United Nations | Department of Economic and Social Affairs

APRM African Peer Review Mechanism

Financing local government and SDGs

Tinashe Chigwata

Financing the localization of SDGs

- SDG 11- identify local governments as critical agents
- Without adequate resources, the potential and capacity of local governments to deliver is limited
- The challenge: How to equip local government with resources they need in a way that enhances local autonomy, responsiveness and accountability

African Charter on Decentralisation (2014)

- Article 7(1) – "Central governments shall adopt legislation, measures and establish relevant mechanisms to give local governments the authority to mobilise and disburse resources at the local level for local economic development."
- Article 16(5)(a) "Central governments shall enact national legislation which strives to entrust local governments with the full responsibility to manage financial resources at the local level."

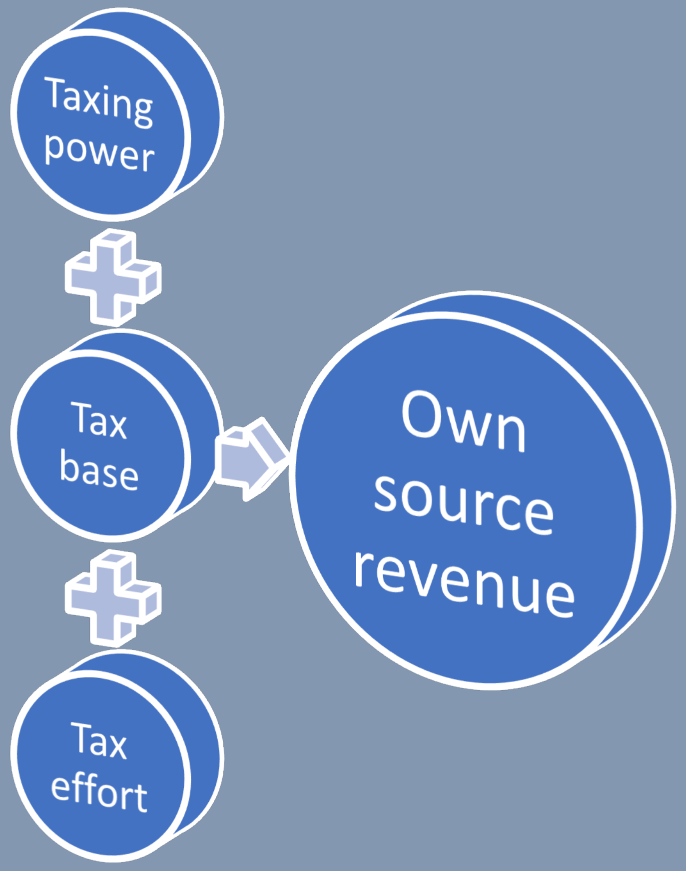
AFRICAN CHARTER ON THE VALUES AND PRINCIPLES OF DECENTRALISATION, LOCAL GOVERNANCE AND LOCAL DEVELOPMENT

