG performance must be understood in terms of the institutional framework in a specific country and the formal and informal relations among differentially empowered levels and units of government and other governmental and nongovernmental actors. Without such an understanding, it is not possible to fully explain LRG performance, to interpret properly the factors that shape it, or to develop meaningful and sustainable reforms intended to improve it. In some cases, major changes in institutional structures could be justified, but only a few countries (e.g. Kenya, Nepal and South Africa) have managed such politically sensitive restructuring.

III. Requirements and Options for Subnational Government Finance

Finance is critical for the SDGs, and subnational finance has been characterised as the missing link in sustainable development finance.[22] Like decentralisation in general, there have been many efforts to improve LRG finance, but they have often been fragmented and performed unevenly.[23] Various frameworks and analysts have targeted selected elements - functional assignment (particular sectors), local revenue generation (specific sources, such as property tax or user charges), intergovernmental transfers (specific types, such as unconditional, conditional or performance-based, and various forms of development finance (transfers, subsidised loans, market loans).

Focused analysis and policy are needed, but so is an understanding of how these elements interact. Are there adequate resources to finance a new LRG

20 See Yilmaz, Beris and Serrano-Berthet (2010), Agrawal and Ribot (2012) and Faguet (2014).
21 See Slack (2015).
22 UCLG (2015)
23 UCLG (2010), Bahl, Linn and Wetzel (2013), Smoke (2015a), UCLG (2015), UN-Habitat (2015), and UNDESA/UNCDF (2017).

function? Might transfers discourage own source revenue generation and borrowing even when use of these options is viable? Are some actions more fundamental or higher priority or more feasible than others? On balance, it is important to consider reforms in a more integrated and strategic way, even though specific reforms ultimately require dedicated attention.

Options, starting points and trajectories will depend on current and evolving economic and fiscal conditions in each country, including the economic base, the level of development of capital markets and the availability and nature of international assistance in poorer countries. Thus, although promoting greater LRG financial capacity and autonomy is generally desirable, appropriate provisions in a particular country will vary, and they should be expected to change over time as relevant conditions evolve to promote stronger economic development and create better access to capital markets.

Another critical concern is that individual countries are comprised of a range of LRGs with different needs and capacities - ranging from metropolitan and secondary cities to small towns and rural areas - that require varying mixes of finance policies and instruments. Some LRGs (especially urban) have greater opportunities to raise resources, while in other cases, transfers will be more important. Similarly, in some countries at least a number of LRGs will be able to tap capital markets, while for others central government support of LRG borrowing and development finance more generally will be required.

The SDG/FfD agenda has focused on development finance, particularly borrowing and private finance for LRG investment. This is appropriate but not sufficient for LRGs to engage effectively in the SDGs. LRGs also need adequate authority over infrastructure development if they are to be responsible for it. They will be unable to take loans without managerial and fiscal capacity, including to raise revenues for operation and maintenance and debt service. The LRG development finance environment is especially challenging in many LMICs. Thus, assessment of what is initially feasible and a strategy to build a sustainable LRG finance system - recurrent and capital - are essential.

The Revenue Landscape

Central governments have intrinsic advantages in revenue generation given the nature of productive revenue bases and administrative scale economies, while LRGs often have the edge in providing certain public services due to variations in needs and preferences across jurisdictions. This means that intergovernmental transfers are inevitably important, and how national resources are shared with LRGs is critical. Yet there is a convincing case for LRGs to raise a reasonable portion of their own funds. LRG revenue generation reduces pressure on national budgets, links the costs and benefits of services, raises funds to repay loans for infrastructure investment, and frees up national resources to assist LRGs with weaker fiscal capacity, among others.

Own Source Revenues

The often-high functional demands and restrictions on own-source revenue generation result in substantial differences between LRG expenditure responsibilities and revenue capacities LRGs in MICs and HICs may collect 20-30% or more of their total revenue. In LIC, it is often 10% or less, although there are outliers and there can be much variation within countries. Generally, the superior revenue bases and capacity of major urban governments relative to smaller urban and rural jurisdictions allows them more fiscal independence, but not always. In federal systems, urban governments' revenue authority can be constrained by state government control over local revenue policies and practices.

There is broad agreement that many central governments, especially in LMICs, are cautious and decentralise fewer revenue sources than would be justified by fiscal principles and LRGs needs.[24] Still, a range of LRG own-source revenues is typically available.[25] These include property tax, fees and charges, licenses, economic activity taxes, and sometimes at intermediate, urban or metropolitan levels, motor vehicle and natural resource revenues and business or sales taxes. Voluntary LRG surcharges on higher-level taxes are commonly recommended but less frequently used, more

24 See UCLG (2010, 2015).
25 Bahl and Bird (2008), McCluskey and Franzen (2013), Martinez-Vazquez (2013) and UN-Habitat (2015) review LRG revenues.

commonly in federal or large countries and typically for regional rather than local governments.

Even where LRG revenues are used, however, they are often underutilised. Intergovernmental transfers can create disincentives for LRG revenue generation, limited information and capacity create administrative challenges, and local political dynamics can weaken enforcement. Central regulations and controls are also a common constraint. Full local autonomy over any tax is rare, but there can be some control over the rate, at least within a range. Charges for LRG services, such as water, may be subject to regulation but with some discretion. Of course, LRG own-source revenues and tax sharing provisions are quite diverse, as are the conditions in which they operate. Thus, if LRG revenues are underutilised, it is important to understand what limits yields if the situation is to be improved.

In several countries, there have been positive LRG revenue generation reforms. Some initiatives involve fresh approaches to managing conventional LRGs sources, such as property taxes, including in Bogota (Colombia), Nairobi (Kenya), Mzuzu (Malawi), Maputo (Mozambique), Lagos (Nigeria), and Bo (Sierra Leone). There have also been initiatives to create and expand new LRG sources, such as land value capture to raise funds from land value increments generated by infrastructure (roads, sewerage, transit, etc).[26] Instruments include betterment levies, land readjustment, special assessments, and tax increment financing, among others. Thus far land value capture has been used more in HICs and stronger MICs, e.g. Brazil, China, Columbia, and India, but there will be greater scope in LMICs as urban growth advances and fiscal reforms to strengthen LRGs are adopted.

Intergovernmental Fiscal Transfers

LRGs in most countries - whether HIC or LMIC - significantly rely on intergovernmental fiscal transfers (IFT) given the imbalance between appropriate expenditure and revenue decentralisation, although urban areas can be more fiscally independent.[27] Transfers can improve LRG resource access and autonomy, as well as help to meet priority national development, service delivery and equity goals, including those embodied in the SDGs.

Several aspects of intergovernmental fiscal transfer systems merit consideration. First, given own-source revenue constraints, LRGs require sufficient and predictable intergovernmental fiscal transfers. There are many demands for public revenues, so central governments cannot fully provide for all LRGs, and the centre also needs flexibility to respond to macroeconomic conditions. Nevertheless, there has been a movement to define the total volume (pool) of intergovernmental fiscal transfer resources in a relatively predictable way to limit disruptive (and politicised) variations in the amount of national funds shared with LRGs.

Second, it is now common to allocate the intergovernmental fiscal pool on the basis of objective criteria, reducing politicisation and improving transparency. Intergovernmental fiscal formulas allow the centre to advance key goals - improving LRG resources (for poor LRGs if intergovernmental fiscal transfers are redistributive), increasing autonomy (unconditional intergovernmental fiscal transfers), and targeting high priority functions, including those related to SDGs (conditional intergovernmental fiscal transfers). Indeed, a key decision about intergovernmental fiscal transfer systems is which goals are a priority and what this implies for how intergovernmental fiscal transfers should be allocated.

Third, there can be problematic incentives generated by intergovernmental fiscal transfers. If transfers are large and the formula fails to incentivise LRG tax effort, intergovernmental fiscal transfers may dampen own-source revenue generation (and local accountability) as well as borrowing by creditworthy LRGs, even for self-financing infrastructure (reducing funds for less bankable LRGs or investments). In addition, strong conditionality may create incentives to over-privilege certain sectors or to invest in infrastructure that LRGs do not have resources to operate and maintain.

Despite some of the trends, the practice of intergovernmental fiscal transfers is highly diverse. Many countries increasingly define rules for

26 Ingram and Hong (2012), World Economic Forum (2014), Suzuki et. al. (2015), UN-HABITAT-IDB (2016), and UNDESA/UNCDF (2017) review various experiences with land value capture.
27 Synthetic reviews of intergovernmental transfers include Bird and Smart (2002) and Shah (2013).

determining the annual intergovernmental fiscal transfer pool, e.g. basing it on a share of a set of taxes or national revenues sources (e.g. Ghana, Kenya, Indonesia, Mexico, the Philippines). In other cases, the intergovernmental fiscal transfer pool is still determined annually in the budget process (e.g. South Africa, Uganda) or set for a specific period of time (e.g. five years in India and Pakistan based on National Finance Commission recommendations).

Some countries have relatively consolidated intergovernmental fiscal transfer systems, e.g. one main unconditional formula-based intergovernmental fiscal transfer in Indonesia, Kenya, and South Africa. Other cases use more than one intergovernmental fiscal transfer or place conditions on general revenue sharing use, as in Brazil, Ghana and Uganda. The level of conditionality can shift over time, as in Uganda, where the centre has increased restrictions on the use of shared funds. Many countries share national revenue with each level of government, but in some cases, such as Canada, India, Nigeria, and Pakistan, most transfers go to the intermediate tier, leaving sharing with lower levels largely a state or provincial decision. In all countries a key concern is getting the right balance among the various types of transfers and creating incentives for LRGs to behave in a developmental and fiscally responsible manner.

Financing Development

Subnational governments account globally for nearly two-thirds of public infrastructure investment, about a third of which is financed with grants.[28] In LICs and many MICs, grants tend to dominate. In some cases, a main general transfer programme covers recurrent and capital spending, while in others there are dedicated development transfers, some unconditional, but more commonly for specific sectors. These may be distributed for specific projects or by formula, and LRG matching contributions are not uncommon.

Access to loans from capital markets has been important in HICs, but in LMICs this is an option primarily for selected larger cities, metropolitan governments and regions. Developing LRG borrowing channels can be done over time, but this requires reforms to strengthen the intergovernmental fiscal framework and to build LRG fiscal responsibility and creditworthiness. Where direct access to capital markets is not feasible, quasi-public financial intermediaries, such as municipal development banks/funds have been used. Many such entities have performed poorly, but often due to design flaws and politicisation that can be corrected where there is a genuine desire for reform.

There have in fact been efforts to improve LRG access to development finance. Some countries have developed new borrowing/fiscal responsibility frameworks and have been reinventing financial intermediaries for LRG lending that are more professional and operate on more market based principles, as well as opening financial markets directly to eligible LRGs.[29] Other approaches to enhance LRG access to loans include, for example, risk mitigation strategies, such as central government credit guarantees, co-financing initiatives, secondary market support, bond banks and credit pooling.[30] A key element of reform, especially for secondary and smaller cities is building the capacity of administrations to access capital markets and manage loans once secured.

LMICs that have made progress in LRG borrowing have typically offered a range of options using different approaches and with different target LRGs and types of projects. India has expanded use of municipal bonds (with and without tax-free status and guarantees). Other mechanisms at the state level, such as Tamil Nadu Urban Development Fund and Greater Bengaluru Water Supply and Sewerage Project, use pooled financing for LRG lending. Much infrastructure in the Philippines is financed through a public entity, the Municipal Development Fund (which mixes grants and loans) and a private entity, the Local Government Unit Guarantee Corporation. The Development Bank of Southern Africa (a government-owned entity) and the Infrastructure Finance Corporation (a private corporation that issues bonds) are the largest players in LRG lending in South Africa, but some larger metropolitan governments, such as Cape Town and Johannesburg, have issued bonds.

28 See the analysis in Martinez Vazquez and Timofeev (2012). Other studies indicate a smaller but still major role.
29 See Ingram, Liu and Brandt (2013), Smoke (2013), and UCLG (2015).
30 See Kehew, Matsukawa and Peterson (2005); Matsukawa and Habeck (2007), FMDV (2015) and AFD and UNDP (2016).

Although these examples have pursued approaches that offer multiple options, there are also country reforms that focus on particular mechanisms. Some LRG infrastructure finance in Sri Lanka, for example, is supported through the Local Loans and Development Fund (LLDF), which provides funds at concessional rates for public utilities. Belize City (Belize) has issued municipal bonds for public investments, showing that this instrument can be viable under the right conditions even for small cities.

In short, advances are possible, but the majority of LRGs in many LMICs are not creditworthy and need support to build capacity, develop financing strategies and access finance. A good development system under such conditions requires an appropriate range of debt finance options, ranging from grants and subsidised (according to clearly specified criteria) loans for poorer LRGs and non-self-financing projects, to various types of loans for more fiscally sound LRGs and revenue-generating projects.

Direct access to capital markets is appropriate for creditworthy LRGs if the central government regulates borrowing and enforces fiscal responsibility. Where LRGs are fiscally weaker, more public intervention is generally required. Dedicated financial intermediaries can initially be publicly controlled if designed to minimise politicisation of lending and repayment. Over time, the private sector can become increasingly engaged as LRG creditworthiness improves and perceptions of risk abate.

The most critical challenge is how to "graduate" weaker LRGs from grants and subsidised loans to greater use of credit markets. This requires some harmonisation in the use of grant and loan mechanisms. Wealthy urban governments should not receive grants and highly subsidised loans for self-financing projects - such funds should largely be reserved for weaker LRGs and projects that cannot directly recover costs. Weaker LRGs could be required to take modest loans to begin to build capacity and a trajectory towards creditworthiness. Another issue is how to capitalise municipal development banks/funds, perhaps through an evolving mix of support from development partners and private sources.

Other mechanisms and approaches can also enhance infrastructure finance. LRG public-private partnerships (PPPs) have been challenging, especially in LMICs, but they hold future promise.[31] A number of development partners, including the IFC, the African Development Bank and the multi-donor Cities Development Initiative for Asia and UNCDF, have supported or proposed various kinds of Project Preparation Facilities to promote local infrastructure investment.[32] Concerns about Project Preparation Facilities include their focus on bankable large-scale projects and favouritism to the private sector over LRGs, but they may free up public funds for LRGs and potentially be modified for direct LRG use.

