URBAN DEVELOPMENT FINANCING:
THE CHALLENGES OF LOCAL GOVERNMENTS
IN THE DEVELOPING COUNTRIES

Barcelona, 25-26 June 2014
GLOBAL EXPERTS GROUP MEETING

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Local authorities in all parts of the world play an increasingly important role in the delivery of fundamental basic public services. But they also face huge challenges. Most local authorities in developing countries are facing even bigger challenges today as a result of rapid and chaotic urbanization and the impact of more frequent natural disasters due to climate change. The recent global financial and economic crisis has aggravated the challenges cities are facing.

The fundamental problem most local authorities are facing, especially those managing cities in developing countries, is the widening gap between the availability of financial resources and municipal expenditure needs. One of the main reasons for this increasing fiscal gap is the rapid growth of urban population, which creates an ever-increasing demand for public services and new public infrastructure and its maintenance.

Most cities depend largely on central government transfers and to a lesser extent on revenues derived from property taxation and service charges, while more lucrative sources of revenue potentially suitable for financing urban areas, such as income taxes, sales taxes, and business taxes, continue to be fully monopolized by the central governments. Where local authorities are able to derive revenues from property taxes and service charges meaningful tax increases are sometimes refused or delayed by central governments for fear of eroding political support from the urban population or by the local authorities themselves for fear of political backlash from local taxpayers. In most countries, there are huge vertical imbalances in terms of sharing responsibilities and resources between central governments and local authorities. Stated differently, many central governments continue to refuse to pay the political and financial costs of the decentralization of roles and responsibilities.

In addition to addressing vertical fiscal imbalances, two other important factors that could significantly contribute to the more efficient and equitable delivery of public services in urban areas in developing countries are introducing more responsive and accountable governance practices and ensuring that public service provision becomes more viable in peri-urban areas and smaller cities and towns.
2. INAUGURATION AND OPENING REMARKS

Joan Clos welcomed the EGM by outlining the importance of the methodology process of intervention to support cities develop practical and specific exercises of planning and design to deal with certain issues. Among these, a “three legged” main approach stands out: components of rules and regulations; urban design; and financial strategy, mainly referred to either the payment of planning city extensions or land field recovery. The biggest problem within this “three-legged approach” is the lack of understanding of the roles of regulations in the process of urbanisation, followed by an inappropriate financial strategy, especially resource movements and value sharing when not having a prioritised investment plan. In addition, he reminded how urban growth is regarded as an opportunity to generate wealth, and when well handled, its development can be self-generated.

Joan Clos pointed out that it is vital to start substituting the rapid disorganized urban sprawl into well-planned cities, failure to do so will lead to problematic cases, this include for instance, having a fantastic master plan but not a good financial management to implement it. He also explained that in the case where there is an inexistent financial model, then this model should be self-sustained through means of value sharing or recreation of the local taxation system, for instance. He also recalled the fact that there is no need for a financial plan to be complex. There should be an implementation of a simple plan if needed when economic conditions are not on our side; “we simply have to look backwards to where cities were well managed in the past”, referring to the Roman presence in Barcelona.

He concluded stating the main difference between the main approach; rules, regulations, and financial plans, even buildings, can be modified but urban design and public space will persist, “this is a crucial fact and will stay forever”.

Albert Civit summed up that Urban Habitat tries to match five different areas: urbanism, residential, infrastructure, environment and telecommunications and put them to work together in public space, rules and financing. Thus, there is a huge interest to discuss urban issues and share experiences. He concluded by stating the alliance between UN-HABITAT and Barcelona City Council as part of a series of projects they have together seeking to make cities more efficient and improve people’s life quality.

INTRODUCTORY REMARKS

Carmen Sánchez-Miranda explained the aim of the EGM and the consistence of it. The way Barcelona City Council works as the main event sponsor to support the knowledge management strategy of UN-HABITAT as a key input towards Habitat III, the third UN conference on sustainable urban development matters in 2016 and how there has been other EGMs focused on several urban topics such as city extensions, national policies, mobility and safety.

