The Future of Local Finances

#CitiesAreListening
MANIFESTO ON THE FUTURE OF LOCAL FINANCE

LOCALIZING FINANCE AND INVESTMENT: AN ABSOLUTE NECESSITY

All over the world, local and regional governments are responsible and held accountable for the delivery of public services. While international expectations from the local level are high, less than 25% of total public spending is currently carried out by local and regional governments on average worldwide. Local action is about financing infrastructure, ensuring sound financial management of their staff and preparing for the major transformation already underway. The financing of the SDGs is not out of reach, but the longer we wait, the higher the cost. Still, cost estimates, investment plans and roadmaps do not unlock the potential of local, metropolitan and regional governments nor reach the territories that need it most. Business as usual is no longer an option. A new paradigm is needed that places local and regional governments at the heart of mobilizing funding and investment for transformational change.

Localizing finance and investment must be a common ambition and concentrate the efforts of all actors at all levels within renewed frameworks of dialogue, consultation and cooperation. The diversity of domestic contexts must be fully taken into account and particular attention should be paid to local social and economic actors who are the first drivers of long-term financing strategies.

Central Governments must consider local and regional governments as full partners in public action working in the general interest. They must understand that the vertical integration and financial decentralization that they are expected to drive with resolve is not a zero-sum game in which they lose what local governments gain, but rather a win-win exercise. Direct investments carried out by local and regional governments currently account on average for nearly 40% of total public direct investments in the world. Such investments promote inspiring financing solutions that bring together a diverse range of actors and often raise significant amounts of additional funding; they need to be leveraged in the interest of all.

At national level, a major challenge is to strengthen Intermediary financing institutions of all kinds - local development funds, subnational development banks, cooperative funds, Caisse de dépôts, etc. – aimed at
catalyzing national and international financing and direct it towards the financing of local investments. They will strive to create enabling market conditions for local governments’ capital investment.

Clearly, Development finance institutions (DFIs) have a major role to play in accelerating these changes and creating the appropriate condition for developing subnational financial markets. They can and should facilitate local and regional governments’ direct access to financing under renewed financial partnership arrangements, thereby promoting models that can be replicated at scale. To play that role, DFIs must provide support at all stages of the local financing value chain, from training, project preparation, concessional debts to financial instruments for investment and risk reduction. They should also renew their approach to project risk and the creditworthiness of local and regional governments by fully considering social and environmental impact criteria into the evaluation of their support.

Changing the paradigm also means calling on the private sector’s potential for designing technical and financial solutions. Private finance for local actions, in different forms such as debt, equity, investment, guarantees in combination with private expertise and financial engineering is crucial to support local governments in financing public action.

Finally, accurate information on the reality and constraints of multi-level governance, the effectiveness of territorial reforms and the detailed state of local finance at country level (the financial autonomy of local governments, their capacity to access credit and financial markets) is key to informing public debate and laying the groundwork for taking action.

Local and regional governments are committed to meeting these challenges. They are aware of their responsibilities and the expectations of the citizens in terms of transparency and accountability for the use of their resources. They expect all their partners to demonstrate the same commitment, commensurate with the challenges of the new social contract that we must jointly build for the resilient, equitable and inclusive society to which we all aspire for tomorrow.
#UCLGCongress

www.durban2019.uclg.org