IV. Strategic Implementation [33]

The types of reforms needed to expand or recalibrate intergovernmental and LRG finance systems to better support the SDGs will vary across countries. HICs with more established systems and capacities should be in a better position to adopt reforms. In many LMICs where decentralisation is newer and capacity needs to be developed as reforms are rolled out, the challenges tend to be greater. What needs to be done may be some distance from current policies and practices on the ground. Moving too quickly or without careful planning may jeopardise reform initiatives and limit their intended results.

The first step is obviously to document the specific nature of the problem(s) to be addressed. Are LRG services or revenues generally lacking or is the problem more specific? The next step is understanding why the problem exists. Is the source primarily technical, political or both? Is the problem more related to empowerment or capacity deficits? Have LRGs failed to meet responsibilities or are other actors obstructing their performance or intruding on LRG roles? If resources are limited, what are the key issues - weak LRG creditworthiness, flaws with intergovernmental transfer systems, failure of LRGs to collect revenues from a productive base, local citizen reluctance to pay taxes or user fees, and so on? Further assessment is also required. Are LRGs not creditworthy because they do not have access to

31 See Marin (2009), Brinkerhoff and Brinkerhoff (2011), Ingram et. al. (2013), and Suzuki, et. al. (2015).
32 GIZ (2014) and World Economic Forum (2014) review some experiences with project preparation facilities.
33 Some work on implementation of decentralisation and LRG reform includes: Connerley et. al. (2010), Eaton et. al. (2011) Bahl and Smoke (2015b).

own-source revenues or they have weak capacity or they have political credibility problems and cannot collect potentially productive revenues?

It is impossible to exhaustively outline the necessary analysis here - there could be many more questions, and a serious analysis would have to dig deeper. But developing answers to some basic questions can begin to suggest the types of additional inquiry required and to identify solutions that might be considered. At the same time, the relative severity of underlying problems and linkages among them need to be documented, at least to the extent that some operationally specific steps can be proposed that do more than adopt generic reforms routinely recommended to deal with typical problems.

Different actions will involve different lead actors. For example, only the central government can deal with a lack of LRG empowerment or intrusion of central agencies in LRG responsibilities. LRGs, however, may be in a position to improve collection of own-source revenues or pursue new sources consistent with legal provisions. In many cases, collaborative actions by central and subnational governments will be required.

Once the nature of a problem has been identified and the factors underlying it have been documented, a pragmatic strategy for reform can be developed. This is potentially demanding, and there are many ways it could be done, again depending on context and which actor leads. If action were taken by the central government to enhance the powers and capacity of LRGs, for example, a strategy might include certain elements - starting points, incentives, and capacity development.

First, it would be important to *identify starting points for the reform process*. In some cases there will be opportunities to take major steps quickly. In other cases, a more cautious approach would be indicated. Taking into account the results of the type of diagnostics suggested above, initial steps could engage motivated partners and focus on solutions more likely to realise quick wins. This requires prioritizing reforms, perhaps focusing on basic tasks that don't excessively intimidate key power bases or overpower LRG capacity. It would of course be productive to identify something that is significant and visible enough to begin to move the system in a better direction and with potential to initiate an articulated process that could sustain advances. Leadership from both central and local and regional governments in this phase of reforms is essential in building a shared vision and stakeholder buy-in for the starting point and more challenging steps to come.

A related concern is that national decentralisation reforms often assume LRGs to be similar and do not sufficiently distinguish among them. Treating those with limited capacity as being capable of assuming major functions tempts failure, while unduly controlling LRGs with demonstrated capacity and intent is wasteful and undercuts local accountability. Differential starting points (asymmetric decentralisation) can be constructive, such that these LRG variations are recognised in the reform process. Some reforms could even be negotiated with LRGs, placing some onus on them to observe steps they agreed to. Such an approach may also help ensure that LRGs will try to prepare for more responsibility and also improves the confidence of other stakeholders.

A related issue is that individual elements of LRG governance should be linked to recognise the interdependencies outlined above, even if initially in a limited way. A fragmented reform approach targeting only limited aspects of the system may sometimes be effective, but it can also result in reforms that appear consistent with accepted principles and good practice but cannot independently create or sustain desired results.

Second, there is value in *constructing both positive and negative incentives* (rewards and penalties) for central and local and regional actors to meet agreed measures. Where multiple actors (e.g. ministries that must take actions to empower or support local governments and/or international development partners who provide assistance), are involved, some institutional mechanism to oversee, support and enforce implementation could help to motivate all actors to meet their obligations. Developing such mechanisms is not easy, but efforts in this direction can raise awareness and help to improve compliance.

Various types of incentives may encourage LRG adoption of reforms and improve performance. These include: enforceable accountability mechanisms, such as central government contracts with LRGs (e.g.

Rwanda); financial incentives to adopt reforms and meet targets (e.g. Bangladesh and Uganda), such as compliance or performance based grants; and tournament approaches, such as contests or review processes that recognise improved service delivery, revenue generation or other LRG achievements (e.g. Australia and the Philippines).

Third, *enhancing capacity building and technical assistance* are widely acknowledged as critical for implementing LRG reform. These functions, however, are often standardised and mechanical. Although lessening, there has been a persistent predisposition to use traditional supply-driven classroom training and not enough "on the job" training to enhance the development, application and retention of relevant skills. Even more fundamentally, without civil service systems that adequately compensate staff and provide meaningful career progression, those with enhanced capacity may move to other jobs.

There has also been an enduring bias on developing technical skills, which are obviously important, but governance capacity is also needed for sustainable reform. LRGs need to learn how to work more effectively with higher-level governments, their peers and their constituents, and elected and appointed LRG officials must also work effectively together. To some extent such needs are recognised in the push to improve accountability in multi-stakeholder environments, but consensus may be more on paper than in practice, and governance capacity may continue to be pursued in superficial and piecemeal ways.

Finally, the overall strategy needs to be consolidated. The trajectory of reform, which as noted above can have different starting points and paces, should ideally incorporate incentives and be directly linked to efforts to build capacity and improve performance over time. Technical reforms can be rolled out in a way that ties capacity development to specific functions that will be undertaken during a particular period. Reforms could progressively proceed based on well-defined criteria that make it clear what a LRG must do before being empowered with additional responsibilities or resources.

Such an approach can be challenging and may risk becoming overly bureaucratic, and in cases with more advanced systems in place and generally stronger capacity it will not be necessary. More thinking and effort in this direction, however, can often be productive, and it may reduce arbitrary or politicised decisions about moving on to next steps and limit stalling of LRG empowerment processes which is often experienced, especially in LICs.

An implementation strategy will also be required for actions LRGs can take more independently of the national government. Even capable LRGs will often need to act strategically in adopting reforms that, for example, require major increases in taxes paid by local residents. One approach might be to tie revenue increases to specific benefits. If moving to full property valuation is intended and current valuations are low, assessment ratios could be phased in and tied to service improvements for local businesses and residents. Similarly, new user charges could move gradually towards cost recovery to avoid undesirable inequities, reductions in basic service use, adverse administrative impacts, political resistance, etc. New systems and procedures could also be tested through pilot initiatives, allowing experimentation and modification before wider adoption.

V. Linking Fiscal Decentralisation Reforms to the SDGs [34]

As emphasized throughout this note, fiscal decentralisation reforms have been pursued for decades, often with underwhelming or mixed results. The emergence and prominence of the SDGs present an opportunity to weigh the implications of the SDGs for the strategic pursuit of decentralisation reforms. Assessing how to localise and implement the SDGs can also provide insights into how to prioritise and sequence decentralisation reforms, both fiscal and beyond. Pursuing reforms in this way may help to get traction on essential fiscal decentralisation reforms that have not taken root in previous incarnations.

Although there is a common set of SDGs, each country's particular challenges with respect to those goals, their relative priorities, and the potential for the current LRG system to help attain them varies considerably. Thus, the design and implementation of any reform program needs to be country specific, considering context, politics, capacity and other factors noted above. National governments

34 Elaboration of the points outlined here is provided in UCLG (2015) and Smoke and Nixon (2016).

are at different stages of aligning their national development plans to the SDGs, but there will often be room for improving efforts to contextualise and pragmatically frame their SDG strategy.

Differences across countries also implies that a set of contextualized - rather than standardised - institutions and processes are needed to pursue the SDGs and shape the role of LRGs in doing so. Each country will need to develop an approach to connect the SDGs to any relevant reshaping of intergovernmental structures, functions, resources and relations. Even with the SDGs as a focus, the process can determine constructive LRG reform strategies and support mechanisms. Although individual countries should drive the approach to the SDGs, many may need external support, especially in LMICs, and all could benefit from a means to exchange country experiences.

If LRGs are to be key players in achieving the SDGs, several critical steps must generally be taken. These measures must, of course, be properly tailored to the contexts and needs of specific countries and appropriately supported by the international community as requested by countries that need and desire assistance.

- First, LRGs will often need to be more robustly empowered to act not only more autonomously, but also as players in a multi-actor team. The degree of empowerment required will necessarily vary across countries
- Second, LRGs need sufficient resources to carry out their functions. As discussed above, LRG revenue sources should be developed in an integrated way that ensures better operation of the overall system. Development finance is a priority for many SDGs, but it is dependent on overall fiscal capacity.
- Third, LRGs need increased incentives to operate transparently and in an accountable manner. This means getting an appropriate balance between upward and downward accountability, which can evolve over time as LRGs improve capacity and results. Good information and monitoring are essential.
- Fourth, LRGs need capacity to function effectively and to act developmentally. Capacity needs will vary - both in terms of general LRG requirements and the demands of specific SDGs.

Another basic consideration is what type of strategic process is needed to move forward. Several elements would need to be considered.

- First, the starting point is to document the current situation in a particular country, including intergovernmental relations and contextual conditions that could support or hinder more effective LRGs. This is, of course, a very large area of inquiry, but it is important to have a general understanding of the strengths and weaknesses of the intergovernmental system as per the discussion above.
- Second, SDG deficits should be identified. Some of these deficits would be related to the unmet potential role of LRGs in more specific SDGs, such as particular services, conflict management, or infrastructure, while others relate to more holistic issues such as economic growth, inequality and resilience.
- Third, based on previous assessments, it will be necessary to determine priority reforms and articulate pragmatic strategies for enhancing LRG systems and practices. The strategy should identify entry points, sequencing, and pace, as well as the types of incentives, support, and capacity building that might be required.
- Fourth, it is essential to develop institutions and processes for monitoring the progression of reforms and their relationship to the SDGs. Some standard benchmarks may be useful, but there is also room for negotiating some of them with LRGs. The results can be used to inform and enable adjustments to the reform objectives and the strategy itself as lessons are learned from experience.

Given the breadth and complexity of the SDGs and prominent differences in the LRG context and needs across countries, there is no single best approach to how LRGs can support the SDGs. Moreover, there is no single best answer to the question of which intergovernmental system reforms have the greatest potential to improve the ability of LRGs to promote sustainable development.

Commonwealth members, like all countries, face the pressing and consequential challenge of making progress on this front. Creating and applying better diagnostics can help policymakers and practitioners to better understand current conditions and needs. Developing dynamic processes that make use of improved information and include relevant stakeholders in a meaningful way can support strategic advances in meeting the SDGs with greater contributions from more empowered, capable and motivated LRGs.

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The Resourcing of Local Development – New Models and Partnerships

Terry Parker, CLGF Regional Adviser

Introduction

'*Without autonomy and resources local democracy is crippled. Its advances remain precarious and can generate a profound disillusionment which threatens to ricochet back and fissure its own democratic foundation'*. (Bertrand Delanoë Former Mayor of Paris, France).

Local government has long been accustomed to 'doing more with less' on multiple fronts. However budget cuts and austerity measures can only go so far. Resources are needed, also on multiple fronts, to meet the challenges of the 21st century, particularly

- to satisfy the increasing need for investment in infrastructure and services
- where productivity needs to increase to meet community expectations
- to achieve the Sustainable Development Goals
- for effective decentralisation
- to respond to unexpected threats and shocks

What will happen on this front by say, the 25th Commonwealth Local Government Conference? Will we see an erosion of local government influence, capacity and service delivery? Will alternative structures, such as the private sector, have filled the gaps? Or will we see that local government was in fact fit for the future, with its significance affirmed through demonstrated capacity and achievement?

For local government to be fit for the future, resources and capacity are clear prerequisites. As identified by the Global Taskforce on Regional and Local Government, local government financial fitness will be enhanced through implementation of commitments to fiscal decentralisation; opening up access to own-source revenue and financing instruments at the local level; encouraging access to borrowing and long term investments, and enabling local governments to directly access international development funds (Global Taskforce 2015).

However as an institution, local government itself must bear the responsibility for ensuring its future fitness:

- Maximising its existing revenue collection opportunities and planning for sustainable development;
- Rethinking sources of income, particularly tapping in to growing parts of the local economy;
- Actively considering new models of financing public service delivery and infrastructure;
- Exploring opportunities for innovative partnerships at several levels;
- Seriously looking at enabling policies and service delivery models appropriate to addressing the complexities of challenges facing local government and service expectations; and,
- Engendering a sense of ownership in local decision making and service delivery through active citizen engagement.

The paper will firstly examine the current challenges, particularly around the impacts of rapid urbanisation and climate change, facing local government in meeting expectations for infrastructure and service delivery. It will then look at traditional and innovative resourcing mechanisms in order to consider how localisation of global and national development commitments must involve new approaches to resourcing local government and its work; and how important this is.

Key challenges facing all local governments

United Nations Capital Development Fund (UNCDF) refers to the unprecedented and complex challenges with which local governments are currently grappling as 'megatrends'. However, by its nature, local government may be in a strong position to respond to them. These challenges include, but are not limited to:

Rapid urbanisation - currently 54% of the world's population live in urban areas, and this is expected to increase to 66% by 2050. This results in rapidly increasing need for public services and infrastructure investments - both are essential for society to function effectively as deficiencies in public land and services place stress on economic and social potential. Increased investment plans and access to finance need to follow. Urbanisation of poverty is also a significant problem in developing countries that needs special attention.

Rural to urban migration places pressure on smaller urban centres and rural areas which experience reductions in population. Consequences to local government include having to provide services with less local income, keeping a skilled workforce for public services and an aging/very young population as it is normally working age adults who leave.

Climate change – is the singular defining global challenge of our time, manifested by temperature and sea level rises, extreme weather, water scarcity, displaced people from low level island countries, economic impacts, among others. Whatever the reasons behind global warming dealing with its impact will involve every part of society and all levels of government. Local government will need to adapt its investment and service delivery patterns to address the specific impacts of climate change.