Gulelat Kebede proceeded by mentioning the importance of this topic by giving particular emphasis to local revenue and resources mobilization so cities can have adequate autonomy and make right decisions when linking accountability and public expenditure. Kebede also remarked the importance to emphasize on pragmatism; reform processes for changes and policies at a national level but multilevel governance, locally speaking.

3. THEMATIC SESSIONS

SESSION - LOCAL FINANCING INSTRUMENTS AND ITS CHALLENGES: THE EXPERIENCE OF THE BARCELONA CITY COUNCIL

Jordi Joly commenced by talking about the importance of public management, finance and economy development, as it helps to create a proper environment for growth. He explained there has to be a clear understanding on how to manage properly issues such of public finance or sustainability, especially on medium or long-term frameworks to assure the future for cities.

According to him, it is vital to reinvent the public sector old school and its bureaucratic image by creating confidence and trust. As he says, it is important to “walk the talk”. He then stated that politicians could not change private sector view on how to handle their own things in terms of understanding the importance of having a good management. In Barcelona, for instance, controlling the structure between politicians and managers is vital at a political level for competitiveness, innovation, creativity growth and knowledge networking, which has helped creating the Project 22@, among others.

Public sector and private market have to be equally competent so that they can both be at a same level.
Moreover, the public sector has to guarantee the public money will never be in crisis and that its management is carried out efficiently.

Ramón Seró began his presentation with an exercise that consisted in going back on time to the 1980s focusing specifically on the finances of the Barcelona City Council. Back then, the City Councils in Spain were in a phase of role transformation from a municipal to an autonomous stage. Therefore, municipal governments were forced to wait while there was a debate on taxes and financing issues and resources. It was not until 1988 when the Law on Local Taxes specified the taxation regulations at a municipal level and the role of the City Councils regarding state taxes contributions.

In 1986, Barcelona was then nominated for the Olympic Games of 1992, and was naturally involved in a series of expenditures during the years prior to the event. On the other hand, Barcelona’s debt, of 157% of its income flows, and the stressful situation that entailed hosting the 92 Olympics was crucial for the city. Nowadays, Barcelona has a 40% of debt, regardless of the latest Economic Crisis. The standup and recovery of Barcelona City Council was mainly possible because of the strategy of one visionary man, Joan Clos.

Seró then mentioned three expressions that marked the evolution process of recovery from 1992 to 2000:

1. **Reference of employees**: Personal reduced to 3,000; a very important and expressive data within a public administration.

2. **The evolution of current savings**: Freeze expenditures while raising revenues. 74% was expended and 26% remained for policy making (investments, projects and debt reductions)

3. **Income flows direct debt**: To count down from 157% of debt to 80% during the start of the 1990s.

According to him, the keynotes for the financial recovery process in municipal finances were:

1. **Separation between management (mechanisms) and politics** (result based).

2. **Human Resources policy**: Possible thanks to making dispensable and key people more effective by:
   - Outsourcing
   - Early retirement
   - Reduction of managers
   - More effective municipal entities
   - Employee training
   - New technologies
   - Collective negotiation with labor unions.

3. **Transparency of information**: Providing citizens with consultancy: financial and budgetary accounting, external and internal audits, publications for general information, rating, and maintenance

**4. Leadership in times of economic crisis**: Without leadership, there is no topic to be boarded

**5. Characteristics of the Barcelona City**: Size, diversity and relationship with the citizens. It is an arduous enterprise system.

**6. Lessons learned**: We can only reach complex solutions through complex problems solving.

**DISCUSSION AND DEBATE**

Jorge Martínez Vázquez facilitated the debate focusing on information technology and the Transport Authority. Seró stated that “we needed efficient and complete databases to collect taxes. The technology helped us modernize the municipal treasury. You cannot deal with complex tax issues without the right technology. The collection process was a huge success. Municipalities live on their own taxes mostly and must consider technology as a key factor for progress. It is equally important to have a good communication process with citizens for us to know their needs and enquires”.

Seró added that “revenue rose because the census info databases were improved. In addition, taxes rose in 1992 to help for financing the Olympics (The Tax Institute was in charge of this specific task) and bank accounts of those who did not pay were seized. Lastly, there was a tax trivialization to make property income grow”.