Financing local government: guiding principles

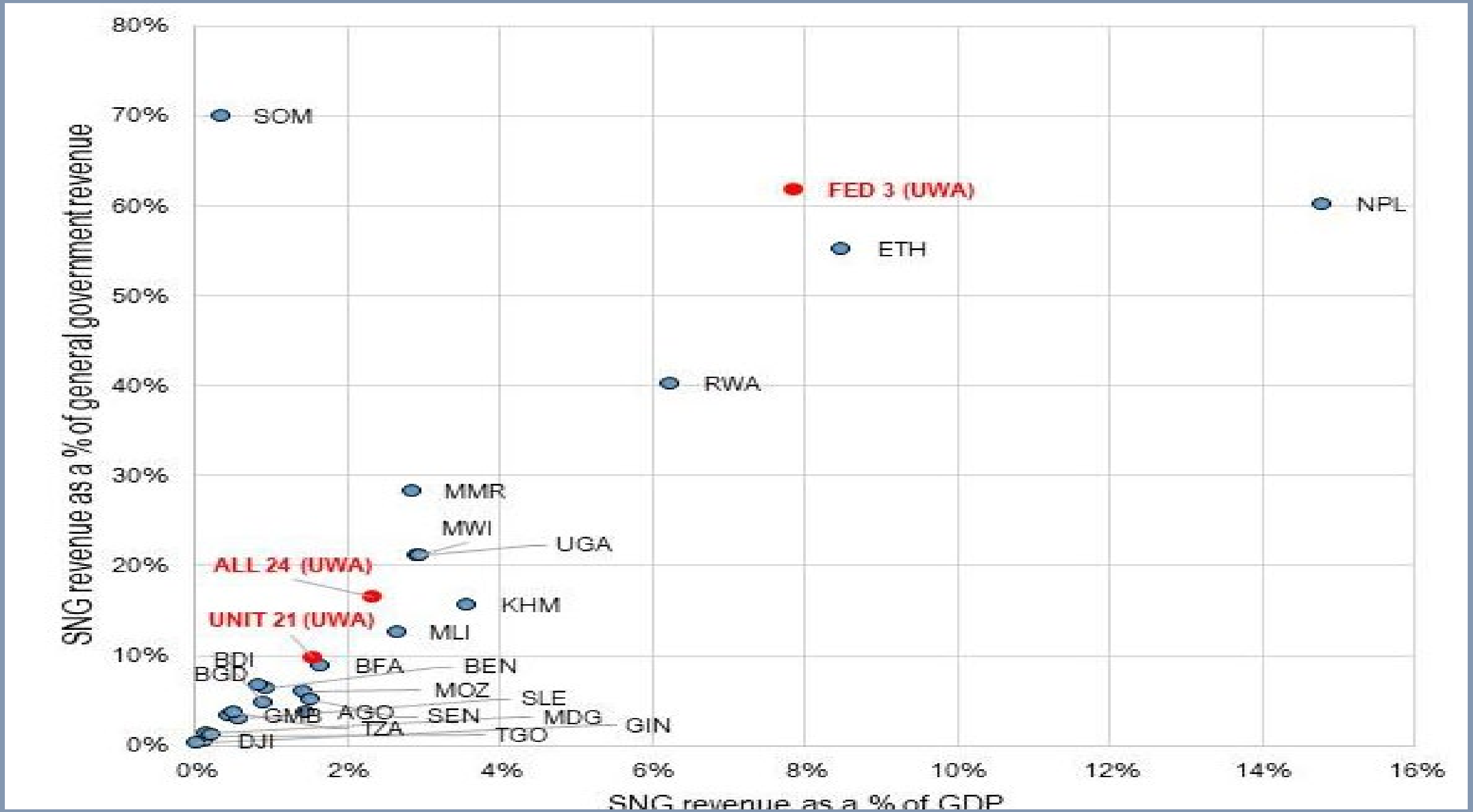
- Revenue assignment must be informed by expenditure assignment
  - A clear assignment of functions to local government
  - “Finance follows function”
- National government
  - National cohesion, solidarity, equity, equality
    - Externalities, redistribution and stabilization
    - Lucrative taxes
- Local government
  - Local matters – needs and preferences
  - Immobile taxes, often minor taxes
- Need to complement local revenues with intergovernmental grants

