

**STEPPING UP THE UCLG - FMDV STRATEGY
ON LOCALIZING FINANCING
FOR SUSTAINABLE URBANIZATION AND TERRITORIAL DEVELOPMENT**

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Five years after the adoption of global agendas (SDGs, Paris Climate Agreement, New Urban Agenda, Addis Ababa Action Agenda), Local and Regional Governments (LRGs) have more than ever demonstrated their strategic role towards their achievement. However, despite a large set of credit lines set up for urban development on project preparation, investment and guarantees, LRGs still hardly have access to the financing they need to meet the needs of their territories and provide urban services and infrastructure, leaving no one behind. The COVID-19 crisis has exacerbated the urgent need to strengthen the financing available to LRGs.

This document aims to provide both guidance and a methodology to step up UCLG's strategy on local finance, with a particular focus on advocacy. Its objective is to accelerate the localization of financing to position LRGs as core actors in the implementation of the global agendas during the Decade of Action towards 2030. The urgent need to fully endow LRGs with appropriate financial resources justifies this step further.

The document proposes to:

- *engage in proactive diplomatic work to strengthen the local finance dimension in the implementation of global agendas;*
- *reshape the international architecture of local finance through the development of multi-stakeholder partnerships to scale up financing;*
- *develop policies, strategies and instruments to engage in systemic change to overcome barriers at different levels in the financing chain;*
- *develop the conditions for a stronger engagement of the private sector in the financing of urban and territorial development.*

Rationale

In May 2018, the Strasbourg Executive Bureau of UCLG agreed on a renewed “Strategy for localizing financing for sustainable urbanization and territorial development”. This was jointly formulated by the World Secretariat and the FMDV, in its capacity as the UCLG consultation mechanism for local finance. Since then, three major milestones have been achieved.

- In April 2018, the Malaga Global Coalition for Municipal Finance was launched. The Coalition has since been regularly convened by UCLG, the United Nations Capital Development Fund (UNCDF), FMDV, and the city of Malaga to provide the first pillar of the strategy for an evidence-based discussion on how to “*reshape a new financial ecosystem that works for cities and local governments*”.
- In November 2018, a “Cities & Regions for Financing” Community of Practice (CoP) was launched to facilitate peer-learning and experience sharing and to co-create actionable recommendations.
- In November 2019, at the UCLG World Congress, the Malaga Coalition presented the International Municipal Investment Fund (IMIF). The aim of this instrument is to make effective the goals laid down in the strategy that was approved by the Executive Bureau, in Madrid, in November 2018.

The Covid-19 outbreak has shed light on the critical role that local and regional governments (LRGs) can play in emergency responses and the future recovery. This crisis has also shown the urgent need to strengthen local finances and to debate and take action on these issues; this must be a key component of UCLG strategy for the next decade (as informed by the UCLG Decalogue for the Covid-19 aftermath and the Pact for the Future). This reinforced priority has been reflected in the renewal of the UCLG Policy Council on Territorial, Multilevel Governance and Sustainable Financing and the appointment of a specific advisor on local finance on the UCLG Ubuntu Advisory Panel.

The next step is to develop an advocacy strategy. This should provide a global roadmap which can be shared by LRGs and used for localizing financing and accelerating the localization of global agendas and, in particular, the Sustainable Development Goals (SDGs), the Addis Ababa Action Agenda, the New Urban Agenda, and the implementation of the Paris Agreement on climate change.

With this advocacy strategy, UCLG - in collaboration with FMDV - seeks to make 10 actionable commitments associated with the following 4 pillars:

I. Political and diplomatic pillar – we call on the international community to promote the reinforced participation of LRGs in the formulation and monitoring of global agendas by establishing multi-stakeholder spaces for dialogue and partnerships relating to localizing financing for sustainable urbanization (at the international and regional levels).

II. National enabling framework pillar – we call on national governments to carry out reforms, develop strategies, create instruments, mobilize resources, and establish engineering mechanisms to scale up financing at the local and regional levels.

III. Financial pillar – we call on public and private financing partners to strengthen their partnerships and services in support of greater urban and territorial development financing.

IV. Our Commitments – we, Local and Regional Governments, and our umbrella organisations, commit to act as the driving force behind the many stakeholders engaged in local finance.