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**Joan Clos.** Executive Director, United Nations Human Settlements Programme (UN-Habitat) and Under Secretary General, United Nations (on-line).

**Albert Civit.** Manager for the Area of Urban Habitat, Barcelona City Council.

**Carmen Sánchez-Miranda Gallego.** UN-Habitat Office in Spain.

**Gulelat Kebede.** Coordinator of the Urban Economy Branch, UN-Habitat.


**Ramon Seró.** Former Manager of Barcelona City Council.
a) Political economy challenges facing urban authorities in generating revenues from within and solutions to these challenges

Joe Hooper, acting as moderator for this session stated to be excited to be getting at the practicalities, regarding political economy. He gave the floor to Paul Smoke who started his intervention by raising two big problems regarding revenues generation, a big part of developing countries reform, whose reality, he added, is in some cases alarming and disappointing:

1. Integration (make revenue work)

2. Political economy forces and dynamics (different pieces of the system are differently viewed by key actors).

He affirmed it is necessary to go beyond fiscal federalism frameworks (property rights, civil society) that affect how accountable governments are likely to be. There is a set of political economy factors that could be pulled together so that a base could be created:

- **Notion of political will:** Politicians decentralization. People often make decisions based on what wins elections or how they build coalitions. Local governance importance role varies from country to country, some having more power than others, especially in Latin America he affirmed, where they should ask for more power to the central government.

- **National bureaucratic environment:** Local government oversized ministries that have control to what local governments do. These actors have a different view on how much power local government should have, and do things inconsistently. Reforms to give local government more power vary drastically along with the role donors play when reinforcing political economy dynamics. Hence, there should be a good system where you have a proper distribution of local political and civic power (Economic elites, political parties, religious groups and labour unions influence if there is democracy or clientelism) and an appropriate balance between upward and downward accountability. According to him, people should know the alternative accountability mechanisms to have an impact and therefore cultivate trust. Mr Smoke affirmed that it is trust what make citizens pay taxes, because according to him, people pay revenues when they feel they are getting something in return.

He continued by reminding how economists have been giving the best technical advice on how to design an adequate property tax system where revenue and expenditure are linked. However, there has been only a focus on better practice designs and not on the way it is implemented. It is crucial how implementation occurs because it will determine whether it leads to weak revenue collection (mainly where people are not used to getting services), or a successful system of tax payments. Authorities should consider targeting specific groups that will benefit from increasing revenues through additional service delivery is the
beginning process for building trust, it is the essence of local political economy approach to revenue generation.

Smoke assured that there has to be more awareness of the political economy dynamics and consideration of pragmatic options. “No approach can be comprehensive but by bringing the political economy issues into the discussions, we have a better opportunity to start understanding”, he concluded.

Jorge Rodríguez Bilbao outlined that in recent years, the ‘local dimension’ of development processes has become increasingly visible and recognised. Across the globe, the local level has demonstrated to have its own traction and action (beyond responding to national policies and directives). A wide range of promising local initiatives can be observed, fuelled by different public and private actors that seek to address pressing challenges in a given territory. Delivery of public services, creation of wealth and jobs, equitable management of natural resources and promotion of local governance are relevant examples. These issues need to be firmly anchored at the local level if sustainable impact is to be achieved. In this level, local authorities are increasingly assuming their role as “catalyst” of local development processes. Yet this remains an uphill struggle as many powers oppose the emergence of strong, legitimate and effective local authorities and seek to keep them under control. Hence, in order to unleash the potential of local authorities it will also be important to make further progress in decentralization –conceived as a state reform process. For the local public sector to deliver, it needs a well-functioning architecture at national level as well, particularly an effective system of intergovernmental transfers (fiscal decentralisation).

During the last decade, the EU has been supporting decentralization reforms across the developing world, mobilizing a growing amount of funds and making use of different ‘entry points’ (e.g. support to national policies, bottom-up initiatives, etc.) and instruments (e.g. budget support or projects). There has also been a steady intensification of relations with local authorities and their associations. In 2012, a major thematic evaluation was concluded on the relevance and impact of EU support to decentralization and local governance. While the evaluation recognized the added value of many EU-supported programs, it clearly stressed the need for the EU to embed its actions in a much more coherent, integrated and politically savvy strategy in order to ensure greater impact and sustainability.