Own-source revenue

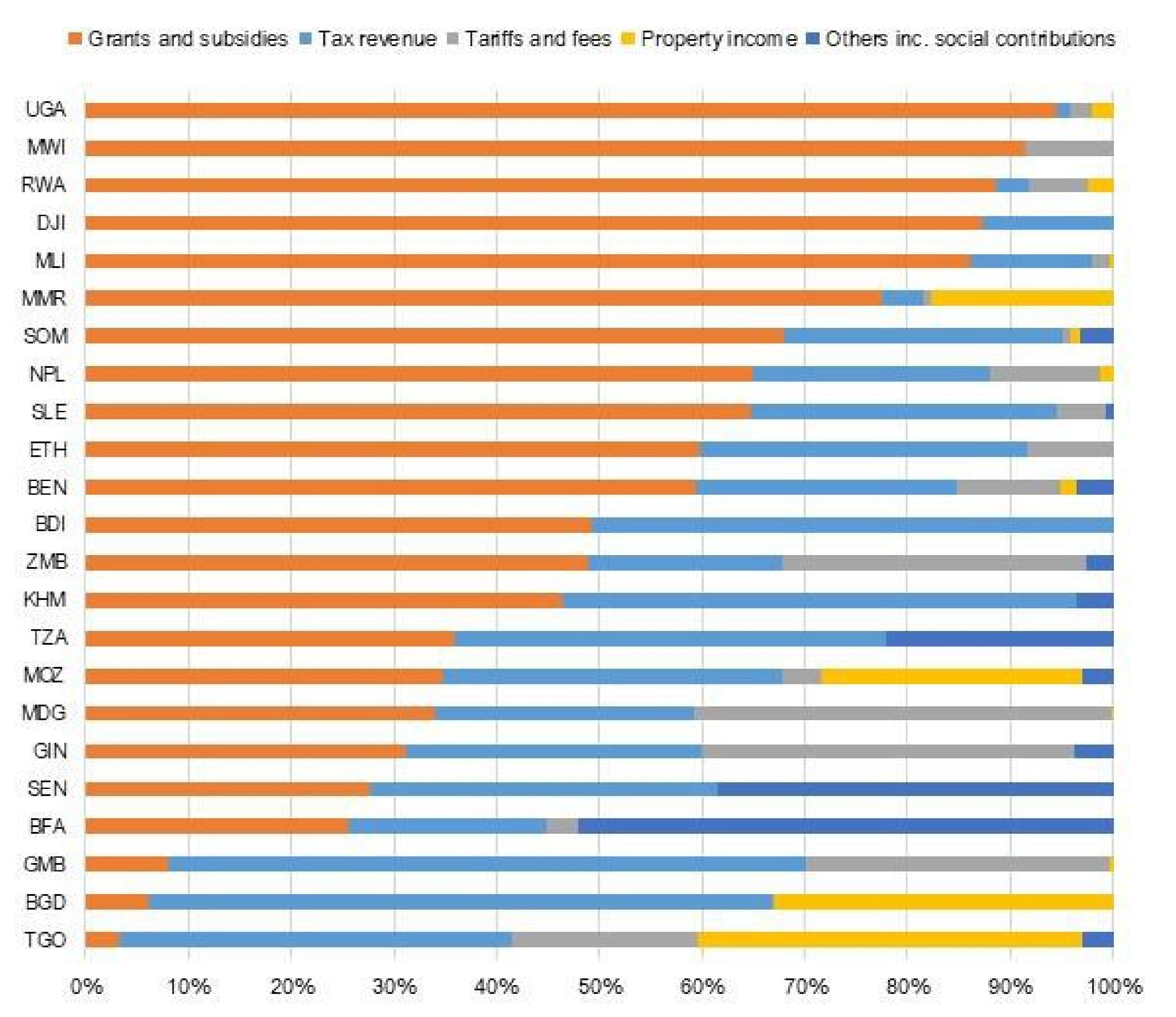
- The number of resources which local governments can raise is an outcome of three factors:
- (1) Taxing power
  - Does local government have the power to tax?
  - Who has the power to determine the tax rates, tariffs etc.?
- (2) Tax base
  - What can local government impose a tax or charges on?
    - Economic activity, consumptions of services, property etc.
  - Who determines the tax base?
  - Is there a tax base? How big or small is it?
- (3) Tax effort
  - Can local government collect what is due to it?
    - Is there political will to collect?
    - Is there administrative capacity to collect?



Subnational government revenue in LDCs as a % of GDP and general government revenue (WOFI 2022)



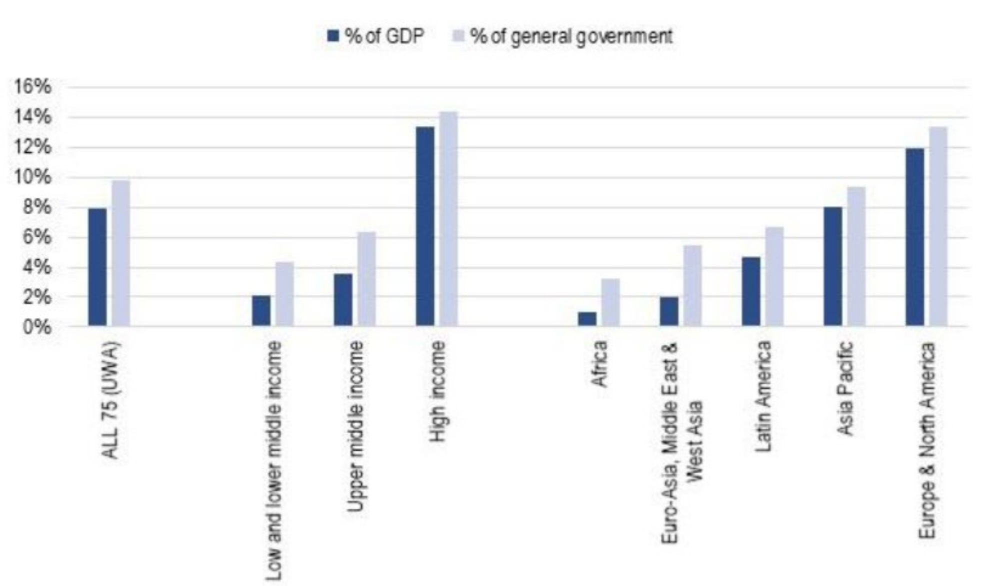
WOFI (2022) Subnational government revenue in LDCs by category as a % of total SNG