Increased vulnerability to natural disasters and public health emergencies – these require local authorities to be more resilient and agile given its emerging roles in emergency response, recovery and rehabilitation. However again this requires financial and technical resources.

Decentralisation – potentially brings government closer to people, promotes greater autonomy, enables more equitable distribution of services and resources, encourages enhanced citizen participation in local governance and should result in more accountable and responsive local authorities. However decentralisation must improve people's lives; if it does not there is no reason for it. The challenge for the implementers of decentralisation is that for it to be successful, meaningful fiscal decentralisation is essential.

The overall lack of adequate resources – without sufficient resources local authorities cannot address the challenges and take up the opportunities the current operating environment offers. Apart from finance, institutional and human capacity is central to well-resourced local government. This challenge is multi-dimensional, requiring a strategic response. It includes rights to resources, equalisation, the 'city financed by the city' concept, intergovernmental fiscal relationships, revenue diversification to reduce dependence on property tax, accountability and eliminating corruption, amongst many others.

Central controls – While upwards accountability is an essential role for national governments, ineffective inter-governmental relations can shift accountability from citizens to the state, and hence undermine local democracy.

Changes to global economic environment – shallow financial sectors will be more vulnerable to global shocks and this will impact on local government.

Context specific national level challenges - that can affect local government and potentially translate in to reduced local revenue bases, limited public financial management capacities, insufficient intergovernmental transfers, lack of enabling legislation, minimal access to private capital for long term investments, limited opportunities for partnerships, etc. These can include, but are not limited to:

- low per capita income
- underdevelopment of the private sector and lack of markets
- poverty and hunger
- aging/young populations
- political instability and conflict
- vulnerability to terms of trade shock

The extent to which local government can take action to respond to global, national and local challenges and threats to development depends on the extent to which they are properly empowered, equipped and supported to do so. Clearly financial resources are critical, which leads to consideration of issues around funding mechanisms for local government.

Local government finance

The Post-2015 Global Development Agenda

Global commitments made over recent years guide and can in fact motivate local authorities, and also national governments, in their pursuit of financing sustainable local development.

The new global framework for financing sustainable development provided by the Addis Ababa Action Agenda (AAAA) acknowledges the challenges local authorities face in the light of inadequate resources, capacity constraints and, at times, insufficient national and international support. The AAAA confirms that solutions can be found, including through strengthening public policies, regulatory frameworks and finance at all levels, unlocking the transformative potential of people and the private sector, and incentivising changes in financing as well as consumption and production patterns to support sustainable development. The AAAA provides a good foundation to examine local government finance in the context of sustainable development.

The New Urban Agenda promotes a new approach to urban development, aligning national and local urban priorities on inclusive and equitable economic and social development and integrating all aspects of sustainable development. Implementation is based on having sound urban rules and regulations, long term urban planning and design and strengthened financial arrangements for local government, particularly growing urban centres.

The European Commission Communication *'Empowering Local Authorities in partner countries for enhanced governance and more effective development outcomes'* recognises the importance of local government in development and that an adequate level of autonomy, capacity and financial resources are necessary to empower local government to deliver on its mandated responsibilities. The Communication recommends the exploration of innovative funding modalities facilitating flexible, transparent and cost-effective access to resources at local level (EC 2013).

Finally, the Sustainable Development Goals (SDGs) provide an aspirational framework for local government to move forward. Local government has a clear role as an implementing partner of the SDGs. Not only are many of the key services essential to meeting the SDGs delivered at the local level, but local governments are in the best position to ensure that the needs of local people are understood and met and that the SDGs are locally owned and *'leave no one behind'* (Slack, 2015).

Following is an overview of a range of revenue sources currently available to local government. This section reflects on the traditional sources of revenue for the sector and how they can perhaps be improved, together with some more contemporary mechanisms, particularly for funding infrastructure and finally some thoughts around innovative approaches and some of the potential challenges for local government that need to be addressed.

Intergovernmental transfers

There are no local governments in the world that can function without a certain level of support from central government (UNCDF 2015).

Revenue sharing reflects the division of responsibilities between central and local government based on their comparative advantages and functions in both revenue generation and delivery of services, and can take the form of tied (specific purpose) grants and untied (for use on any legally mandated functions) subventions. Fiscal transfers from central to local government are essential for stable, long term public policy and in fact can be used to incentivise enhancement of own-source revenue raising. Principles that underpin effective intergovernmental fiscal transfer systems include adequacy, predictability, equity, equalisation, timeliness, incentives and reliable transfer modalities.

Financial assistance grants should be allocated on the basis of robust empirical methodology which principally responds to horizontal fiscal imbalance (Drew and Ryan, 2016). Intergovernmental fiscal mechanisms should be thought of as a system and all pieces in this system must fit together. Implementation should begin with a design of the comprehensive system, and should lay out the plan for each element of the system. A 'one-off' piecemeal reform, encompassing only one element of the system (e.g. central government revenue sharing with local governments), is not likely to fully capture the benefit of decentralisation. (cited in Robotti and Dollery, 2009).

It is also critical that local government maintain effective working relationships with other levels of government through dialogue to promote awareness of the work of local government. It is important to ensure that national government both understands and articulates the role of local government, and provides the appropriate enabling environment for local government.

Local government associations have a key role to play in enabling local governments to come together to advocate to the central government for systems of fiscal decentralisation that lead to more autonomous and empowered local authorities. There are examples across the Commonwealth of LGAs actively engaged in advocating for greater resources at the local level. In Canada the Federation of Canadian Municipalities is strengthening its partnership with the Federal Government on infrastructure financing; the United Cities and Councils of Cameroon is actively advocating for greater fiscal decentralisation and increased technical capacity; and The Uganda Local Governments Association is debating the merits of reinstating the graduated tax

Busia Municipal Council in Uganda learned that intergovernmental transfers could be more effective if they were less rigid, better timed and designed in line with local needs and priorities. Busia's story is told in Case Study No 1

Local revenues

These are the core traditional own source revenues of local authorities and include user charges and fees for services, licences, property taxes, developer contributions, commercial activities, etc.

Case study 1: Uganda: the role of grants and intergovernmental transfers in a second-tier city

Busia Municipal Council is located 200 km east of the Ugandan capital city of Kampala, with a population of around 100,000. The council receives intergovernmental transfers from the central government on a quarterly basis. Conditional transfers target road maintenance, health expenditures, school facilities, and other interest groups. Unconditional transfers facilitate council sittings, solid waste management, servicing of equipment and vehicles, and office management. Intergovernmental transfers are complemented by own source revenues from trading licenses, tendered out revenue sources of markets and transport terminals, property taxes, local service taxes, hotel taxes, land registration tax, and building plan approval fees. The Council also receives limited direct donor support for youth development and traditional city functions like garbage disposal.

As a recipient of intergovernmental transfers and donor assistance, Busia has encountered a variety of challenges. First and foremost, conditional intergovernmental transfers, which constitute about 85% of all local funds, and only cover a small portion of the funds needed for wages and salaries as well as service delivery, which are particularly underfunded. Second, transfers are too rigid as they do not allow municipalities to reallocate funds to new and emerging local priorities. The Council can only get permission for funds to be reallocated for new purposes from specific line ministries, and such permission involves a lengthy bureaucratic process.

Another challenge is represented by the delayed release of the funds. Frequently, transfers are only received one month before the close of the financial year, and as a result, a significant portion is returned. As regards donor funds, most donor project support lacks local government involvement at the design stage which can lead to project failure and abandonment later. Moreover, there is also a tendency to impose projects on local authorities that are not necessarily perceived as top priorities.

To overcome these challenges, the Council has recommended the following actions to the Ugandan Government and interested donors: conditional grants should be flexible and local government should be allowed to adjust to local priorities and realities, the general budget allocation for local governments should increase from 12 per cent to 30 per cent of the national budget and funds should be released in a timely fashion, and donors should fully involve all stakeholders at the project design stage.

Source: UNCDF, 2015

A fundamental element of any effective local government revenue raising and financing strategy is that existing powers to raise own source revenues are not being abdicated. Local revenue raising capacity should be maximised, based on realistic levels linking the demand for local government services with the required revenue, and compliance and collection procedures followed without fear or favour. Any dialogue with central government concerning intergovernmental fiscal arrangements, as well as looking to new approaches to resourcing local government, should be undertaken with assurance that this requirement has been met. This particularly applies to property tax, which can be the most lucrative source of revenue available to, and depended on by, local authorities. Revenue raised from property taxes needs however to reflect the social contract with citizens in respect to service delivery.

In looking at the developing country context, low property tax yields often reflect failures in administration of the tax. Property records are often not complete, valuations inaccurate and collection inefficient. Roy Kelly (cited by Fish, 2015) proposed some essential components of an effective property tax system:

Case study 2: Mozambique: strengthening property taxation in Beira and Maputo

The municipal property tax (Imposto Predial Autárquico—IPRA) in both Maputo and Beira is levied on the resale value of an urban building that is regarded as infrastructure and built on the municipality's urban land. To improve the performance of IPRA, the cities had to overcome a wide range of challenges. The territorial areas covered by local offices responsible for property registration often did not match the jurisdiction of its local councils. Moreover, some local councils did not even have a property registration office where transactions could be recorded. In other cases, both the local branch of the national tax authority and a local tax authority collected the IPRA.

Through well-sequenced and comprehensive reform efforts, both cities have overcome many of these challenges. In particular, efforts were made to ensure better communication and coordination between the local and national tax authorities to avoid double taxation and to ensure property registration that corresponds to local jurisdictions.

These reforms also contributed to the successful introduction of a new real estate transfer tax known as "ISISA" (Imposto Autárquico de Sisa). ISISA collection was devolved to the local government level less than 10 years ago. It is levied on the transfer of ownership of urban property in a municipal territorial area. While not a property tax per se, ISISA relies on many of the same prerequisites that are necessary for successful property taxation, including reliable property registration. Overall, clear tax policies, better coordination among stakeholders and greater investment into the country's fiscal registry system, led to significant increases in revenues from IPRA and ISISA. As a result, both revenue sources make up a growing contribution to municipal tax revenues in both Beira and Maputo.

Beira pioneered the reform of property taxation in Mozambique. Indeed, it was the first city to which ISISA was fully devolved. Driven by a proactive mayor, Beira pioneered specific measures geared towards:

- Improving information sharing among relevant stakeholders of property taxation such as the Registry office, the national and local tax offices of Beira
- Monitoring the transactions market and property values
- Requiring tax collectors to carry official receipt books rather than their own personal logbooks for easier tracking
- Introducing stamped receipts for each taxpayer to more effectively track how much tax each collector had received from the public
- Promoting tax education and literacy by advertising taxes in newspapers and on television to educate business-people on specifics about how and when to pay taxes
- Soliciting financial support from donor agencies and multilateral institutions.

Source: UNCDF, 2015

- Property tax reform linking
  - property information
  - property valuation assessment
  - effective and efficient debt collection and enforcement
- stakeholder education is essential and should be linked to customer service
- area based, mass property valuation be used where appropriate to reduce administrative costs
- sustainable revenue mobilisation is essential and requires
  - institutionalised administrative procedures
  - political will to ensure compliance and collection
  - strong local capacity

As an example, Maputo City Council learned that successful property taxation requires political leadership and commitment that ensures comprehensive reform efforts. Reforms should include institutional measures (better title registration systems and fiscal cadastres), functional improvements (improving local administrative capacities and enhancing communication between local and national tax authorities), as well as educational measures to improve willingness of citizens to pay. A more detailed description appears in Case Study No 2.

CLGF's collaboration with Honiara City Council, Solomon Islands, in the area of reforming property tax and revenue collection systems also yielded outstanding results. By ensuring property records and billing procedures were complete and accurate, combined with effective debt recovery procedures and political support from the Mayor and Council, local revenue increased by some 250% within two years.

In addition, other local revenue raising sources should be regularly reviewed to ensure user charges and fees keep pace with inflation and other cost relativities.

Case study 3: The Gas Tax - Canada

Canada's Gas Tax Fund was set up in 2005 to provide predictable, long-term funding for Canadian municipalities to help them build and revitalise public infrastructure that achieves positive environmental results. The fund is provided by a portion of the monies levied by the Federal Government in vehicle fuel duties. It supports municipal infrastructure projects that contribute to cleaner air, water and reducing greenhouse gas emissions, and fall into the following categories:

- Drinking water
- Wastewater infrastructure
- Public transit
- Community energy systems
- Solid waste management
- Local roads

The Gas Tax provides guaranteed levels of funding to 2019 (http://www.infrastructure.gc.ca/prog/gtf-fte-tab-eng.html) Every municipality in Canada receives a portion of the Fund. The funding allocation is determined at the provincial or territorial level based on population. Funding is provided up front, twice a year to provincial and territorial governments or to the municipal associations which deliver this funding within a province, as well as to Toronto. Projects are chosen locally and prioritised according to the infrastructure needs of each community. Municipalities can pool, bank and borrow against this funding, providing significant financial flexibility.

In 2011, legislation was passed to make the Gas Tax Fund permanent at $2 billion per year to ensure municipalities across the country would continue to receive stable, annual funding for their long-term infrastructure priorities. Then in 2013 the Federal Budget indexed the fund by 2% per year thus increasing its value by 8% over five years.

The Gas Tax Fund can be seen as an example of developmental local government in its emphasis on sustainable transit, energy and water sanitation projects, all of which speak directly to the economic, environmental and social well-being of the community and in the local prioritisation of how the money is spent.

Sources:
http://www.infrastructure.gc.ca/prog/gtf-fte-eng.html;
http://www.toronto.ca/gastaxworks

Case study 4: Fiji - Market management and gender mainstreaming

Marketplaces in Fiji are key sites for economic activity and are central to the livelihoods of many poor households. They also make a significant contribution to national GDP. Between 75% and 90% of vendors working in Pacific marketplaces are women, however despite this, women are often excluded from market governance and decision-making. Women market traders face numerous day-to-day challenges in their workplaces, including long hours, low profits and violence.

