

## 22<sup>nd</sup> session of the Committee of Experts on Public Administration

### Written statement by United Nations University — Institute for the Advanced Study of Sustainability (UNU-IAS)

*Agenda item 8: Public financial management in times of emergency and implications for the credibility of budgets*

These inputs are based upon UNU-IAS research findings, including the following publication:

- Mahesti Okitasari, Richa Kandpal, and Upalat Korwatanasakul. 2022. [Managing the Impact of COVID-19 on City Finances](#). UNU-IAS Policy Brief No. 37, 2022.

#### Challenges at the Subnational Level

- (a) Lessons from the COVID-19 pandemic show that subnational governments with limited autonomy (e.g., the scope of responsibilities assigned through decentralisation) have been less able to respond quickly.<sup>1</sup> Continued efforts are needed to promote sustainable subnational finances to avoid financial collapse, recover from socioeconomic pressures, and deliver sustainable development actions.
- (b) Fiscal decentralisation can support improved social outcomes and provide benefits for cities under effective governance.<sup>2</sup> While financial risks remain high and subnational financial position determines the performance of subnational finances, a longer-term agenda that provides budgetary stability should be considered, to improve capacity and finance climate mitigation and adaptation, while expanding access to climate adaptation finance.

#### Recommendations at the Subnational Level

(a) *Design crisis budgeting.*

Crisis budgeting requires subnational governments to produce a budget responsive to financial and policy changes and competing needs of different sectors. It should also provide stability despite high uncertainty. In designing a crisis budget, financial administrators must consider the timing, size, and duration of revenue deficits when weighing long-term risk against enacting short-term expenditure cuts or revenue enhancement. Tools for addressing revenue shortfalls — such as increasing utility and service fees — should be carefully considered as they place burdens on citizens. Taxpayers have generally accepted collections of levies with relatively lower default rates than other taxes, such as property tax. For example, Bogotá and eight other smaller cities in Colombia use betterment levies to fill the gap in public investment. A betterment levy is a fee imposed on owners of properties that have gained in value because of public infrastructure investment.

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<sup>1</sup> UN-Habitat. 2022. “World Cities Report 2022: Envisaging the Future of Cities.” Nairobi: UN-Habitat. [https://unhabitat.org/sites/default/files/2022/06/wcr\\_2022.pdf](https://unhabitat.org/sites/default/files/2022/06/wcr_2022.pdf)

<sup>2</sup> IMF. 2022. “Fiscal decentralisation improves social outcomes when countries have good governance.” IMF Working Paper 22/111. Washington D.C: IMF. <https://www.elibrary.imf.org/downloadpdf/journals/001/2022/111/001.2022.issue-111-en.xml>

*(b) Conduct fiscal optimisation to ensure adequate own-source revenue.*

Innovative financing cannot compensate for the capacity deficits of subnational governments, and cities must have adequate own-source revenue. Subnational governments must work towards fiscal optimisation to improve own-source revenue in the long run, particularly those with a low tax revenue base. While this may depend on the flexibility embedded in the conditionality provisions set by the national government, some strategies are within the purview of subnational governments. Cities with a narrow tax base — constrained by the informal economy and limited fiscal decentralisation — can review and improve the efficiency of their tax collection mechanisms and systems. Simplified and seamless tax administration systems contribute towards the formalisation of the informal sector. Other effective options include land-based finance, e.g., land and property taxes, can provide a fair and efficient taxation resource, create a virtuous development cycle, and, in turn, optimise own-source revenue. Political leadership is critical to successfully implementing subnational fiscal and tax reforms. As one example, revenue from property taxes in Hargeisa (Somalia) increased fourfold between 2008 and 2018 after property tax reform, driven by significant improvements in the city council's registration, accounting, and billing processes.

*(c) Develop long-term financial plans.*

Long-term financial planning helps administrators to navigate uncertainty and project financial impacts, which are among the roots of the inability to develop bankable projects and constrict efforts to improve subnational creditworthiness. A multi-year financial plan allows policymakers to monitor finance, calculate steps to reduce financial risks, and link investment needs to long-term urban planning with necessary investments. Long-term financial planning requires policymakers to amend budgeting formats and develop investment plans. For example, Balaka (Malawi) aligned its investment plans with the Local Authority Performance Assessment, resulting in improvements in project quality.

*(d) Undertake comprehensive finance reviews to inform policy and increase budget transparency and accountability.*

Financial administrators may set their preferred audit approach; however, they should include an assessment of steps taken by the government, levels of financial risk across sectors, cost pressures and income losses, and reserve levels. Cities should involve a local audit office to undertake a comprehensive financial review whenever possible. The results of a comprehensive finance review should inform policy, financial plans, and management to facilitate local transparency and accountability. The finance review should be complemented with foresight fiscal analysis to allow the development of well-informed fiscal emergency plans.

*(e) Introduce e-government tools for city financial management.*

In designing financial management, cities should avoid overly complex ICT systems. ICT that supports essential functions (e.g., budget execution, revenue and expenditure management) is sufficient, especially for small and medium-sized cities. Cities with low capacity for financial management can apply ICT for own-source revenue automation (e.g., Kisumu, Kenya) and digital accounting (e.g., Hargeisa, Somalia).