In response to these dynamics and challenges, the EU decided to revisit its overall policy framework, as reflected in the Communication “Empowering Local Authorities in partner countries for enhanced governance and more effective development outcomes” adopted by the EC on the 15 May 2013. The title captures well the new ambitions of the EU. First, it recognizes the potential of local authorities as a distinct set of public actors, with the potential to bring about better governance and deliver development to citizens. Second, it sends out a clear message that this will not happen if these local authorities are not empowered, i.e. endowed with sufficient levels of autonomy, resources and capacities to fulfil their mandate. Third, in the Communication the EU commits itself to pro-actively support this empowerment process by associating local authorities in the dialogue on public policies, providing smart form of (direct) support and further investing in (highly political) decentralisation processes in order to make these more conducive to unleashing the potential of local authorities.

Matt Glasser explained that while he was in the World Bank, he was asked to manage a project that included revenue enhancement for Dar es Salaam, thanks to his experience with leveraging resources through borrowing, in order to build infrastructure. He knew from the beginning already what the principles of revenue mobilization were, but the trick, he remarked, was to make them work in context. The government of Dar es Salam, as one of the fastest growing cities in Africa, was interested in fast development and investment in buildings and structures. It was clear that property tax was going to play a crucial role in this country. However, the government only taxed the buildings and had two other main problems: Tanzania had nationalized all the land and then abolished local authorities because the government decided cities were not well run. In 2000 Dar es Salaam City Council which had essentially no revenue mobilization were, but the trick, he remarked, was to make them work in context. The government of Dar es Salaam City Council which had essentially no power except to coordinate. The city had to get their revenues up, but the Parliament did not agreed on trying to increase Dar es Salaam taxes, even though the Ministry of Local Government, the World Bank and the donors opposed. They had proposed to focus on the highest value properties and on billing payments and collections, and was working well indeed, but at the end, the Prime Minister gave the power to manage all these issues to the Tanzanian Revenue Authority.
Glasser had learn from this that within the Tanzanian government and between National Authority and the Urban Authorities, there were no agreements on principles, no theory. Habits of British colonialism were still presence with Tanzania being a one party state for many years.

The final point he raised was about two particular political economies: the political economy at the national level who makes the policies about revenue and the political economy between the country, all the stakeholders and the outside advisors that do not ever speak with one voice. From this experience, he summed up that local governments are ideal and much more powerful when they are well organized, well communicated and when they share clear information.

Philip Van Ryneveld began his presentation with some historic facts about South Africa. As Chief Financial Officer of Cape Town, Van Ryneveld was asked along with other experts to design a system of decentralization, so he was directly involved in the process of designing the national system and then implement it at a local level. Service charges constituted around 48% of the total revenue of the city, with electricity being the highest to generate income with 32.4%. Along with it, grants made 20%. This means that already two thirds of the total revenue was self-generated.

According to him, the strategy of revenue collection has really three legs, like the aspects Joan Clos previously mentioned:

1. Service quality and levels
2. Tax and tariff design
3. Revenue administration

Additionally, a pro poor tax and tariff design was introduced to allow poor people to get free services up to a certain level. 6,000lt of water a month, 60 kW of electricity, people whose property was worth less than 30,000 USD paid no property tax. In terms of revenue administration, the city produced 32,000 accounts every night. There was a massive property valuation every three years and electricity worked as a debt management mechanism.

To conclude, he stated that it is vital to approach revenue generation challenges holistically. Besides, the political economy idea of legitimacy is crucial. He also mentioned that the single tier metropolitan authority does offers scope for sophisticated rationalization and modernization of service delivery and remarked that city governments must use creative ways of technological advances as well as an integrated service delivery.

Finances are managed in Barcelona though a reliance in property tax revenues and transfers received from the central government. As a financial manager, he admitted he would rather rely on taxes, fees and sales, than from all these transfers coming from the central government, because of more predictability in a medium term framework. He has a clear idea of integrating government strategy and financial management.