A UN Women supported project is working directly with the local councils that govern the 10 participating municipal marketplaces (Suva, Nausori, Sigatoka, Nadi, Namaka, Lautoka, Ba, Tavua, Rakiraki, and Labasa) to build a multi-partner initiative. This partnership will inject more than FJ$8.5 million into ensuring safe, inclusive and non-discriminatory working environments, and bringing together local councils, communities, rural and urban women, civil society organisations, UN agencies and the private sector to develop a plan for improving the physical infrastructure and operating system of the markets, and the delivery of services. Key issues identified by the market traders can be broken into two categories, those within the markets: poor toilet facilities, lack of security, high rates for market stalls, no overnight storage facilities, over-crowding, and unhygienic conditions; and those linked to accessing the market including high travel costs, long travel times to reach the markets, and difficulties in accessing credit.

In Ba council, a key intervention undertaken in an earlier phase of the project, was to fund the construction of a multi-purpose bure (traditional Fijian structure) which provides low cost accommodation for rural women market vendors.

The project is also working with the various stakeholders to build and support inclusive, effective and representative advocacy groups; ensuring women's voices are heard and taken into account at the decision-making level. It will also work with the stakeholders to deliver appropriate services and training, for example in a pilot project in Rakiraki a record-keeping method was developed in partnership with the market traders to keep track of produce and daily earnings.

Source: UN Women (http://pacificwomen.org/news/un-women-markets-for-change-project-launched-in-fiji/)

Opportunities also exist to consider new approaches to own-source revenue. For instance, Robotti and Dollery (2009) introduced the idea of a business value tax which could be imposed on income and hence be more sensitive to cyclical realities than most other forms of business tax.

The Gas Tax in Canada is an approach which guarantees predictive long term funding for local government from a tax which is levied by the Federal government. Case Study No. 3

Local Economic Development

Local Economic Development (LED) is an approach which allows and encourages local people to work together to achieve sustainable economic growth and development thereby bringing economic benefits and improved quality of life for all residents in a local area.

Strategic promotion of LED by the local authority will potentially have a positive flow-on effect on local authority revenues, as if the local economy grows the own source revenues such has licences, development fees and property taxes will also grow.

This approach also recognises the importance of the informal economy to the socio-economic development of the local area, and opportunities for growth in local authority revenues through supporting the informal sector, as evidenced in Fiji in Case Study No. 4.

Access to external resources to finance infrastructure investments

'Investing in sustainable and resilient infrastructure, including transport, energy, water and sanitation for all, is a pre-requisite for achieving many of our goals.' (AAAA, 2015).

There are a range of market-based finance options available to local authorities to consider when addressing the significant long term financing needs for infrastructure backlogs and local services. However local authorities need to be aware of what they are getting into. Local authority borrowing must be governed by an appropriate regulatory framework with adequate fiscal responsibility safeguards.

Some options worth considering include:

Public-Private Partnerships

Governments normally enter into public-private partnerships (PPPs) for infrastructure to attract private capital investment, to increase efficiency and use available resources more efficiently, and to reform sectors through reallocation of roles, incentives and accountability (ADB, 2008).

PPPs bring together comparative advantages of local government and the private sectors. Local government can contribute, for instance capital, assets or other in-kind contributions not normally accessible to the private sector that support the partnership, as well as social responsibility, environmental awareness, local knowledge and political support. Apart from also contributing investment capital, the private sector's role in the partnership can be to add its expertise in commerce, management, operations, technology and innovation to run the enterprise efficiently.

There are several forms of PPPs that local governments could embrace. These range from outsourcing via management arrangements through to joint ventures and Design/Build/Own/Operate/Transfer contracts.

Public private partnerships can offer benefits to local government:

- PPPs can provide better infrastructure solutions than an initiative that is wholly public or wholly private. Innovative design and financing approaches are often revealed when the two entities work together.
- When done well, PPP projects can result in higher quality, more efficient and cost effective outcomes.
- Risks are fully appraised early on to determine project feasibility. Either partner can put a brake on unrealistic commitments or expectations.
- The operational and project execution risks are usually transferred from the local government to the private participant, which often has more experience in cost control.
- By increasing the efficiency of the local government's investment, it potentially allows funds to be redirected to other service delivery priorities.

However they also have some potential downsides:

- PPP involves risks for the private participant, which reasonably expects to be compensated for accepting those risks. This can increase local government costs.
- Competitiveness may be limited where there are only a few private entities that can perform the required tasks, or are willing to enter a PPP with the local authority.
- If the expertise in the partnership lies heavily on the private side, the local government is at an inherent disadvantage. For example, it might be unable to accurately assess the proposed costs or legal implications on a multifaceted project.

PPPs can be highly complex arrangements that require detailed negotiations and highly technical contracts. This necessitates considerable municipal capacity and specialist expertise (UCLG 2010). Although there have been successful examples of local government PPPs, as demonstrated by the case study of Making Space for Informal Vendors in Portmore, Jamaica and infrastructure development in Busia, Uganda (Case Study No 5 and 6), a badly designed and implemented PPP can carry significant risk to the local authority.

Municipal Bonds

Municipal bonds are more straightforward infrastructure financing mechanisms than say, pooled financing or different forms of PPPs. Municipal bonds are debt instruments issued by local governments (or local public infrastructure development authorities) to raise money to finance capital investments in more significant long-term infrastructure projects such as major roadways, new water or sewerage systems, airports, civic facilities etc.

An investment in municipal bonds is available to individuals, pension funds and corporate entities, who are in fact lending money to the local authority,

Case study 5: Making space for informal vendors through Public-Private-Partnerships. Municipality of Portmore, St. Catherine, Jamaica

The Municipality of Portmore, established in 2003 has a population of around 182,000 citizens and serves over 100 communities. It is the only Municipality in Jamaica with a popularly elected Mayor.

Aligned to Goal 3 (a prosperous economy) of the Jamaica Vision 2030, the Portmore Local Economic Development Strategy and Portmore Local Sustainable Development Plan were developed. These frameworks promoted the envisioning by the Municipality of a modern public market facility. From this vision, the Ackee Village Public Market and Recreational Park Project was born.

The site for the project, Ackee Walk, had long been a popular stop for people seeking Ackee fruit, roasted breadfruit and other seasonal fruits and ground provisions. However the vendors operated along an unsafe narrow shoulder of a major highway with inadequate space for motorists to pull over. There was also no water supply, restrooms or refuse disposal facilities. Despite these challenges, together with the makeshift stalls and open fire pits being used to prepare and sell their products, the vendors were reluctant to move and the area became formalised through the passage of time.

The Council set out to persuade the vendors to relocate to a more suitable location nearby through a consultative process, ensuring the essence of the economic activity and rights of the vendors were maintained. The vendors were also trained by the Heart Trust NTA to become micro-businesspersons. The council also encouraged the vendors to form an association.

Concurrently, the Council moved ahead with designing and constructing a new market facility on a partnership arrangement. Contributions to the project were made by the Municipality, the Caribbean Local Economic Development Project (CARILED), the Ministry of Local Government and Community Development and Ackee Village Vendors Association, together with financial and in-kind support from local companies. The Municipality decided very early that they would carry out the project design and implementation using in-house expertise to save costs and ensure the construction was carried out to the correct standard.

The new facility comprises vending kiosks, a parking area, restrooms with disability facilities, water supply, lighting, proper refuse disposal, a mini park with swings and gazebo, site signage and story boards. The vendors now fully support the new facility and the project has been endorsed nationally, with the Tourism Product Development Company taking considerable interest in it.

Source: Municipality of Portmore

which in turn uses the money for the approved infrastructure project/s, and promises to pay a specific amount of interest to the investor, then return the principal to the investor on a specified maturity date. Returns from municipal bonds are normally exempt from income and other taxes.

The first first recorded municipal bond was a general obligation bond, backed by tax revenues, by the City of New York in 1812. The United States still has the largest municipal bond market in the world. In India, Ahmedabad was the first city to issue a municipal bond in 1998 to finance infrastructure improvements. By contrast the first municipal bonds to be issued in Australia was by a group of thirty councils in the state of Victoria who collaborated via the Local Government Funding Vehicle (LGFV) on a municipal bond issue valued at A$240million in 2014 (MAV, 2014). In South Africa, metropolitan areas of Cape Town, Johannesburg, Ekurhuleni and Tshwane have accessed the bond market. Douala in Cameroon has also issued municipal bonds, together with some sub-national entities in Nigeria.

The UK Municipal Bonds Agency, a public limited company owned by local councils and the Local Government Association, supports local councils to finance investments in infrastructure efficiently and cost effectively. The Agency issues bonds at rates attractive to investors and local councils. It also facilitates councils borrowing from one another.

Case study 6: Uganda - A project-based partnership to finance municipal transportation in Busia

In the District of Busia, Uganda, UNCDF facilitated a municipal project which included a multi-purpose parking project on the border with Kenya. The project uses the strategic border location of the district and is designed to facilitate cross-border movement and trade between Uganda and Kenya. UNCDF helped develop and design the project as a tripartite public– private partnership among the local government, the Church of Uganda, and private investor Agility Uganda Limited. De-risking the project through local economic analyses, feasibility studies, and structuring and financial modelling resulted in leveraging 70 per cent of the total cost of the $2.5 million project in private equity and debt.

The project, being implemented as of 2017, will greatly improve traffic flow and improve the town's environment; boost business in the region; create over 100 jobs directly or indirectly including lorry, petrol station, and shop attendants; and, in addition to the license fees collected from traders, allow the local government to receive 10 per cent of the project revenue quarterly.

POLICY LESSON: In Least Developed Countries (LDCs), private equity may be attracted through non-market mechanisms, such as when a private entity (including an institutional investor) commits equity to a new infrastructure project through a project-based partnership arrangement with a municipality.

Source: UNCDF, 2015

The City of Belize successfully entered the municipal bond marketplace in 2013; their story appears via Case Study No 7

Evidence suggests that the use of municipal bonds in Commonwealth countries is generally in its early stages. At present, as a financing mechanism it is likely more suited to larger local authorities in economies with diverse and mature financial sectors. Additionally, cheaper financing options may currently be available. National debt ceiling limits also need to be considered.

Successful participation in the bond market will also depend on the structural, capacities and legal/ regulatory environment, as well as the viability of proposed investment projects, investor appetite and the creditworthiness of the local authorities.

Nonetheless, where the abovementioned fundamentals are in place, municipal bonds are one of the less complex financing mechanisms and potential exists to further explore innovative dimensions of this option, such as the LGFV in Australia and the UK Bond Agency which also provides opportunities for small to medium size local authorities to participate in capital markets. The UK Bond Agency also acts as a centre of expertise for local governments seeking to enter into the bond market, recognising the on going need to build capacity at the local level.

Sub-national Pooled Financing Mechanisms

Subnational Pooled Financing Mechanisms (SPFMs) provide joint access to private capital markets (bank finance and bonds), as well as public sector funding at advantageous terms for borrowers (local and regional governments), sharing similar missions and credit characteristics, but lacking the financial scope and scale, expertise and credit history to access credit markets on their own. SPFMs have a documented successful track record in providing long-term cost-effective private finance from both banks and bond issues to fund essential infrastructure and public services provided at the subnational level, in developed, emerging and developing countries' contexts (FMDV 2015).

The critical success factor is that the subnational pooled financing facility is perceived as creditworthy and able to meet the investor requirements for debt service, based on the projected expenses, revenues from projects, and supplementary funds from the public sector. Other key pre-conditions for successful SPFMs include:

- high level and sustained political support
- enabling institutional, regulatory and legal frameworks
- stakeholder consultation and consensus, with the private sector 'crowding in'

- providing for high upfront structuring costs and the need for professional management.

FMDV report that benefits from using SPFMs cut across access to finance as well as operational efficiencies and larger developmental impact, including:

- reduced cost of finance (longer tenors, reduced interest rates, reduced transaction costs);
- ability to leverage central government finance effectively for support of specific projects (for example using central government intergovernmental financial transfers as credit enhancements);
- streamlined processes for more effective project development (e.g., standardized project development processes, loan documentation, user fees, etc.);
- lower risk given the pool's diversification;
- ability to collect fees and enable self-sustaining operation; and,
- transformative impact in catalysing domestic capital markets, improvements in creditworthiness and transparency, and public sector effectiveness.

There is a range of successful SPFM related experiences throughout the Commonwealth; some examples are included here. From Bangladesh (Case Study No 8) we learn that establishing a municipal development fund can help depoliticise intergovernmental transfers and build borrowing capacity at the local government level. However successful operation requires close coordination with a large number of stakeholders, project development capacity and evidence of added value to secure sustained external funding. New Zealand Local Government Funding Agency (Case Study No 9), and Sri Lanka Local Loans Development Fund (Case Study No 10) also used the SPFM mechanism to address infrastructure backlogs.

Case study 7: Fiji - Belize City municipal bond funds capital projects

In 2012, a needs assessment of Belize's second city identified concern by the community about the lack of public spaces; together with a need for improved infrastructure. It was clear to Belize City Council that additional funding would be needed to support such capital projects.

Belize City was interested in exploring the use of municipal bonds and decided to look at the financing model used by their neighbours in South Florida. This was an area with which they already enjoyed close cooperation – partly due to tourism with international cruise liners docking in both locations; and also because of the significant diaspora population living in this part of Florida. The next move for the city council was to approach various international funding agencies to assess the liquidity in Belize; this revealed that interest rates were high, savings rates low; and there was a great deal of interest in investment from the private sector.

The bonds were floated in 2013 and outcomes to date include the creation of two large leisure areas – Battlefield Park and BTL. The funds raised have also been used to renovate the road network in the context of their integrated climate change policy resulting in much needed upgrades along the coastal roads.

The bonds are insured through the Central Bank of Belize with yields at intervals of two, five and ten years; at which points the bonds can be refloated, and a new, large-scale project embarked upon at the ten year stage.

The new initiative involved a great deal of preparatory work, including a SWOT analysis which revealed a degree of political risk with council terms lasting just three years, but the bonds going on beyond this. The process used by Belize City process to issue and administer the municipal bonds was modeled on international good practices, with the skills sets to implement the processes coming from within Belize City.

Investors including banks, pension funds and diaspora companies supported the initiative. The bonds sold out as soon as they were put on sale. This has led to improved financial planning; better working relationships with the private sector; and closer engagement with citizens on project selection.