This action-oriented advocacy strategy seeks to engage in concrete actions and to localize financing as a pre-requisite for achieving the implementation of the global agendas.

- **‘Localization’ and ‘synchronisation’ lie at the core of the acceleration process required during the “The Decade of Action”: through until 2030.** The scientific report entitled “The Future is Now”¹ identifies “sustainable urbanization” as one of six key entry points, with governance, economy and finance being amongst the strategic levers required to accelerate transformation. SDG 11: “Make cities inclusive, safe, resilient and sustainable” and the New Urban Agenda can facilitate much-needed systemic changes by bringing the different global agendas together.
 - The future therefore depends on the day-to-day capacity of Local and Regional Governments to finance safe access to clean and affordable infrastructure and the delivery of public services. As the level of government which is closest to the people, LRGs are the main agents responsible for the delivery of efficient policies to support development, reduce inequality, and provide communities with the futures that they aspire to.
 - LRGs are also the facilitators of new, local models for sustainable economic development and social inclusion. To achieve this, they have the task of empowering their communities and all their local stakeholders to harness the power of co-creation within their cities and territories. LRGs are market makers and solution providers that listen to what their communities require. As such, at the whole-planet level, LRGs are the first enablers behind the global partnerships and coalitions that are needed to achieve ambitious development agendas.
 - LRGs are also key game changers in the transition to new patterns of consumption and production, on the road to achieving net zero emissions in cities and promoting territorial resilience: reducing GHG emissions, promoting zero-carbon territories, and fostering the transition to renewable energy and the circular economy².
- **The urgency to involve LRGs in the task of localizing financing for the SDGs and the Paris Climate Agreement has recently escalated.** It is acknowledged that 65% of the SDGs may not be fully achieved without the involvement of urban and local actors³. Moreover, 68% (113 of 164) of the Nationally Determined Contributions (NDCs) presented to the UNFCCC specifically mention the urban context⁴. According to the World Observatory on Subnational Government Finance and Investment, on average, LRGs around the world account for 37% of public investment and 24% of public expenditure and collect 26% of public revenue.
 - However, as stated in the Addis Ababa Action Agenda if many of the responsibilities for expenditure on, and investment in, sustainable development are devolved to the subnational level, LRGs often lack adequate financing and support to conduct the policies related to their competences. Before the outbreak of the Covid-19 pandemic, UN-Habitat estimated a \$5.8 trillion gap between the investment in infrastructure required to achieve the SDGs in the ‘Decade of Action’ and what was likely to be committed⁵. Lack of sufficient municipal financing is a global issue, but LRG capacities also vary greatly across the world, as a result of important disparities between LRG budgets, resources and available expenditure, both

¹ The Future is Now: Science for Achieving Sustainable Development is the first quadrennial Global Sustainable Development Report (2019) prepared by an independent group of scientists

² See “Paris climate agreement: 54 cities on track to meet targets” in The Guardian, 11 Dec 2020

³ Sustainable Development Goals and Habitat III: Opportunities for a successful New Urban Agenda’, Cities Alliance Discussion Paper, N°. 3. Brussels: Cities Alliance (2015) – available at:

<https://www.citiesalliance.org/sites/default/files/Opportunities%20for%20the%20New%20Urban%20Agenda.pdf>

⁴ See Analysis of urban content in NDCs presented before August 2016 from UN-Habitat (2017) in Enhancing Nationally Determined Contributions through Urban Climate Action – UN-Habitat (2018) in Local and Regional Governments’ 3rd Report to the 2019 HLPF-Global Taskforce of Local and Regional Governments (2019)

⁵ An earlier assessment by UNCTAD, in 2014, estimated a total annual investment gap of \$2.5 trillion.

within and between low-, middle- and high-income countries.⁶ This situation is further exacerbated in low-income countries where the bulk of urban population growth is currently taking place. Moreover, in these areas, there is a need for local and regional authorities to operate outside their respective jurisdictions without them receiving the corresponding financial resources.

