



DIALOGUE 4

WUF 7 CONCEPT NOTE

INNOVATIVE FINANCING INSTRUMENTS FOR LOCAL AUTHORITIES

Objective of the Dialogue

The objective of the WUF7 theme – Urban Equity in Development: Cities for Life – is to bring urban equity into the centre of development. Equitable urban development ensures that all urban citizens will have equitable access to public goods, basic services and opportunities. This goal can only be achieved if cities are able to mobilize adequate financial resources for urban development.

The objectives of this dialogue are to provide a platform for WUF7 participants to:

- a. Discuss the challenges facing cities, particularly in developing countries, in mobilizing adequate revenue for financing urban development and the solutions to these challenges and
- b. Share experiences from both developing and developed countries on innovative instruments that can be utilized by local authorities to generate additional revenue for urban development in developing countries.

Introduction of the topic

Most urban authorities in developing countries are seriously under-resourced, hence unable to meet the ever-growing demand for new infrastructure and basic services as well as the maintenance of the existing ones. To effectively address this challenge, in addition to improving the efficiency of generating revenue from existing sources, urban authorities should also use innovative instruments for generating additional resources. In most cities in developing countries, the tax base of urban authorities is very small and the tax revenue is quite inadequate to meet their expenses. While most cities depend largely on incomes derived from property taxation and service charges, the central government controls the more lucrative revenue sources such as income taxes, sales taxes and business taxes. Most cities in developing countries, therefore, have no choice but to depend, to a large extent, on allocations from the central government, which are generally inadequate. On the other hand, many key urban revenue sources do not have the capacity to yield additional revenue in proportion to the rate of inflation, the rise in personal incomes and the growth of the urban population. This is often the case with urban property taxes, which is the main source of revenue of most urban authorities in developing countries. In some cases, property taxes are regressive and, hence, they may not be effective instruments for redistribution and attainment of equity.

The Dialogue will consist of 2 sub-themes: (1) asset-based and endogenous approaches to increase local revenue and tax base, and (2) the role of privatization (e.g. municipal companies and development corporations) in revenue generation and delivery of efficient and equitable urban services.

The dialogue will begin by looking at the links between increasing local public expenditure and equity and human development. This will set the stage and underpin the subsequent discussion on the two sub themes.

In the first sub-theme, speakers will discuss the importance of utilizing innovative asset-based financing strategies including value capture (or value sharing) and local economic development. They will also discuss the use of municipal companies, development corporations, municipal development funds and other institutional approaches as additional instruments to generate revenue.

In the second sub-theme, speakers will discuss strategies for utilizing additional revenue generated through above mentioned instruments for providing efficient and equitable urban services. They will debate specific ways and means, such as cross subsidies, participatory budgeting and slum improvement, applied to achieve social equity and reduce poverty.

Linkages with Post-2015 Development Agenda and Habitat III

The objective of the Post-2015 Development Agenda process is to define the future global development framework after MDGs, most of which will come to an end in 2015. This process will run alongside the process for the identification of Sustainable Development Goals. UN-Habitat will engage itself in these two processes and will also steer the process of defining the new urban agenda through Habitat III. UN-Habitat's objective in all these is to define the new sustainable urbanization agenda. In this new agenda, the city is considered an asset, a solution and a driver of economic and social development. A strong, efficient and resilient urban economy is key to achieving sustainable urbanization. The huge hidden, untapped economic potential that cities possess can and should be leveraged to create enormous value and wealth. This new urban paradigm requires strategies, plans and models that activate endogenous (locally driven) growth, including through the use of local assets, opportunities and exploitation of local

potential. Mobilization of adequate revenue for municipalities through the identification and implementation of innovative revenue-generating instruments is key to maneuvering this locally driven development process.

Key interrogatives

In discussions, the speakers will address the following:

- What can local authorities in developing countries do to increase their revenue using endogenous sources?
- What innovative experiences can be shared on land value capture (or sharing) as a financial tool for urban development?
- Why value land capture as an additional source of revenue is not widely used in cities in developing countries?
- What are the other innovative ways of generating local revenue?
- How best enhanced revenue be utilized for promoting social equity and reducing poverty?. What experiences can be shared?
- What institutional and legal arrangements are necessary to facilitate the link between revenue enhancement and social development?

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