Source – CLGF http://www.clgf.org.uk/whats-new/news/belize-city-municipal-bonds-fund-capital-projects/

Case study 8: Bangladesh - Establishing a municipal development fund to finance local infrastructure

There are 313 municipalities and four major cities in Bangladesh with populations ranging from 50,000 people to 10 million in Dhaka municipality. Many municipalities lack the institutional capacity to plan, finance, implement and operate urban infrastructure services in an efficient and sustainable manner. In response to this infrastructure financing gap, the Government of Bangladesh, with technical and financial assistance from multilateral institutions, set up the Bangladesh Municipal Development Fund (BMDF) in 1999. Its primary objectives include the extension of financial support to the Urban Local Government Bodies (ULBs) to strengthen their institutional and financial capacity to plan, finance, implement and operate infrastructure services, to receive loans and grants and make them available through a fund for ULBs; to provide financial and technical assistance for infrastructure projects in ULBs; and to build local government capacity to facilitate a path to independence and self-sufficiency in the long run.

The BMDF receives loans from development partners and channels the funds to the ULBs, which need to make a 10 per cent matching contribution. Of the 90% of funds received from the International Development Association (IDA), ULBs receive 85% as a grant and 15% as a loan. In 2014-15, BMDF reported an income of $2.23 million and grants of $4.87 million. BMDF's loan recovery rate is 84% and loans are not written off. By mid-2014, BMDF had funded 596 projects in 154 ULBs.

The model has been fully driven by demand from municipalities, and has seen limited political interference by the central government. In addition, the fund's tax revenue requirements and the competitive nature of its allocations have helped steer municipalities towards increasing their tax revenue by an average of 17.5%, though this average has fallen short of World Bank targets due to considerable variability between the municipalities. In fact, from a sample of 39 cities, 23 cities increased their tax revenues by between 48% and 95%, while 7 other cities reported increases of between 40% and 47%. BMDF's administrative costs and consulting services have been low, drawing on only 3% of the seed funds.

However, the Fund has also encountered challenges. Due to shortages of resources, BMDF projects have addressed only a subset of municipalities. A related challenge has been the sustainability of the Fund, which remains donor dependent. Although the BMDF has supported nearly 600 sub-projects in a variety of sectors, donors cannot clearly discern the added value of the BMDF, as there is little information on the level of municipal investments (mostly financed by central government block grants) prior to BMDF engagement. Consequently, the BMDF has experienced periods when it was in danger of closure due to lack of new capital and limited capacity. There is also a need for closer coordination between the BMDF and other government-driven local development programmes. Moreover, technical assistance at the local level should be built into projects like the BMDF, since many municipalities lack the capacity and expertise to formulate investible project proposals, especially due to a lack of engineers.

The World Bank has drawn some important general lessons from its experience providing support to the BMDF that can be relevant for similar processes to establish local finance institutions.

- For organisations that are newly set up, time frames should be realistic, especially if substantial policy reforms are required.
- Technical support to local governments is essential for the preparation of viable project proposals and to ensure successful implementation. The experience with the BMDF showed that a high level of flexibility is necessary for local authorities to manage projects in line with their priorities and capacities.
- Eligibility criteria for local authorities to access funds (such as the tax collection rate, demonstrated commitment to projects, preparation of financial and operational plans, among others) should be adapted to the specific country context and be commensurate with local government capacity.
- In addition to better utilising the existing institutional arrangements, it may be helpful to

establish a unit or create linkages with an existing one that can coordinate capacity-building measures with other relevant efforts both by the domestic government as well as by international donors.

- Projects should include disaster risk management or contingent emergency response elements to avoid the need for project restructuring in the event of a disaster.
- All projects should be planned and implemented using participatory approaches to ensure that all relevant stakeholders are involved.

Source: UNCDF, 2015

Case study 9: New Zealand Local Government Funding Agency

The New Zealand Local Government Funding Agency (NZLGFA) specialises in financing the New Zealand local government sector, the primary purpose being to provide more efficient funding and diversified funding sources for New Zealand local authorities. LGFA was established to raise debt on behalf of local authorities on terms that are more favourable to them than if they raised the debt directly.

Legally, the agency is a Council-Controlled Organisation (CCO) operating under the Local Government Act 2002. NZLGFA was created in December 2011, after three years of preparations. One of the reasons behind this process was the "infrastructure deficit" in New Zealand. As the agency itself put it: "It was clearly recognised by both central and local government that infrastructure spending would need to increase significantly over the next decade to maintain New Zealand's international competitiveness. To balance this cost between current and future generations, it was inevitable that local government borrowing was set to rise considerably. Having a more efficient funding vehicle on hand would minimise the cost of this additional borrowing."

The process with the aim to create the agency was led by a group of nine councils. Representatives from these nine councils and from the Local Government Association of New Zealand (Local Government New Zealand) formed a steering group. In early 2011 an Establishment Board was formed, where the central government was also represented.

The whole process resulted in "a proposed structure for LGFA that shared some features with peer local government funding agencies in Scandinavia, but with a uniquely kiwi element". NZLGFA was incorporated as a limited liability company under the Companies Act 1993 on 1 December 2011. Following the enactment of the Local Government Borrowing Act 2011. NZLGFA is owned 80% by local authorities and 20% by the central government. There are 31 shareholding local authorities; among these are Auckland Council, Christchurch City Council and Wellington City Council. A joint and several guarantee by the participating local authorities supports the agency's borrowing. It is also supported by an initial $500 million liquidity facility from the New Zealand Debt Management Office (NZDMO).

NZLGFA has an outsourced services agreement with NZDMO and its bond issues are rated AA+ (domestic long term) by Standard and Poor's and Fitch Ratings.

Source: http://www.lgfa.co.nz/about-lgfa

Case study 10: Local Loans Development Fund, Sri lanka

The Local Loans and Development Fund (LLDF) is a fund formed under the Local Loans and Development Ordinance No.22 of 1916. Its main functions include granting and administering loans for investment in infrastructure development and revenue-generating projects of the 335 local authorities in Sri Lanka, which comprise 23 Municipal Councils, 41 Urban Councils and 271 Pradeshiya Sabah's (Divisional/Rural Councils). A Board of fifteen Commissioners, appointed by the Minister responsible for local government and with the approval of the Minister for Finance and Planning, manages the LLDF. The Secretary, Ministry of Local Government and Provincial Councils (MLGPC) is the Chairman of the Board and the Chief Executive Officer administers the fund with the support of 25 staff, ten at head office and fifteen positioned across the island..

The main objective of the LLDF is to provide loans to local authorities at a concessional rate for the purpose of any work of public utility the local authority may be authorised to undertake by law, particularly basic infrastructure which contributes to the social and economic development of the country.

To carry out its mandate, the LLDF can obtain loans from the consolidated fund, any commercial bank, any Government-sponsored lending institution, or any local authority. It however cannot borrow funds from the capital market and/or the general public; hence it is at present not subject to regulation of the Central Bank of Sri Lanka.

THE LLDF has completed or has current loans on its books to the value of LKR800 million (US$57million). Projects funded include construction of markets, solid waste management initiatives, crematoria, water supply and sewerage systems, office buildings, libraries, road construction and maintenance equipment, amongst others.

Source: Ministry of Provincial Councils and Local Government http://www.lgpc.gov.lk/eng/?page_id=683 and consultations.

SPFMs have a clear place in the financial framework for achieving the post 2015 global development agenda. Opportunities exist for all levels of government to explore opportunities, issues and conditions for the creation or upscaling of SPFM's, particularly in developing countries.

Climate Financing

Financing the investment required at the local level to address the impact of climate change is a rapidly growing priority for local government. The challenges of both mitigation and adaptation are significant and growing. Although local governments are clearly at the forefront of dealing with the impact of climate change, to date no local or regional government has had direct access to the global Green Climate Fund, established within the framework of the United Nations Framework Convention on Climate Change (UNCFCCC) to assist developing countries in adaptation and mitigation. There are a number of programmes that seek to support cities and local governments, such as the World Bank's Global Platform for Sustainability Cities; and as in the case of the recently issued Cape Town Green Bond, local government is "greening" existing financing mechanisms and tools and investing in long term strategies to build resilience. (Case Study No 11, 12 and 13)

Social Enterprise Partnerships

Local government is not the only agency working at the local level. While local authorities have an embedded role and relationship with their communities, many other local actors also contribute to local development outcomes. Social enterprises have also formed particular relationships with local communities, often where social problems are growing and safety nets decreasing.

With origins in the not for profit sector – voluntary organisations, charities, cooperatives, community enterprises, employee owned businesses and the like - social enterprises use trading activities to promote social and community goals. Collaboration between local government and social enterprises presents real opportunities for added value and better place-based solutions for both.

Duniam and Eversole (2013) identify three main types of local government-social enterprise interaction. These are:

1) *Local government creating social enterprises:* Where local governments recognise an opportunity to fill gaps in service provision and address social issues in ways that are strongly aligned to their key strategic priorities.

2 *Local government supporting social enterprises:* Where local governments aim to explicitly support the development of new and existing social enterprises in their local area: primarily through funding programs, training programs, and/or social procurement policies and initiatives.

3) *Local government partnering with social enterprises:* Where local governments enter into formal partnerships with specific social enterprises for a defined purpose.

As also cited by Duniam and Eversloe, relevant examples of local government collaborating with social enterprises to achieve local development outcomes include RESO (Regroupement economique et social du Sud-Ouest), a Canadian community development corporation working for economic and social revitalisation across five neighbourhoods in Montreal's southwest. In response to a sharp economic decline in the 1980s, community activists worked with governments, businesses, unions, and citizens to create a new development model based on mobilisation, participation, community partnerships, and democratic governance.

Case study 11: Cape Town Green Bond

The City of Cape Town, South Africa, overlays all its decisions on the impact of climate change, appreciating that responsible local authorities must mitigate the effects of climate change. It is in this context that the City, when unable to access financing from the Green Climate Fund, opted to approach the market. The Council developed a Green Bond Framework, in which it identified a suite of eligible projects to fund with the proceeds of a ZAR1 billion (approx. US$70 million) bond.

The green bonds project financing initiative is in line with the City of Cape Town's Organisational Development and Transformation Plan's governance principles to enhance resilience and sustainability and improve resource efficiency.

The projects proposed to be funded with the proceeds of the green bond are a mix of adaptation and mitigation initiatives, all of which are aligned to the city's climate change strategy. They include procurement of electric busses; energy efficiency in buildings; water management initiatives, including water meter installations and replacements, water pressure management, upgrades to reservoirs; sewage effluent treatment; and, rehabilitation and protection of coastal structures.

In order to raise a green bond, the city needed to comply with the Johannesburg Stock Exchange's debt listing requirements. These include council approval in terms of the Municipal Finance Management Act. The Green Bond has been certified by the Climate Bonds Initiative, while international ratings agency Moody's also awarded the bond a GB 1 rating.

The investor response to the inaugural green bond, immediately after its launch on 17 July 2017, was positive which indicates the appetite among investors to participate in sustainable projects. The market's enthusiasm was also considered a vote of confidence by investors in the City's governance, strong financial standing, and ability to deliver on sustainable projects. It also proved there are innovative ways available to raise finance to address infrastructure needs and respond to climate change.

The green bond scheme also led to complementary initiatives including strategies to reduce reliance on fossil fuel energy and entering into discussions with the company that will be providing the electric busses to set up a factory and produce these in Cape Town, which they can use as a spring-board into the rest of Africa.

Source: City of Cape Town http://www.capetown.gov.za/Media-and-news/Investors%20must%20join%20the%20fight%20against%20climate%20change%20and%20invest%20in%20green%20bonds

Case study 12: Local Climate Adaptive Living Facility (LoCAL) – Tuvalu

Vulnerability to changing climate is unequally distributed and heavily concentrated in Least Developed Countries (LDCs). Not only are people in LDCs more vulnerable to adverse impacts, but poor households are also constrained in their ability to manage climate risk and cope with shocks.

LoCAL is the UN Capital Development Fund's facility for investment in local level climate resilience. The facility channels global adaptation finance to local governments, who by virtue of their mandates are at the frontline of dealing with the effects of climate change, and enables them to invest in building local resilience.

The challenge this programme seeks to address is how to accelerate the flow of resources to LDCs for climate resilience by engaging the subnational level more meaningfully in adaptation activities. The LoCAL Facility connects to existing national intergovernmental fiscal transfer systems and supplements transfers to local governments with performance-based climate resilience grants.

The project aims to increase financing for and investment in climate resilience at the local level in least developed countries.

Tuvalu is the first country to implement LoCAL in the Pacific with the first phase of a programme running from December 2015 to March 2018. Tuvalu is the fourth smallest country in the world with a population of around 11,000 and a land area of only 25.9 km2, while its exclusive economic zone covers 900,000 km^2. The country faces development challenges posed by its small size and remoteness, notably narrow production and export bases; fragmented, limited resources and capacity constraints.

Tuvalu is prone to natural disasters and vulnerability to climate change, heightening susceptibility to economic and climate related shocks, which are likely to increase in frequency and intensity with climate change and globalisation. Climate vulnerabilities including scarcity of fresh water, coastal erosion, soil salination, reduced fish habitats, coral bleaching, rising sea water levels and increasing extreme climate events such as typhoons and wave surges.

LoCAL has entered a strategic partnership with the Commonwealth Local Government Forum, in implementation of the capacity development and technical support to national and local governments under the LoCAL objectives.

Adaptation measures and investments under the programme to address climate change vulnerabilities include:

- Climate vulnerability identification and risk assessment at national and local government (Kaupule) level.
- A range of capacity building initiatives around performance-based climate resilient grant mechanisms at national level and climate change planning and budgeting capacity building at Kaupule level
- Kaupule managed infrastructure investments including improving water use and sanitation efficiencies by introducing cost-effective technologies and management practices to reduce pressure on water resources, as well as careful management of agricultural wastes, to reduce pollutant loads to aquifers and coastal habitats; and reducing pollution from sewerage disposal through water efficient disposal methods and composting.
- A monitoring and evaluation system and lessons learned to inform national policies.

Project implementation to date has revealed some important learning particularly around ensuring meaningful participation of vulnerable and marginalised communities to help integrate climate change risk management activities into community development and planning processes and awareness raising and capacity enhancement at the outset of the programme.

The programme was initially piloted in three vulnerable Local Governments with a full up-scale for the national system planned from 2020 onwards.

Sources: UNCDF Project Document: Local Climate Adaptive Living Facility (LoCAL) - phase 1 and UNCDF Local Climate Adaptive Living Facility – Tuvalu https://www.local-uncdf.org/tuvalu.html

Case study 13: Building resilience through adaptive management – BRACED Project, Kenya

Building Resilience and Adaptation to Climate Extremes and Disasters (BRACED) is a three year DFID funded initiative designed to build the resilience capacities of vulnerable people to prepare for, cope with and recover from climate related shocks. The programme is being implemented by Mercy Corps in Wajir County in Kenya and in the Karamoja sub region of Uganda. The programme focuses on market linkages, natural resource management, governance and gender and involves establishing and building the capacity of community based committees to advocate for and influence decision making around the allocation of resources for resilience building.