Jordi Baños i Rovira pointed out the importance to have well-planned finances in order to assure sustainability, also he mentioned the will to allocate resources so that the executive budget is trying to be used and managed efficiently. He mentioned the five types of systems the city has: accounting system for cost, financial accounting, treasury, budget and the European System Accounts for fiscal planning and fiscal monitoring through Spanish and EU institutions.

He concluded by referring to the way Barcelona budgets its own resources:

- Integrated financial management system
- Integrated financial management system
- Debt and treasury management

Sonia Hernandez started her presentation stating that the Spanish urbanism has designed, from its early legislation, Land Laws (1956 and 1976) and funding mechanisms, which are incorporated to the self-management urban development. Thus, it is possible to talk about the Spanish urban planning as an independent body that does not demand funds from operating budgets of the municipality.
In Spain, any urban operation is designed through planning; ensuring economic viability so that the benefits always outweigh the costs and the Administration can get free of charge the soil needed for infrastructure and public facilities, fully urbanized. The main planning instruments for the self-financing actions are land subdivision, rescue of urban gains and special contributions.

In addition to the self-funding formulas from planning legislation, there are various taxes, regulated by the Local Tax Legislation, which have a close relationship with urban activity, and are an important source of funding for municipalities. The most important are:

- The Tax Value on Property: tax on the value of property (rural and urban) in each municipality. Requires good cadastral system, which identifies properties and their registered holders.
- Tax on Construction, Installations and Work: Tax on realization, within the municipality, of any construction, installation or work for which a building permit is required.

**b) Challenges in the use of various mechanisms for mobilizing financial resources for urban development and solutions to these challenges**

Jorge Martinez-Vazquez opened by mentioning the constant increasing role on local governments when delivering services, but more significantly when delivering public infrastructure. They actually undertake about 2/3 of public infrastructure, he assured. Only 1/3 of that is financed by capital grants, therefore this leads to a tremendous pressure on revenues and transfers. The emphasis he put on was the key of sustainability and accountability is to generate own revenues. Local governments need to generate as much as possible. The link between local officials and efficient and responsible public expenditures is a crucial and important matter on this subject. Hence, transfers are important, so as borrowing. Specially, when you have the kind of statistics previously mentioned. Shortage of funds is a common issue around the world, leading to innovative ways of financing.

The world would be much simpler if we just use transfers. Then the local governments would directly send this money from this fund. Own revenues generate financing. Therefore, you have more countries which are stable in a macroeconomic sense, countries with better governance or lower corruption. The revenue problems lie on how much autonomy is needed and which kinds of taxes are implemented. Central authorities don't want to decentralize revenues.

There are different cases of tax autonomy. Some would generate, anti-business consciousness for instance. You cannot give local governance to change the tax bases, because of a common market within the nation is needed. Hence, tax bases should be homogenous. The autonomy will come in when setting tax rates by the local councils. Then, there is the question regarding tax administration. Local taxes should be self-administered if possible. Visibility and feasibility are required by the government at a subnational level. The best source of local revenues is fees and charges. However, it is not something easy to achieve.

He made reference to the different terms of transfers, such as tax sharing, which reduces vertical imbalances, equalization grant, conditional grants or capital grants, a very problematic area, he said.
List of taxes:

- **Best**: Charges and fees are the most appropriate source.
- **Medium**: Property taxes, vehicle and transportation taxes, flat-rate piggyback income taxes, local business taxes, etc.
- **Worst**: VAT

Borrowing activities is necessary as well as equity business. It is risky. The lack of credit is one of the biggest problems when borrowing. There are no good public financial intermediaries.

To finance public infrastructure, tax increments in land values can be deducted well ahead on time. Land capture opportunities offer more financing. There is a tendency to have an innovative land value capture. The two pillars of a good financing system is a local government own revenues and develop its own tax bases and then have a good equalization grant that deals with the differences in revenue capacity.