- The Covid-19 outbreak has strongly affected the equilibrium of local and regional government finances. LRGs have shown an unprecedented level of commitment to fighting the global pandemic, acting as first-respondents and investing in sanitary and social protection measures, while also providing their citizens with essential local services. At the same time, local revenue has been badly hit by extraordinary fiscal measures that have been combined with a decline in economic activity and the closure of much revenue-generating infrastructure.
- **Faced with this emergency, it is imperative to find solutions to resolve the failure of municipal finance markets. Indeed, the mismatch between the demand and supply sides has led to the dramatic underfinancing of LRGs.** Since 2015, an important number of credit lines and project preparation facilities have been set up by (public and private) financing institutions to support LRGs in making the investments needed to achieve the global agendas (SDGs, Paris Agreement, New Urban Agenda). Even so, the **infrastructure required to deliver sustainable services continues to suffer from a lack of investment.** This is a system failure: the current framework for financing local action is not fit for purpose when it comes to bridging the financing gap for the provision of urban infrastructure at the global level. As of today, **many of the previously mentioned credit lines are underperforming and LRGs still lack access to the funding they require** to respond to the increasing needs of their respective territories and the numerous projects under their responsibility. There is thus a need for a **deep change of mindset; it is necessary to reshape the architecture of financing systems and to build new partnerships to address the current failures in the urban financing system.**
- The Habitat III Conference identified LRGs as the “missing link in the financing of sustainable development”. The participation of local and regional governments in international discussions on the global agendas has yet, however, to be translated into a fully-fledged financing strategy for the local implementation of these priorities.

⁶ For instance, in 2016, the average public expenditure by local and regional authorities in Africa was around \$285 Purchasing Power Parity (PPP) per capita, compared with an average of \$5,890 PPP per capita in OECD countries. Less than a quarter of African local government expenditure is devoted to capital investment, compared to around 50% in OECD countries.

RENEWED NARRATIVE ON LOCALIZING FINANCING FOR SUSTAINABLE URBANIZATION AND TERRITORIAL DEVELOPMENT

Key messages

- **The localization of financing is the cornerstone of LRG effectiveness in delivering services and infrastructure and of their global pledge to “leave no one and no place behind”.** Without access to financing, LRGs remain under pressure and at risk of not being able to deliver on their mandate of improving the daily life of local communities, eradicating poverty, and reducing inequality. **Without LRGs and their constituencies worldwide, the ‘Global Community’ will fail to achieve the global agendas, as no actor can single-handedly secure the investment necessary for a just urban transition.**
Localizing financing through decentralization and subsidiarity is not a zero-sum game. Enabling LRGs to reinforce and diversify their sources of financing will be fruitful for the “whole-of-society” and strategic for the “whole-of-government”.⁷ Working in tandem with the national system of local government will provide national strategies (e.g., for sustainable urbanization and domestic resource mobilization) with more financing opportunities. If they persist and prevail, LRGs worldwide can lead the way to **new financing models and blaze a trail based on new mindsets, a new vocabulary, new partners, and new actions.**
- This all starts with a **paradigm shift:** while pursuing **efforts to reinforce the financing of local governments, we must make the case for financing *with* local governments.** Building on the Addis Ababa Action Agenda,⁸ we must “*strive to support local governments in their efforts to mobilize revenues as appropriate; and work to strengthen debt management, and where appropriate to establish or strengthen municipal bond markets, to help subnational authorities to finance necessary investments*”. **Rebuilding LRGs’ fiscal autonomy** is crucial to securing revenue streams for better planning, borrowing and investment. Increasing the availability of local resources is critical to financing local development and facilitating the emergence of virtuous cycles of investment at the local scale.
In addition to reinforcing predictable fiscal transfers and to reshaping domestic resource mobilization strategies, we must also draw attention to the consequences of the fact that **LRGs do not manage local investment alone.** Their role is to act as the main entities responsible for co-investment schemes. These involve other public entities, financial and private partners in affiliated sectorial entities, and/or Special Purpose Vehicles (SPVs) in charge of delivering infrastructure and services. However, in some contexts, this co-investing approach is not yet properly structured, which can result in an increase in the investment gap. Even so, while many LRGs are not perceived as creditworthy, they do have the capacity to formulate off-balance-sheet investments that can be supported by external investors. **We need to establish the conditions required to create an ecosystem of financial partners that can mutually support each other and work to secure the financing needed for urban investments.**
- We must therefore reinforce multi-level and multi-stakeholder partnerships **so that they can design investment strategies spearheaded by Local and Regional Governments.** Through this renewed cooperation, we can create new, and strengthen existing, global, national and regional frameworks for political and operational partnerships between all the stakeholders engaged in local finance. **Together, we must scale-up blended financing models, support the capacity to engineer local finance, and channel resources to where they are most needed.**