Borrowing/debt

- Good instrument for financing capital and infrastructure projects
- Article (16)(5)(f) of the African Charter on Decentralisation
  - “Conditions under which local governments shall gain access to loans, financial markets, and development assistance shall be defined by law.”
- The need to regulate the exercise of borrowing powers
- Access to private financing is particularly encouraged
  - Are local governments credit worthy?
- Implement a hard budget constraint to discourage bad local fiscal behaviour

- Subnational government debt by income country group and world region as a percentage of GDP and general government debt (WOFI 2022)



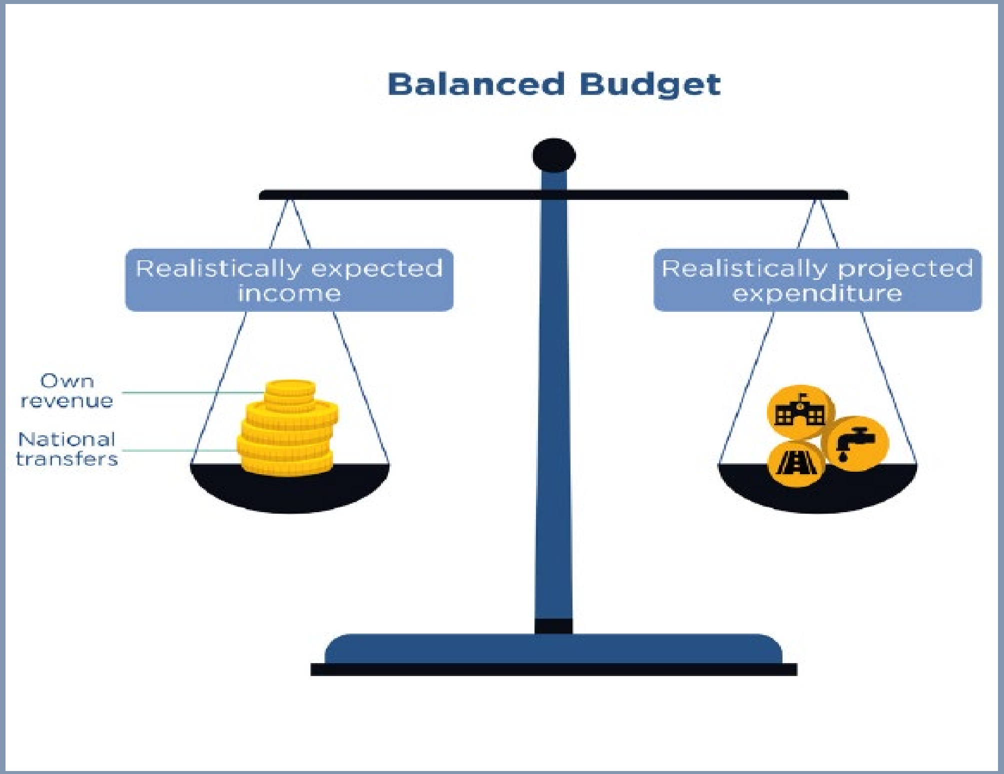
Alternative revenue sources

- The demands for service delivery and development is huge
  - Resources available are often not enough to meet the need
- What alternative sources of revenue can local government tap into?
- Public Private Partnerships (PPPs) and other options
  - Value for money, efficiency, transfer of skills etc.
- Status quo in the region
  - PPPs are highly regulated
  - Few active PPP arrangements
  - PPPs are not available to some local governments