While it may seem strange to include a note on Riga in a conference focused on urban public finance for growth in developing countries, Lawrence C. Walters explained that Latvia and Riga provide meaningful lessons in practical public finance which are applicable in many other contexts. From the late 1990s until 2008, Latvia and the other Baltic states were among the fastest growing economies in the world and were known as the “Baltic tigers.” Between 1995 and 2007, the Latvian economy grew at an average annual rate of nearly ten percent per year after adjusting for inflation. Since just over 55 percent of Latvia’s GDP is generated in Riga, much of the growth was centered in Riga. This rapid economic growth was accompanied by a building boom in Riga that accelerated in 2004 and resulted in an 8.5 percent increase in Riga’s total housing stock in just four years.

All of the Baltic tigers were severely impacted by the economic crisis. From the peak in 2007 to 2010, Latvia’s GDP fell by over 20 percent. Unemployment increased from 4.0 percent in 2007 to 12.6 percent in 2010. From that low point, the country has begun to recover and annual GDP growth since 2010 has been in the 4.5 to 5.5 percent range.

Walters made a presentation on Latvia and Riga’s experience on revenue structure and on land and property taxes. From this experience, he explained, several important lessons can be gleaned:

1) **Property tax reform is not a quick process.** Latvia has made numerous changes to their system over the past decade in order to expand the base, improve the valuation system and in searching for the right combination of rates. Reform efforts require political will and patience.

2) **Revenue sources which grow rapidly may also decline rapidly in an economic recession.** Riga’s total revenues fell by 26 percent in one year due to the economic recession. Though not offering the same rapid growth potential, the property tax was much more stable throughout the period while still growing appreciably.

3) **Improving a revenue source in a developing environment will likely require the cooperation and collaboration of multiple entities.** In the case of Latvia, local governments are assisted and guided by the State Land Service and the Ministry of Regional Development. Reform efforts need to identify where the requisite expertise resides and then implement laws and processes that require and facilitate cooperation between entities.

4) **Practical solutions can be found even when ideal solutions seem unattainable.** Latvia’s
distinction between a legal land registry and the tax cadaster is instructive on this point.

Kamla K. Pandey’s case study brought together the challenges faced by urban local bodies in India in the imposition of property tax, which is considered mainstay of municipal finance in the country. The presentation covered the performance of three basic elements of property tax revenue being its base, rate and collection in the light of elasticity of proceeds from property tax, institutional and legal setting and overall municipal finance.

He commenced by describing the three types of governments existent in India: national, provincial and local governments. Property tax is the main source of income of the country, and constitutes nearly 70%. It is important for the mobilization of finances, even though it is only 0.16% of GDP. He stated there is poor information on property data, so illegal and unauthorized construction and subdivision are often common. Reforms started since 2000, with the help of finance commissions. He focused on Agra’s Municipal Corporation case, and explained how they had initiated reforms in a city that has also low coverage, and almost absence of database collection. Government property and government organizations were given exemptions of tax payment and they helped citizens with assessment and guidance. On the other hand, slums, illegal areas and unauthorized colonies are outside of the property tax net. Collection was unconventional. Calculation was introduced according to the properties’ location, size and use. Studies on surveys were carried out every ten years. Incentives were provided in timely payment, penalties were introduced at a rate of 12% and bank accounts of defaulters were frozen. Online collection was introduced, collection campaigns are organized, and bank encouragements to deposit property tax.

The impact was positive as it brought liquidity and elasticity, Mr Pandey affirmed. Improving listing seems insignificant but is necessary. Reducing rates, penalties imposed for delayed payment or incentive for the responsible citizens are some of the biggest lessons learned from this case. To close his participation he remarked that land based tools must be recognized to have intergovernmental fiscal finance, land value gains should be going directly to municipal bodies, better development of data and reform should be taken in a regular manner.