⁷ See UCLG, OECD (2019) World Observatory on Subnational Government Finance and Investment – key findings and OECD (2019) Making decentralization work: A Handbook for Policy makers

⁸ Paragraph 34 of the Addis Ababa Action Agenda

10 commitments to accelerate the localization of financing for sustainable urbanization and territorial development

- I. Political and diplomatic pillar – we call on the international community to promote greater LRG participation in the negotiation, implementation and monitoring of global agendas by establishing multi-stakeholder spaces to improve dialogue and also to establish partnerships dedicated to localizing funding for sustainable urbanization (at both the international and regional levels).**

A meaningful dialogue with LRGs, complementary to a sectorial approach on urban issues, would be a critical step forwards and help towards localizing financing for the implementation of the global agendas. At the global and continental levels, representatives of LRGs must sit at the tables where the financing strategies for the implementation of the global agendas are designed and set in motion. There are already many inspiring mechanisms and initiatives within UCLG networks and there is a compelling case for using them to set up an operational strategy for localizing financing, at the world level. This would contribute to a structural shift towards “**inclusive multilateralism**” based on collaborative relations with the constituencies of the stakeholders. This idea was, in fact, commended by the United Nations Secretary General in the final declaration of the high-level meeting to commemorate the 75th anniversary of the United Nations.

We advocate a renewal of international cooperation frameworks to better associate local and regional governments in the decision-making process of global and regional agendas dedicated to financing and investing in local development⁹:

- 1. We call for the creation of new spaces for dialogue that bring together key political stakeholders to help accelerate the localization of financing through the implementation of the global agendas.** This should involve: the United Nations Organization; UN regional commissions; relevant ministries, including those in charge of finance and decentralization; and LRGs. Building on existing structured dialogues¹⁰, we commit to pro-actively engage in **bespoke dialogues with the coordinating mechanisms in charge of each of the global agendas**, at the global and regional levels. These dialogues will focus on how to specifically strengthen the dimension of localizing financing and will do this through the reinforced participation of LRGs. We consequently commit to actively engage in drafting, implementing, reporting and monitoring such agendas and to providing regular feedback and practical recommendations relating to the analysis of gaps in financing, the prioritization of action to be taken, and the promoting and inspiring of different initiatives and practices.
- 2. We commit to establishing a Global Roadmap on Localizing Financing**, working towards 2030. This must then be acknowledged and supported by the United Nations and key players involved in the local financing value chain (these would include: member states, regional organizations, finance institutions, and civil society organizations). This global roadmap will identify priorities for transformative action on the Localization of Financing for the Decade of Action. This global roadmap will be piloted within the framework of a **Global Partnership on Localizing Financing**, led by UCLG and FMDV, together with the Malaga Coalition and relevant UN Departments and Agencies in charge of monitoring the Global Agendas. It will also need to work with other LRG networks and coalitions that focus on finance in order to bring together donors and representatives of the private sector and of individual country groups. Together, they will pilot and follow up on the global roadmap and will act as a multi-stakeholder and multilevel umbrella coalition, fostering dialogue and cooperation between key players within local financing value chains.

⁹ As stated in the Addis Ababa Action Plan (Paragraph 130) and the New Urban Agenda (Paragraph 163)

¹⁰ See outcomes of the high-level dialogues between mayors and ministers, UCLG policy councils - Executive bureau (2018) and The Seville Commitment (2019).

II. National enabling framework pillar – we call on national governments to carry out reforms, develop strategies, create instruments, mobilize resources, and establish engineering mechanisms to scale up financing at the local and regional levels

3. We appeal to national governments to effectively deliver adequate and reliable intergovernmental fiscal transfers to LRGs, on time, coupled with transparent equalization mechanisms. At the same time, national governments must create and/or improve actionable policies, strategies and mechanisms to support local taxation and empower LRGs to (re)gain fiscal autonomy and manage these revenues through context-specific local fiscal strategies.