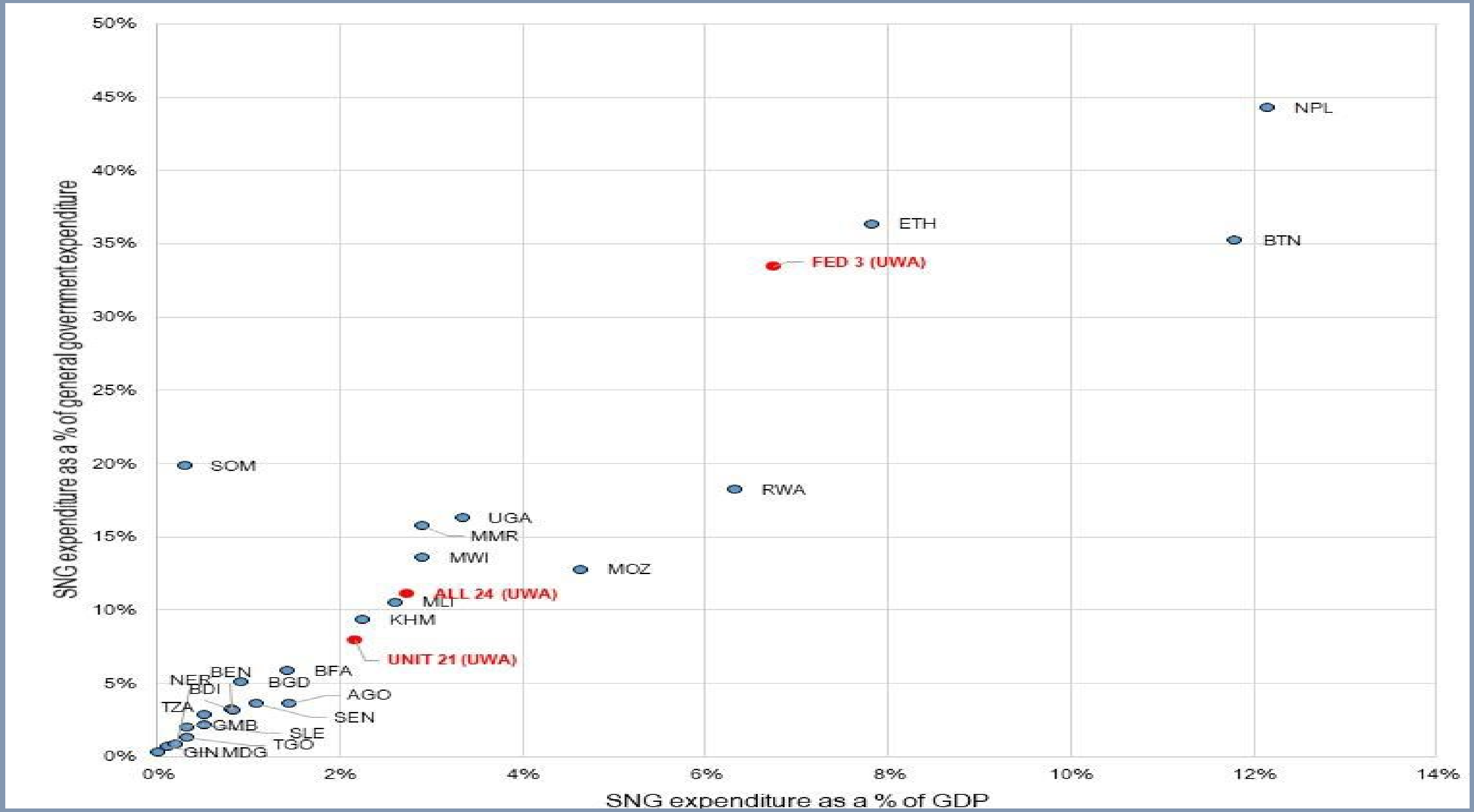
- CEPA strategy guidance note on Strengthening municipal finance and local finance systems (2023):
  - "With respect to PPPs, although there have been some positive experiences, the evidence especially from developing countries, is decidedly mixed. This is because for PPPs to generate better value for money than strict private-sector provision, they require careful structuring, which is expensive and requires capacities that do not yet exist in many local governments and municipalities. In poorly regulated contexts, delivering public infrastructure and services through private finance may also raise the cost of services beyond what low-income populations can afford."