The Wajir County Climate Change Fund Act, 2016, contained two provisions of particular relevance to the BRACED governance work. The first was that 2% of the county budget (roughly KES 80 million/ US$775,000 per year) would be allocated towards climate resilience projects through a special County Adaptation Fund (CAF). The second was that these funds would be disseminated through and managed by Ward level Adaptation and Planning Committees (WAPCs) and the committees would also be involved in the identification of these resilience investments and ensure alignment with the county government priorities. The decision to focus on the ward as the unit for community engagement was largely based on learning derived from years of participatory development planning work.

The project has since established and is in the process of building the capacity of 8 WAPCs to develop climate resilient proposals and manage climate funds. Based on its success (and transferability) in Wajir, the approach is currently being reviewed by the National Environment Management Authority as a standard model to be rolled out in other counties. The WAPCs are also being considered as the mechanism to disseminate Green Climate Funds in Kenya. This would ensure the sustainability of this BRACED investment and increase its impact well beyond the geographical and temporal boundaries of the project.

Source: BRACED (2017) http://www.braced.org/contentAsset/raw-data/981751ed-ec37-47a6-a3b6-26bf9a9b64a2/attachmentFile

In Australia, interest on the part of local government to actively engage with social enterprises is on the rise, recognising the value of social enterprises in helping Councils achieve local development outcomes. A number of councils have indicated a growing interest in social procurement, providing opportunities for social enterprises to leverage their social-value-creating activities into access to local government tenders and contracts. A social procurement guide for local government was published by the Victorian government in 2010, and a guide to social procurement for local governments has been released in New South Wales. The case of Central Coast Council (Case Study No 14) is a pertinent example of local government taking the initiative to create social enterprises.

Deriving value for local government from social enterprise partnerships is an emergent area for action research. However on the evidence to date, such initiatives can clearly be valuable. It should however be feasible to envisage more innovative relationships between social enterprise and local government in local planning and service delivery.

Land and utilisation of other assets

Councils can often have considerable stocks of land under their control and other assets that are underutilised and undervalued. These 'lazy assets' are not really delivering the best financial outcomes for that council, particularly in provision of infrastructure of which there is a significant global backlog.

Options to better arrange their infrastructure needs through for instance the PPP modality can give councils a workable structure in which to procure infrastructure projects that they may otherwise delay or be unable to raise private sector financing for.

For example, a Council holding land, a significant resource for growth, that has potential for development could enter into a PPP based on a fixed term (say 20-25 years) development lease of that land. This would allow the private sector to bring the investment capital, together with innovation and design, cost control and bid competitiveness to the process with possibly no upfront payments, depending on the structure of

Case study 14: Social and community enterprise - Central Coast Council, NSW, Australia

Central Coast Council has adopted the social enterprise concept as a service delivery mechanism, with the objective of empowering communities and individuals to meet urgent social priorities, generate sustainability in social programs, reduce dependence on external funding and deliver more effectively on community aspirations.

The Council adopted the Central Coast Regional Social Enterprise Strategy in 2011 which aims to

- promote economic sustainability in the social sector
- increase the social and community outcomes generated by local enterprises
- support development of innovative enterprise models within the region.

Activities undertaken include:

Social Enterprise Program – skills development for aspiring social entrepreneurs in starting their own businesses, including peer to peer networking events and innovators' challenge sessions,

Active Places and Spaces: activating under-utilised spaces – The Council partnered with various shopping centres across the Central Coast to provide incubation space for social enterprise retail initiatives

Smart Work Hub - The Gosford Smart hub is a space created for small business and start-ups to have a space to work away from home, whilst being connected with fast wifi, and surrounded by like minds to share ideas, concepts and business acumen in a professional yet relaxed environment.

Social Procurement – to boost the local economy by purchasing with purpose quality goods or services that also produce positive social outcomes. This also opens new opportunities for local employment and skills development.

Source: https://www.wyong.nsw.gov.au/my-community/social-and-community-enterprise

the PPP, required from council. The asset is then managed under a contracted performance regime which the private sector must meet; otherwise the lease may be terminated. The whole asset is handed to the Council at the end of the lease period in an agreed handover condition, having been maintained adequately over the life of the lease.

If the PPP arrangement did involve any capital contribution from the council, the long lease period would allow the council to raise funds over this period to meet the service payments, rather than having to seek a once off upfront capital injection which they are often under pressure to repay within a short period and with interest. Cost overruns during construction, pricing of maintenance during operations and commercial viability are among the risks borne by the private sector partner.

This development lease model is enduring and can be applied by megacities, large and small local authorities alike.

Some Reflections

The financing mechanisms listed above may be innovative to some, and perhaps routine to others who know of and are already using them. But in either case there are factors that need to be taken into account when considering their application. Following are some observations which may assist this process.

Service Delivery Partnerships

As indicated, partnership outsourcing can be successful but is no panacea; it is potentially full of unintended and unexpected consequences. Like any partnership, an infrastructure or service delivery partnership needs to occur for the right reasons and should not be entered into lightly.

Tizard (2011) has identified some of the fundamentals that councils should consider before embarking on service delivery partnerships.

Be clear about the motivation for working with external partners - knowing the purpose will clarify how to achieve it. Motivations could include cost efficiencies, expanding capacity, seeking investment, employment creation, supporting social enterprises, etc.

Be clear on the underlying strategic objectives - these should flow from the overarching strategic vision for the place and the local authority.

Identify needs first, then decide how best to meet these needs - decisions should flow from intelligent, strategic planning. This should result in meeting the clearly identified needs effectively and efficiently irrespective of who takes the lead in implementation.

Understand the mindset of private sector partners - Councils should understand that potential private partners are primarily driven by commercial goals and the nature of the particular sector or market. It is imperative that local authorities have commercial skills and capacity to protect the council's interests in partnership negotiations and project implementation.

To attract and gain the best from a relationship, councils must be exemplary partners - this means ensuring operational and financial transparency and accountability; remembering wider factors such as employment, the local economy and social and environmental goals when choosing the model of engagement.

Effective partnering requires investment in relationship building - This costs both time and money - but is vital if the relationship is to work.

Private Sector Participation in Local Infrastructure Financing

Quality infrastructure is a key factor in attracting and retaining investment and a skilled workforce in a city or town, but as noted earlier, there is a significant global backlog in high quality infrastructure provision, due primarily to availability of finance. The private sector can help close some of these gaps, but governments, at central and sub-national level, need to do their share by creating the right environment.

A perennial challenge for local governments, particularly those in developing countries and smaller local authorities, is their credit quality. Sampath (2017) contends there is more than enough credit available and proposes several steps that municipal governments can take to attract private sector participation in local infrastructure:

Ensure robust project preparation and pipeline development - key to a programmatic infrastructure delivery. This means defined, predictable governance, and legal processes that provide investors with confidence and visibility.

Improve the enabling environment – this includes appropriate sectoral policies, public sector commitment and leadership, ability to understand key project risks and their management, and local authority capacity to prepare, procure, and manage PPP projects.

Tap into domestic capital markets - for sustained financing of urban infrastructure that generate cash flows in local currency. Accessing private domestic savings on a large scale will augment efforts of governments and international funding agencies to finance infrastructure at local and regional levels.

Back-stop payment obligations through multilateral financial institutions - multilateral financing could help pay for some parts of initial capital expenditure of a PPP project on a grant basis to enhance the overall project viability. Multilateral financing can also be used to meet payment obligations—like availability payments—of municipal governments.

Use credit enhancement products more creatively - Multilateral banks and international financial institutions can provide significant support in attracting private capital into municipal infrastructure. Multilaterals' risk mitigation and guarantee products can crowd in private sector financing that leverages the multilateral bank's credit rating to attract additional financing. Project-specific guarantees allow public sector bodies that are keen to attract private financing to obtain cover against the risk of non-payment by a government entity to a private or foreign commercially acting entity under a commercial or financing contract. Similar guarantees are also available to private sponsors.

Set up local infrastructure funds that can be ring-fenced to pay for infrastructure - a local infrastructure fund can bring together different forms of municipal government funding, maximizing their buying power and starting a cycle of capital investment projects. Some municipal governments may use existing resource funding streams (such as from federal/provincial fiscal transfers, or their municipal tax or property tax base) and borrow against this to get capital works under way. Once the scheme is delivered, net revenues accelerate the repayment of the debt. Since some of the debt is paid down, this revenue provides an even larger stream of resource funding to repeat the process. The critical part is that the local government needs a stream of resource income to get things started in the first place – to bridge the gap until revenues and other income start flowing.

Develop a transparent structure for land value capture - Land value capture (LVC) is a financing method by which a municipal government activates increases in land/property values usually through regulatory decisions such as change in land use or floor area, and infrastructure development. The government then captures part or all of the value appreciation, and re-invests the proceeds to finance infrastructure development.

For areas with high development potential municipal governments could consider using the development rights auction model (DRAM), a new land value capture mechanism used in the UK[1]. However, for LVC to truly take off in developing countries, the value generated by a proposed investment must be transparently captured. This is however challenging for local authorities that lack a robust, market-oriented policy framework and tools for assessing LVC.

Key Building Blocks to Facilitate Sustainable Financing

In conclusion, there are some fundamental 'building blocks' which countries should ideally have in place at local, provincial, state and national levels to ensure sustainable resourcing for local development and enable innovation and empowerment locally.

The AAAA provides a framework and policy actions that reveal transformative potential around the enabling environment, appropriate public policies, and regulatory frameworks. The following are fundamental to achieving sustainable local government financing.

- ***effective multi-level governance framework*** – it is important to explore synergies and maintain dialogue between local government and central government, civil society and economic stakeholders to ensure policy consistency and to make sure that all stakeholders understand and accept each other's place in the process of financing and delivering infrastructure and services.
- ***enabling legislative and policy environment*** – many of the initiatives around new approaches to resourcing local government require a policy and regulatory foundation. Legislation to allow local government to, for instance, participate in domestic capital and credit markets, enter into PPPs, etc, will be required to empower local authorities to exercise creativity and innovation in respect to financing infrastructure and revenue enhancement.
- ***public financial management*** – it is critical that local authorities have in place robust and accountable financial management systems before embarking on any new financing initiatives. This includes, but is not limited to effective
  - planning and budgeting protocols which demonstrate policy-based fiscal strategies and budget reliability
  - debt management systems
  - revenue administration mechanisms
  - accounting and reporting for information and transparency of public funds
  - procurement and disbursements systems
  - systems for compliance
  - audit for external scrutiny.
- ***institutional and human capacity*** – some of the approaches to resourcing local government mentioned here may be new to some local authorities, and some are highly complex. It is important, as suggested on several occasions, that local governments are proactive, but aware of potential challenges and equipped with the understanding and capacity required. This could be from within the local authority (through training or new staff), through procuring expertise from outside the organisation or requesting technical assistance from other agencies, development partners, multilateral financial organisations and the like. Opportunities also

1 For further information on DRAM see https://www.london.gov.uk/sites/default/files/land_value_capture_report_transport_for_london.pdf

exist for peer to peer technical cooperation such as the Commonwealth Local Government Good Practice Scheme.

- ***Understanding partnerships*** – as indicated above, local government needs to understand the dynamics of working with the private sector. Conversely, the private sector must appreciate the realities of working within the political environment of local government. Factors such as political cycles, consultation and decision making processes, legislative frameworks, social responsibility, amongst others, need to be understood by private sector partners for a successful collaboration.

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Working Smarter to Deliver the 2030 Agenda at the Local Level

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'The capacity to plan, manage, implement, and account for results of policies and programmes is critical for achieving development objectives – from analysis and dialogue through implementation, monitoring and evaluation.' Paris Declaration on Aid Effectiveness[1], Para 22.

The purpose of this paper is to consider how local government can work more efficiently and effectively in order to deliver on its mandate and play its full role in achieving Agenda 2030. The further decentralisation of functions coupled with both often reducing fiscal transfers to local government and increased demand for local services requires new partnerships, operating models and "smarter" ways of delivery. This think-piece looks at the imperative for greater professionalisation across the sector to increase efficiency through building a more capable and consistent workforce. It will also look at financial innovation, partnerships and capacity building in the context of generating greater efficiencies to improve delivery. Finally it will look at how local governments can work smarter, especially within the planning and decision making process to improve their capacity to deliver local development in line with the SDG commitments.

With the adoption of Agenda 2030, there has been an increase in the recognition of the role of local government in priority setting, delivery and evaluation. This think-piece discusses the emerging human and financial capacities required by local and regional governments to deliver on the SDG targets and other Agenda 2030 commitments. To achieve these however, local government will need both the leadership and technical skills to move beyond business as usual and proactively address both local and global trends affecting their territories. While capacity deficits are a chronic challenge in local service delivery, the new global commitments, especially under the 'leave no one behind' rubric means greater pressure to ensure equity in service delivery across communities. This will require both increased effectiveness in those organising and managing services, as well as the increased use of innovative and new ways of delivery. Ensuring local decision makers have access to the data and knowledge they need to make clear evidence-based decisions, and that the commensurate capacity is in place or accessible for the implementation of these actions, underpins the effectiveness and credibility of local government. These skills are essential in managing the numerous challenges facing local government over the coming decades, such as rapid urbanisation, planning for the impacts of climate change and ensuring sustainable development. Whilst many innovations are not new, such as different modalities for delivering municipal infrastructure (e.g. municipal bonds, PPPs, shared service provision, etc), the new development agenda provides renewed impetus for collaborating, learning and adapting. The SDGs are an important lever for local government across the Commonwealth to demand greater decentralisation of resources and decision making. Local government will be judged however on its ability to deliver on these global goals, and as such it must take realistic stock of its capacity and efficiency gaps so as to proactively address them. The 2030 Agenda requires a professionally capable and highly motivated public service. The paper provides a number of case studies to demonstrate how governments have adopted innovative approaches under different human and financial constraints. This think-piece argues that professionalisation and partnerships are essential for the attainment of the 'leave no one behind' global paradigm.