- As part of their national development plans and decentralization strategies, we encourage governments to adopt multiannual **pathways, incorporating quantified targets for the percentage of their budgets to be transferred to LRGs in the short, medium and long terms.** Institutional coordination mechanisms, including national LRG associations, must be strengthened so that they can design such pathways, collect reliable data, and monitor their progress, in the short, medium and long terms. Existing international fora, such as the High-Level Political Forum and the Financing for Development Forum, could serve as venues at which these national coordination mechanisms could report their progress in achieving the targets set by their respective countries. They could do this on an annual basis.

4. We urge national governments to develop national programmes on financing and investing in local government development, as part of their national urban policies. Such programmes should be jointly led by national and local authorities, including national associations of local government bodies and their members, together with investors, DFIs and UN agencies. These national programmes will be elaborated through **multi-stakeholder policy dialogues.** This should help to position local governments as driving forces for action and facilitators within the multi-stakeholder ecosystem engaged in local finance.

5. We urge national governments to create, or reinforce, technical assistance units on municipal finance through “finance expertise hubs.”

High-level technical expertise, including peer-to-peer training, is needed to make the necessary internal improvements. It is also necessary to meet the requirement for new financial models and to support LRGs by helping them to access public and private funding and to develop a national pipeline of local projects that can bring together finance and investment. These financial expertise hubs, or “*Fin hubs*”, will seek to provide technical expertise and to connect local investment needs with resources. They will also support the creation of an enabling environment to help consolidate municipal markets. They can be hosted by a ministry, a (national or subnational) development bank, or a national association of LRGs. The key requirement is the provision of highly-skilled experts in finance who are experienced in creating investable finance instruments.

6. We urge national governments to strengthen national and local intermediations for subnational finance, such as those provided by subnational development banks (SDBs), local government funding agencies, local green banks and/or special purpose vehicles, and a wide range of different territorial investment funds. To this end, it is particularly important to

scale up the role of subnational development banks in supporting local government access to local finance and in structuring aggregated pipelines of local projects. Besides being financial intermediaries, SDBs also have the potential to act as transformative instruments that can pave the way for the development of stronger municipal credit markets in the long term and increase the creditworthiness of local governments enough to allow them to directly tap into domestic and international capital markets. This is particularly relevant for intermediary cities.

III. Financial pillar – we call on public and private financing partners to strengthen their partnerships and services to finance urban and territorial development

7. We call on (public and private) financial institutions to work in close consultation with national governments to implement, and then follow-up on, the Financing for Development Agenda, in line with their commitments to **build up creditworthy regional and municipal governments and facilitate the development of blended public-private finance**. The Addis Ababa Action Agenda includes a call to “*support local governments in their efforts to mobilize revenues as appropriate; and work to strengthen debt management, and where appropriate to establish or strengthen municipal bond markets, to help subnational authorities to finance necessary investments*”¹¹
 - We urge finance and investment institutions to work in close consultation with national governments to help local and regional governments to become **more creditworthy**, gain greater authority, and achieve autonomy over own-source revenues and the **rebuilding of their fiscal space** (through more effective local tax-collection and the capture of added value from land, generated by local development). LRGs increasing their creditworthiness is a precondition to them becoming **empowered to use a wide array of financing mechanisms**, including equity and debt financing (e.g., green bonds, subnational pooled financing mechanisms, concessional/subsidized and/or market-based loans, etc.), either directly, or through intermediaries.
 - Budget lines should be earmarked for the purpose of providing technical assistance for LRGs. **Project preparation facilities** that focus on urban infrastructure projects should also cooperate to this end, based on their added value within the chain of financing, and with special emphasis on early-stage project development and providing support for the structuring of pipelines of national government and LRG co-led projects.
8. We call for a **renewal of the rules of the game and for new public-private alliances to design and implement an innovative portfolio of blended financing instruments that can meet the needs of all cities**.