The budget

- Do local governments have control over their budgets? Can local governments determine budget priorities?
- Article 16(5)(b) of the African Charter – “Central government shall ensure, through appropriate support and oversight, that allocated financial resources are managed effectively and efficiently without undermining the principle of local financial autonomy.”
- Is the budget balanced?
- Practice - many local governments in the region lack budget autonomy
  - Requirements for central approval of budgets, vetoing of local decisions etc.
  - Budgets often not balanced
- The exercise of local budgetary powers must be regulated but without compromising budget autonomy

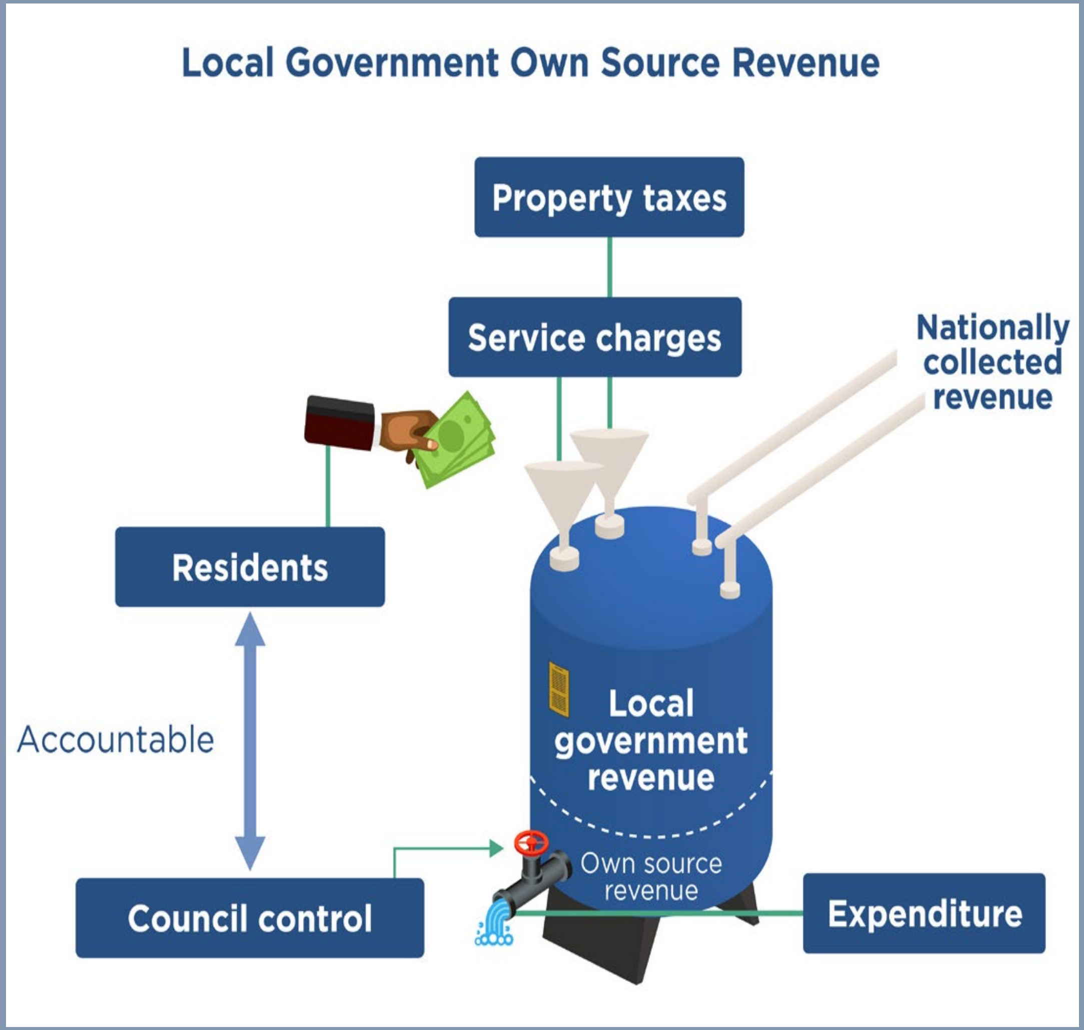


The size of subnational government expenditures in LDCs- WOFI (2022)



Local public finance management

- Local autonomy must be exercised responsibly
- A good system for planning, budgeting, procurement and auditing is required
    - Transparency, accountability and oversight
- Article 16(5)(g) of the Africa Charter- “Local governments shall implement accounting, auditing and management systems for the effective, efficient and transparent management of financial resources in strict compliance with national financial and accounting laws, norms and standards.”
- Practice: often the call for more resources is not matched by equal commitment to account for the funds



Conclusion

- The localization of SDGs is the way to go
- A working local government is needed to reach the SDG targets and agenda 2063
- Adequate resourcing of local governments is a must
- A careful balance between own source revenue and intergovernmental grants is needed
- Good local public finance management
  - Accountable, responsive and transparent local government systems