Identifying the critical SDG deficits is an important first step. While all national governments have signed up to the SDGs they must now tailor these global goals to their specific national and sub-national challenges, and determine their

1 OECD 2005 http://acts.oecd.org/Instruments/ShowInstrumentView.aspx?InstrumentID=141&Lang=en

SDG priorities. Priorities may also be different within countries to address areas of entrenched inequalities or specific territorial challenges. Local government, positioned as it is within the local community is in a prime position to ensure the needs of local communities are fed into this priority setting exercise. The resulting priorities should help in identifying needed improvements in intergovernmental and sub-national government systems. In this context, it is important to highlight that while local authorities may be in a prime position to deliver the 2030 Agenda, national governments must provide the enabling environment, in terms of coherent and holistic systems of decentralisation and a conducive environment for local and regional governments to apply innovations to strengthen their service delivery capabilities; as well as ensure adequate human and financial resources. At the strategic level, there are examples of policy innovation, in Kenya for example where there is legal recognition of inter-governmental partnerships. In 2012, Kenya promulgated the Inter-governmental Relations Act that provides for a National and County Governments Coordinating Summit, an Inter-governmental Relations Technical Committee, and a Council of County Governors.[2]

Building human resource capacity at local level

The General Assembly Resolution - “The future we want” affirms ‘the importance of human resource development, including strengthening institutional capacity, planning, management, and monitoring capacities’. The SDGs are cross-cutting in nature as 169 targets are not only interlinked but also have multiple linkage and interdependence. A UNDESA paper[3] reveals that 60 out of 107 targets explicitly refer to at least one other goal than the one to which they belong, and 19 targets link three goals or more. This multiple linkage indicates that a greater level of integration and policy coherence is required across sectors. This brings to the fore the vital point that the public sector – at both central and local and regional government levels, needs to develop multi-dimensional capacities that are centered on people, planet and prosperity. Public sector capacities have to be channeled in such a manner that there are workable, effective and synergistic links between sectoral departments and agencies. Multi-level partnerships will be key in achieving the SDGs and local government must have the leaders and technical staff who are both able to think holistically about the issues facing their territories, and capable of effectively managing these multiple partnerships. Stronger partnerships both with other levels of government as well as with the private sector and community stakeholders are pre-requisites and will require a shift in the way in which local government works.

The strategic significance of human resource development is often neglected at local government level. Local government in many of the Commonwealth´s low and middle income countries is chronically understaffed. In many cases while there are guidelines to the number of staff positions for various departments in councils these are not filled. For example in Cameroon, a 2014 assessment undertaken by the Inter-ministerial Committee for Local Services reported that the country´s 374 local authorities were cumulatively facing a shortage of 3,299 staff members.[4] While the issue of simple numbers is a problem, local governments also often face a disconnect between the staff they need to deliver services and forward planning, and the staff they have at their disposal. This is exacerbated by an imbalance in the ratio of high skilled to low skilled employees. This is especially challenging in the context of municipal budgets where significant percentages of local budgets are required for staff salaries, which can be over 50% of current expenditure for some councils. Local governments can sometimes buy-in the technical expertise they need to develop plans and policies, this can however have a significant impact on already tight budgets. While these one-off expenditures can in some cases deliver the necessary specific products, they do little to build the capacity of the councils in the long term and can be hit or miss in capturing local needs and priorities. They may also struggle to capture the necessary buy-in across the community and within the local government for implementation.

2 Government of Kenya 2012 Intergovernmental Relations Act www.parliament.go.ke/component/k2/item/122-intergovernmental-relations-act-no-2-of-2012
3 le Blanc, D. (2015) Towards integration at last? The SDGs as a network of targets. UNDESA Working Paper No 141 www.un.org/esa/desa/papers/2015/wp141_2015.pdf
4 UCCC (2016) Position and advocacy paper for increased resources to councils in Cameroon. See also Cities Alliance 2017 Capacity Gaps of African Cities

Local government service commissions

An innovative approach to capacity building within local administration is the establishment of a local government service commission. These are entrusted with the responsibility of overseeing all human resource matters within local government such as recruitment, appointment, transfers, discipline, appeals, training, setting of professional standards and policy making on matters that relate to the regulation of the local government service. Nigeria was among the first countries to establish a service commission under provincial/ state local government laws as early as in 1978, and Mauritius in 1983.[5] Since 2000 a number of other Commonwealth countries embracing decentralisation have attempted to improve self-sufficiency in human resources through establishing local government service commissions including Sierra Leone in 2004 and Zambia in 2010 (see Case Study No. 1). Self-sufficiency and autonomy of local authorities in human resources not only strengthens decentralised service delivery but also lessens dependency on central government – cumulatively contributing to better service delivery at the local level.

Local government training institutes

Beyond local government service commissions many training institutes exist for local government across the countries of the Commonwealth. These can be found as part of the independent higher education system; delivering training to local and national officials. They may also have significant international reach. For example the Uganda Management Institute (UMI), the Institute of Local Government Studies (inlogov) at the University of Birmingham in the UK or the Centre for Local Government at the University of Technology, Sydney: Australia (UTS-CLG). In many Commonwealth countries provision of training to local governent is part of the government's civil service training institutes such as in the case of the Institute for Local Government Studies (ILGS), Ghana, the Local Government Training Centre CEFAM in Cameroon, the Sri Lanka Institute for Local Governance (SLILG), or the Kerala Institute for Local Administration (KILA)

5 For example, Oyo state local government commission, www.oyostate.gov.ng/ministries-departments-and-agencies/departments-and-agencies/oyo-state-local-government-commission-2 and Mauritius local government service commission http://lgsc.govmu.org/English/Pages/default.aspx

Case study 1: Multi-dimensional capacity development – Zambia water sector

The water and sanitation sector in Zambia has faced major challenges due to inadequate human and institutional capacity, inadequate financing and weak infrastructure development. One key factor has been the absence of water management regulations and a lack of capacity to enforce existing water rights, regulations, and fees. In 2013, whilst around 90% of people living in urban centres had access to clean drinking water, only 41% in rural areas did, and access to adequate sanitation was only available for 55% of urban and 51% of rural populations (UN MDG Indicator database, 2015). Over the past decade, the government has looked to tackle this problem at multiple levels. At the institutional level, this included the establishment of the National Water and Sanitation Council in 2008, the introduction of new laws and a regulatory framework including the National Water Policy 2010, as well as the establishment of 11 commercial water utilities. The Government also revised the decentralisation policy launched in 2013, which included the provision of a local government service commission. Capacity building focuses on employees with an emphasis on client satisfaction and service orientation, and standard operating procedures and a monitoring and evaluation (M&E) system were introduced. At the organisational and individual levels, training enabled ministries, local authorities, and utility companies to identify their needs and plan for their organisational and infrastructure priorities. Capacity was developed through a combination of participatory organisational development and policy advice, and through formal training courses, workshops, and exchange of information. An example of one practical outcome for all of this activity was the creation of 400 'water-kiosks' giving 800,000 people in low-income urban and peri-urban communities greater access to safe drinking water.

Source: GIZ 2013 Water sector reform in Zambia www.giz.de/en/worldwide/20808.html

Case study 2: Local government capacity building and training in Rwanda

The Rwanda Association of Local Government Authorities, RALGA, is mandated, among other things, to provide capacity building for local government leaders and officials across the country. The Local Governance Institute (LGI) is an initiative of RALGA set up in 2015 to take over this capacity building role, providing short courses, an e-learning platform, a masters' programme in collaboration with the University of Rwanda, as well as acting as a centre of research and knowledge for local governance in Rwanda and internationally.

The institute benefited from an initial partnership with the Commonwealth Local Government Forum and the UK's Local Government Information Unit (LGiU). It plans to provide expanded practical training and capacity-building initiatives for local officers and elected representatives from across the east African nations, as well as policy guidance and support for local economic development.

Source: LGI www.lgi.rw and LGiU www.lgiu.org.uk

in India. Other innovative modules include the recently created Local Government Institute (LGI) set up by the Rwanda Association of Local Government Authorities (RALGA) (see Case Study No. 2), or the UK think-tank the Local Government Information Unit (LGiU), both which are membership organisations which deliver tailored training to both elected local government representatives as well as local government officials, whilst also providing timely policy commentary and research.

Development cooperation and capacity building

A key component of development cooperation is capacity building to ensure the sustainability of work undertaken. The World Bank estimates that more than US$20 billion is spent annually on technical assistance and capacity building (Otoo et al, 2009).[6] However, resources for capacity development are often bundled with sectoral assistance. Similarly, national budgets of countries tend to reflect aggregate allocations for public sector development rather than a dedicated stream of funding for local government capacity development. Whilst funding capacity development in the public sector through multilateral and bilateral development assistance is not sustainable, it can provide a boost to capacity, and if coupled with training of trainers approaches can have an important multiplier effect. Many countries have experimented with this on a long or short term basis, even liberalising human resource policies for public servants allowing them to tap capacity building opportunities on a competitive basis offered by bilateral mechanisms.

Councils are also faced with serious ´brain-drain´ issues. With limited ability to pay competitive salaries and with limited social status linked to working in local government, skilled personnel often leave councils for positions in central government, international donor agencies, NGOs or the private sector. In cases where local government has been able to invest in building the capacity of its staff members, this brain drain transfers these investments to other actors. Within this context local governments are also exploring creative ways to build capacity, and offer their staff exciting opportunities not necessarily available in other sectors. North-South and increasingly South-South decentralised cooperation and city to city twinning and other forms of cooperation can provide targeted support for specific projects while building the capacity of local staff through working jointly with partner technical staff from other cities and local governments (see Case Study No. 3).

Innovative mechanisms to increase efficiency on governance and delivery

To deliver services in such a way that ensures that 'no one is left behind', will require substantial funds. Typically, local governments rely on intergovernmental transfers and own-source local revenues such as property tax, tax on goods and services, fees, fines and user charges, etc. The balance between these sources varies both within and between countries, but in general local government in low and middle income Commonwealth countries are heavily reliant on transfers from the higher levels of government, given their low capacity to collect local revenue, and even in many high income Commonwealth countries transfers

6 For comparable figures, see also Ubels, J. N. Acquaye-Baddoo and A. Fowler (2010) Capacity development in practice. Earthscan.

Case study 3: City to city cooperation case study: CLGF Local Government Good Practice Scheme: Port Moresby and Townsville City Council

Within the framework of CLGF's local government good practice scheme (GPS) in place in Papua New Guinea (PNG) from 2002 - 2013, Townsville City Council in Queensland, Australia engaged in a targeted capacity building project with the National Capital District Commission (NCDC) of Port Moresby, Papua New Guinea. This built on the 'sister city' relationship that had existed between the two councils since 1983. The goal of the project was to strengthen management, planning, and governance within the NCDC and to improve the capacity of the organisation to deliver efficient, responsive, accountable services to the community. The first phase of the project focused on regulatory services and resulted in organisational structural changes, policy formulation, development of operational procedures, enhanced information technology, improved human resources policies and procedures, and improved financial management and corporate information systems. Phase 2 commenced in 2008 working on information technology, governance, records management, enforcement of regulations, sustainable building practices, environmental sustainability, waste management and asset management. The partnership has continued beyond the GPS and in 2014 NCDC launched PNG's first integrated Waste Management Policy. Townsville City Council staff continued to provide mentoring for this project and assisted through peer review after external funding ended. Among other key outcomes, staff awareness of statutory responsibilities and compliance practice was improved resulting in enhanced adherence to regulations. Evidence also showed an increased awareness of environmental issues and a desire for change within the community.

Source: Pacific Local Government Twinning NCDC and Townsville https://pacificlgtwinning.wordpress.com/focus-on-partnerships/ncdc-townsville

are an important part of service delivery funding. While the local delivery of the SDGs makes a strong case for increasing transfers this is unlikely to bridge the funding gap to universal service delivery. As such local governments must look at new partners and tools to increase their efficiency and make their limited funds go as far as possible so that services can reach those at risk of being left behind.

Public private partnerships

Local government is increasingly looking towards less conventional modes of financing municipal infrastructure and delivering basic services, Public private partnerships (PPPs) are a tool that many local governments are using as a way of increasing efficiency and technical capacity. The Addis Ababa Action Agenda (AAAA) recognises that "both public and private investment have key roles to play in financing infrastructure, including through (...) public private partnerships" (paragraph 48, AAAA). However, the AAAA also highlights the need to "build capacity to enter into PPPs, including as regards planning, contract negotiation, management, accounting and budgeting for contingent liabilities".

Many countries are encouraging their local governments to consider PPPs. For example both South Africa and India have made substantial progress in this regard, and over the last decade there has been a significant increase in the funds spent in PPPs at both the national and local levels in many countries. It is estimated that from 2004-2012, investments in PPPs increased from US$ 22.7 billion to US$ 134.2 billion, in infrastructure development[7] and it is anticipated that the trend will continue in the near future (see Case Study No. 4).

Though PPPs can potentially enhance the service delivery capacity of local government,, they are relatively complex mechanisms and ensuring clarity for all partners in the risks and returns is essential for success. It is important to build the capacity of the service delivery arm of the local government to plan, manage and execute PPPs prudently. This includes strengthening capacities to i) correctly identify and select projects where PPPs would be viable, ii) structure contracts to ensure an appropriate pricing and transfer of risks to private partners, iii) establish a comprehensive

Case study 4: A public-private partnership for Berhampur Solid Waste Management

The municipal solid waste management system in Berhampur, a city in the Indian state of Odisha, was inadequate to meet the needs of its growing population and was not in compliance with national regulations. With little-to-no primary waste collection in about half the city, many citizens, mainly in low-income areas, were exposed to health risks resulting from pollution, water contamination, and untreated solid waste. The Department of Housing and Urban Development of the Government of Odisha and the Berhampur Municipal Corporation, seeking an affordable solution for delivering improved waste management services to its citizens, turned to the World Bank's International Finance Corporation (IFC) to help structure a PPP transaction and attract a private operator to improve the efficiency and management of the system. UPL Environmental Engineers Limited, one of India's leading environmental engineering companies, was competitively awarded the 20-year concession. The concession agreement was signed on August 30, 2013. UPL will be responsible for collection and transportation of waste, development of a segregation line and composting facility, a greenfield sanitary landfill and the decommissioning of the existing dumpsite. Operations were expected to begin within one year of signing and will benefit over 350,000 people, including approximately 100,000 in low-income areas. This project was supported with funds from DevCo, KfW, and the Ministry of Foreign Affairs of the Netherlands for copex grant and concessional financing.