We call for LRGs to be given improved access to new and expanding private and public instruments of blended finance that use (local, regional and national) public funding to attract private resources. In this regard, we ask national governments and international financial organizations to put **strong emphasis on incentives for investors and de-risking instruments, including the provision of guarantee and credit enhancement mechanisms**, in order to facilitate their access to initial capital, investment and equity. These incentives will prepare the local ecosystem and plant the seeds for public-private investment in local economies, helping them to grow, and municipal markets to blossom. They can provide crucial support to LRGs to improve the mobilization of a wide range of financial resources, such as debt (loans and a wide range of bonds), equity and guarantees.

9. **We call for greater financing for Local Sustainable Economic Development and Social and Solidarity Economy and Finance**. Supporting and financing local economic development is a key priority of policies aimed at promoting a local ecosystem of economic and financial partners. It is necessary to strengthen models for sustainable development and to make them more reliant on “proximity”: using their territories’ own resources. Furthermore, local governance is the best way to engage local stakeholders in long-lasting partnerships that favour inclusive territorial development. We call upon financial partners to **develop investment projects that will have a significant impact, and to support social solidarity and the circular economy**. In particular, this could be done through cooperative and development banks, solidarity savings schemes, and financial and economic short circuits.

¹¹ See also the OECD-DAC Blended Finance Principle 3: *Tailor blended finance to local context*, and its Guidance Note (2020). The *OECD-DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals* were endorsed at the Development Assistance Committee (DAC) High Level Meeting in 2017.

IV. Commitments made by Local and Regional Governments and their umbrella organisations to act as driving forces behind the multiple stakeholders engaged in Local Finance

10. In order to renew these partnerships and to build efficient coalitions with the international community, national governments, and financing stakeholders, we, the LRGs, are committed to:

a/ Engaging in a pro-active dialogue on localizing financing with UN bodies and national governments based on demonstrative experiences, data, and propositions to achieve the global agendas.

- Demonstrating our commitment to reinforcing the efficient and transparent management of our budget, our accountability and our fiscal performance.
- Proactively engaging in global discussions on financing, in order to propose action-oriented positions based on demonstratively local experiences and data collection, in order to produce regular reports on localizing financing within the framework of monitoring the global agendas. It is important to stimulate institutional momentum and international debate at key venues (UN events, other regional/thematic discussions), especially during the Financing for Development Forum, the High-Level Political Forum on SDGs, and the COPs, in order to share progress and key transformative proposals relating to localizing financing, and to gain more support and partners for systemic change.
- Encouraging national-level dialogues with all public and private stakeholders. These should be based on proposals made by national associations of local and regional governments to establish measures to improve access to financing in the framework of country programmes for financing and investment.

b/ Implementing, monitoring and assessing the advocacy strategy and the Global Roadmap on Localizing Financing from now until 2030

- As part of its mandate as UCLG's mechanism for local finance, FMDV - in close cooperation with the UCLG Secretariat - will coordinate the development of this Global Roadmap on Localizing Financing, which will include short- and medium-term objectives, from now until 2030. This global roadmap will take into consideration existing global and regional partnerships and initiatives on localizing financing. FMDV and the UCLG Secretariat will ensure the monitoring and assessment of the global roadmap and the advocacy strategy and will report to the UCLG Policy Councils and decision-making bodies on a regular basis.

c/ Engaging in an active advocacy strategy through a global partnership and promoting the dissemination of the global roadmap and raising political support through the UCLG network.

- Engaging in an active, international advocacy and communication campaign driven by political champions within the UCLG and FMDV networks. This advocacy campaign will be promoted within the Global Partnership on Localizing Financing, with a view to developing a global system that will help to accelerate action to promote the localization of financing.
- Mobilizing UCLG regional sections, national associations of local and regional governments, and consultation mechanisms, including working groups, in the implementation of the advocacy strategy and the global roadmap. Engaging in knowledge production, evaluation, peer-to-peer learning, sensitization, and training and capitalization, through the development of a knowledge hub on local finance. Developing city-to-city cooperation, implementing project pipelines and matchmaking processes, to demonstrate the ability of LRGs to lead a bottom-up approach to the localization of the global agendas and to defining appropriate systems for local project funding and financing. We must draw on past experience, systematize approaches to financing and develop financing programmes within our networks in order to support implementation. This can be done at the level of sections, committees/fora or national associations of LRGs (replication of programmes through reference models, MOOCs, etc.).