Source: International Finance Corporation (2013), P3 Briefs India Berhampur Solid Waste, World Bank. https://www.ifc.org/wps/wcm/connect/300e0680422d8b4d8cdacf6e26473d89/PPPStories_India_BerhampurSolidWaste.pdf?MOD=AJPERES

and transparent fiscal accounting and reporting standard for PPPs, and iv) establish legal, regulatory and monitoring frameworks that ensure appropriately pricing and quality of service.[8]

Micro-finance and crowd funding

Another emerging mechanism that local governments could look to capitalise on is the rise of crowd-funding which predominantly mobilises funds from private individuals, but also the private sector in the support of a specific intervention. Crowd-funding has evolved into a US$16 billion market that is growing at approximately 300% per year.

While the adoption of crowd-funding in developing economies was initially slow, it has been estimated that it will grow to a US$96 billion market by 2025. Consequently, there have been calls to include crowd-funding in the climate financing arena (e.g. through the introduction of a microfinance and crowd-funding window in the Green Climate Fund (GCF)).

7 Romero, M. R. (2015) What lies beneath? A critical assessment of PPPs and their impact on sustainable development. Euradad.
8 UNDESA (2016) Public-Private Partnerships and the 2030 Agenda for Sustainable Development: Fit for purpose? Working Paper 148 www.un.org/esa/desa/papers/2016/wp148_2016.pdf

Case study 5: Crowd Investment Platform for Sustainable Development (CIP4SD)

Crowd Investment Platform for Sustainable Development (CIP4SD) is a shares-based crowd-investing platform that seeks to demonstrate alternative investment mechanisms for facilitating the development of low-carbon, climate-resilient economies through crowd-funding for climate change (CF4CC) modalities. The CIP4SD is also an investment platform to stimulate SDGs private sector investments with a particular focus on enhancing climate resilient agricultural practices and reducing the vulnerability of communities to climate related extreme events and other economic, social and environmental shock. See an example in Malawi at: www.seedsofopportunity.org

Source: Chirambo, D. (2016) Crowd Investment Platform for Sustainable Development (CIP4SD) Business fights poverty http://community.businessfightspoverty.org/profiles/blogs/crowd-investment-platform-for-sustainable-development-cip4sd

Crowd-funding also offers the direct democratic opportunity for citizens to invest in what is important to them in their community, and could provide strong accountability links (see Case Study No. 5).

Information Communication Technology (ICT)

Local governments across the Commonwealth are being asked to do more with less and new technology presents important opportunities to improve efficiency, reach out to the local community, better target and deliver services, and access new sources of revenue. ICT has the potential to improve the provision of services and infrastructure which underpin local economies, allowing both traditional and new businesses to flourish. It can support local governments to improve tax and fee collection and to access new sources of revenue. It can also strengthen local government's ability to collect data essential to the monitoring and evaluation of the SDGs. As data is an increasingly important input to the local economy, there is also potential for new partnerships in data collection and processing to strengthen how local government uses data to improve services. Finally ICT can provide new mechanisms to engage citizens including enabling increased feedback and crowdsourced data. It can be especially useful to reach out to marginalised and hard to reach sections of the population, increasing their voice in local decision making and helping to ensure no one is left behind. However local government decision makers often lack the confidence and capacity to assess which investments will produce the greatest social and economic returns. Better assessments of the results in terms of the SDG goals a local community is looking to meet will help councils and their ICT partners in determining which interventions are the most appropriate (see Case Study No. 6).

Local government capacity to plan

The capacity of local government to effectively development, implement and evaluate planning is critical to being an effective and responsive council. This final section explores how the previous discussions of human resource capacity, efficiencies thorough partnerships and smart use of ICT in council operations, services and citizen engagement are brought together through integrated and inclusive planning. It will look at how organisational capacity and structures to enable cross-departmental strategic planning and coordination with key stakeholders such as line ministries, business partners and civil society ensure effective and inclusive service delivery for all.

The development of local government capacity directly affects the ability of local authorities to

Case study 6: Using technology to manage large infrastructure projects - Auckland

Auckland Transport, which manages the transport infrastructure in New Zealand's biggest city, has launched over 200 capital projects as part of an ambitious plan to ensure the city's transportation infrastructure keeps pace with the City of Auckland´s projected population growth from 1.4 million in 2014 to 2.2 million by 2020. Auckland transport partnered with technology company LeapThought, the 2015 Microsoft CityNext Partner of the Year, to approach all of their infrastructure projects from a holistic, strategic perspective. They adopted a custom digital solution called Fulcrum, developed by LeapThought to manage the 200-plus construction projects from beginning-to-end. Fulcrum uses the capabilities of Microsoft's SharePoint Server to provide cross-departmental tools that help manage properties impacted by projects. An example of which is the City Rail Link a 10-year megaproject projected to cost NZ$2.4 billion (US$1.66 billion) to meet the demand of the next generation of commuters. The Fulcrum tool will support the complex planning and management of the patchwork of properties affected, and ensure the well-established bureaucratic process is followed in order to acquire the land needed for the project. The cost savings and operational efficiencies gained by using Fulcrum on big projects can also extend to smaller capital projects as well, and Auckland Transport have estimated a savings of NZ$3million (US$2.1million) in the first 10 years.

Source: 'Award winning solution keeps Auckland ahead of the growth curve' by Roger Jones Chief Information Officer, Auckland Transport www.microsoft.com/en-us/citynext/blogs/award-winning-solution-keeps-auckland-ahead-of-the-growth-curve/default.aspx

Case study 7: Megapolis development plan – Colombo and Western Province

In Sri Lanka, whilst local government has the mandate to provide public utility services they currently do not have any directly assigned development functions related to socio-economic development. This, in conjunction with significant limitations in both human and financial resources has made it challenging for local authorities in general, and Colombo in particular, to deal with the significant pressures of urbanisation. The Urban Development Authority (UDA), part of the Ministry of Megapolis and Western Development, has specific powers and functions to promote development. UDA's mandate is to increase sustainable inclusive growth, and its project work focuses on slum regeneration and housing creation, area redevelopment plans, land planning, zoning revisions, commercial development, and improved connectivity. This has enabled municipalities to partner with central government, which is instrumental in securing funding, to implement a development plan for local economic development. For Colombo this has resulted in the Metro Colombo Urban Development Project (MCUDP), part of the Western Region Megapolis, one of the flagship developments by the Sri Lankan Government. Megapolis aims to increase employment and growth, and triple the region's per capita income by 2020. 142 projects are currently being planned, estimated at US$40 billion over the next 15 years. These include the revitalisation of Colombo's down town core, a science and tech city in the east, two new industrial hubs, consolidating and strengthening both the port and airport as regional hubs for travel and trade, and a multi-mode logistics corridor to ensure smooth transport and exchange throughout the region. The master plan also makes specific provision for support to small and medium enterprises (SMEs), recognising them as an important strategic sector for generating high economic growth and reducing unemployment, inequality and poverty. The master plan is intended as a framework within which the regulatory and institutional mechanisms of local authorities and government agencies will be strengthened, along with their service delivery capacity.

Source: www.megapolis.gov.lk

provide effective and inclusive basic services that 'leave no one behind' and can have a significant impact on the welfare and development of citizens. Where enhancing capacities of local public servants it is important to focus on three inter-related areas.

- Improved capacities for planning;
- Improved capacities for execution of plans; and
- Improved capacities for monitoring and evaluation.

Capacity development is very context specific, however, all three elements of planning, monitoring and evaluation are inter-linked in a chain as one leads to other. If planning is not rigorous, execution will be hampered; and evaluation difficult.

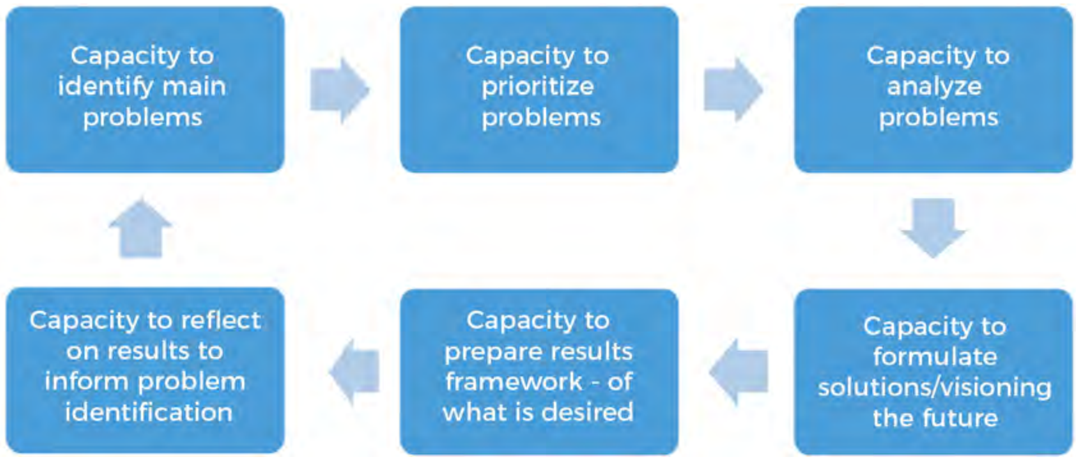
Improved capacities for planning

Planning involves the analysis of problems and development of strategies to overcome them. This requires thorough consultations with the targeted beneficiaries and stakeholders, who should also provide feedback at the evaluation stage. It is at this stage that planning team can ensure that "no one is left behind" by paying particular attention to vulnerable and marginalised populations including women, migrants, people living with disabilities and minorities (see Case Study No.7).

Improved capacities for execution of plans

After the planning process, a workable and practicable implementation strategy should be prepared. The local government must have the capacity to identify a focal department or unit to coordinate the programme with all partners and stakeholders according to an agreed framework.

Monitoring and Evaluation (M&E) is an important tool to gauge the quality of public services and to assess if services are meeting desired objectives. If adequately capacitated, it also enables public administration to plan strategically, make decisions based on M&E data and improve service delivery. As



good M&E is a participatory process, its findings can strengthen the feedback loop between planning, implementation and monitoring, and assist policy makers and implementers in taking informed decisions. M&E requires both financial as well as human resource capacities. As the M&E activity tends to increase towards the end of a programme cycle, financial constraints are commonly observed, therefore, funds should be earmarked from the planning stage. Capacity development should focus on human resources to develop the skills and expertise in M&E techniques especially statistical capacities to organise, plan, gather and analyse data. The M&E staff should have the capacity to juxtapose M&E data with the national development plan, and use the data in decision making.[9]

Building on the above, there are three important capacities that public sector needs to focus on:[10]

(1) Statistical capacity is of paramount importance not just in planning but in all three phases as good data can enable better assessment of developmental problems and hence formulation of desired goals. Data at this stage can serve as baseline for subsequent evaluation. Similarly, reliable data gathering at the monitoring stage will facilitate better measurement of results and evaluation. Access to appropriate national statistical data is often essential for this, and partnerships may need to be brokered to ensure appropriate and timely data for a local government's jurisdiction is easily available to its strategic planning officers. Capacity to engage and lead smart partnerships with the business sector relating to big data may can also significantly increase statistical capacity (see Case Study No.8).

(2) Analytical Capacity: capacity to analyse the main problems including underlying root causes of the issue, as depicted above:

(3) Capacity to engage with stakeholders is essential. The local public administration needs capacity to engage with local citizens, communities and businesses as the primary beneficiaries of the service delivery system. Special attention must be paid to marginalised or vulnerable groups that are usually not consulted in planning.

Conclusion

It is clear that to meet the needs of local communities and to achieve the SDGs at the local level, local government must be empowered and continue to evolve and be strengthened to work more efficiently and effectively. To do this requires new partnerships, operating models and "smarter"

9 The World Bank has established a Statistical Capacity Indicator (SCI) that also enables to track progress countries made towards statistical capacity. In the context of statistical capacity building the 'Bangkok Principles on National Evaluation Capacity for the Sustainable Development Goals (SDG) era' emphasises that 'big data' and technological innovation can potentially bring new voices, volume and validity to data collection, records management and quality control. It further stresses that evaluation is often most effective if kept as a separate and distinct governance function and professional discipline.

10 For more details see UNDP (2009) Handbook on planning, monitoring and evaluating for development results, especially page 25 and page 76-78 http://web.undp.org/evaluation/evaluations/handbook/english/documents/pme-handbook.pdf

Case study 8: Glasgow smart partnerships and big data

In 2013, Glasgow beat 31 other UK cities to win funding worth £24m from the Technology Strategy Board (now known as Innovate UK) to explore innovative ways to use technology and data to make life in the city safer, smarter and more sustainable. Glasgow identified four key challenges which became the themes of the Future City Demonstrator Project: health inequality, transport, energy, and public safety. The project involved a series of demonstrator initiatives to showcase technology solutions in the city; creation of a city data hub; and a centralised operations room. The operations room linked the 500+ CCTV and traffic engineers and Police Scotland along with emergency planning and this was used to help keep the city moving during the Commonwealth Games. The cameras were all upgraded to smart cameras, so they could alert the operations room should an area become too crowded, or show whether an invisible barrier around an asset had been breached, allowing the city to proactively manage safety and security. Glasgow also introduced intelligent streetlights controlled through a central management system, which enabled the early direction of faults, monitor air quality and noise as well as savings of up to 70% in energy and carbon emissions in some areas.

Source: Gary Walker, Programme Director, Future City Glasgow, Glasgow City Council www.clgf.org.uk/default/assets/File/Publications/reports/CSCN_2016_London_Meeting_report.pdf

ways of delivery. This think-piece has touched on some of the challenges being faced by the sector, and innovations being implemented.

There are a number of principles to consider in ensuring that local governments' capacity to play an effective role in the implementation of Agenda 2030 and to ensure that no one is left behind:

(a) National governments should ensure a favourable, enabling and facilitating environment for decentralisation in support of local governance and sustainable development;

(b) All actors should ensure coherence between global agendas, national strategies and priorities, and local and regional strategies and priorities;

(c) Roles and responsibilities need to be clearly identified for each actor and level of government with the necessary resources allocated to fund their mandate;

(d) Local and regional governments and their associations and networks must be strengthened, supported and consolidated, to make them dynamic actors with autonomy, responsibility, skills, powers and resources;

(e) Local and regional governments must invest in their human capital;

(f) Decentralisation, local governance and local public administration must be retained as a priority areas on the international agenda..

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