Gerardo Ardila, District Planning Secretary of the Bogotá City Council, began his presentation stating the differences in terms of urban space equality and services obtainment that can be found in Colombia and in Latin America. The political framework of the city is complex and difficult as now the ruling major comes from the “guerrilla” (partisan warfare) with left ideas and governing in an extreme right type of government. Being said that, it is not easy to change the legal framework in Bogota because of the labor parties’ power. Moreover, according to Mr Ardila, prosecution of the technical decisions makes it even more difficult. He then, pointed out that development of trustful database is vital in order to have information in real time and have an easier decision making. He also remarked how the cadastre facilitates control under land value conditions such as land value and mentioned how the public branch services from the enterprises; especially the sewage and the energy ones are one of the most buoyant businesses of the country.

The geographic situation of the city of Bogota is complicated, making the obtainment of resources, mainly water reliable of the climate conditions. However, it is a prosperous place and the economy of the city if in rise, already being a rich source of income to the country as it generates ¼ OF Colombia’s GDP. He talked about the two fundamental plans of Colombia: the Development Plan and the Zoning Plan. The first mentioned, being very important because of the dependence on the municipal tax product of industry and commerce and the mobilization and vehicle tax. Three main axes within this Development Plan were considered: A city that faces discrimination, climate change and public space.

Positive aspects, such as appreciation is constantly on the rise and investment in public green areas are taking place. Reforms had to be done; the work plan budget had to be split in two main groups like the sewage system enterprise, leaving aside unplanned public works. Risk and Climate Change Management Institute was created to deal with climate change and lower tariffs maintaining sustainability in enterprises.

**DEBATE**

The debate focused on how to promote practical tools for different income GDP categories. While Paul Smoke stated that what is needed is local tax effort, Jorge Martínez-Vázquez added that different principles for taxing are needed, but a new way of implementation. Van Ryneveld, concluded that some of the key elements is communication. Citizens comprehension and feedback is crucial. The implementation has to be fair with both poor and rich.

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**Jorge Martínez-Vázquez.** Regents Professor of Economics and Director of the International Center for Public Policy, Georgia State University, Atlanta.

**Lawrence C. Walters.** Professor of Public Management, Romney Institute, Brigham Young University, Utah, USA.

**Kamla K. Pandey.** Professor of Urban Management and Research Coordinator, Indian Institute of Public Administration, New Delhi, India.

**Gerardo Ardila.** District Planning Secretary, Bogotá City Council.
E nid Slack started her paper pointing out that improving the level of service delivery in metropolitan areas in developing countries is always a question of resources but it is also a question of governance. She identified a range of governance mechanisms around the world that support the efficient and equitable provision of public services, with an emphasis on metropolitan areas in developing countries. It applies a number of standard criteria – economic efficiency, economies of scale, externalities, equity, access and accountability – to five governance models. The models include a one-tier fragmented government (jurisdictional fragmentation), one-tier consolidated government (metropolitan government), two-tier governments, city-states, and voluntary cooperation, including special districts (functional fragmentation).

She also mentioned the importance to link taxes and expenditures and governance because it is vital to figure out how to pay for services in metropolitan areas. We have to figure out how to pay for services in metropolitan areas with rapid urbanization, especially in development countries, she commented, because cities bring opportunities that come together with challenges such as traffic congestion, air and water pollution, deteriorating infrastructure, poverty, slums, income inequality and crime. Hence, improving these services is a key for citizens who live in these areas which translate to key factors for citizens, businesses and at the same time they attract the attention of other people from different places. Improving these resources is about governance, about their coordination and about how costs are shared and how responsible local governments are. Major things looking at the criteria to evaluate governance models are here exposed:

1. **Economic efficiency.** When government is near to the people it becomes more efficient.

2. **Economies of scale.** Achieved at different scale (diseconomies may take place when there is bureaucratic congestion)

3. **Externalities.** A lot of services spill over municipal boundaries.

4. **Equity.** Metropolitan area with many local governments.

5. **Access and accountability.** How accessible is local government to citizens and how accountable is the local government to them.

6. **Local responsiveness and competition.** Size is crucial to compete.

She explained the differences between governance models:

- **One-tier fragment:** Most common. Number of different local governments. Responsible, competition, more autonomy, but no coordination, nor sharing equitably. LA, Geneva, Sao Paulo, Mexico City, Manila, Mumbai.

- **One-tier consolidated:** Metropolitan government is formed. Economies of scale. It delivers the services around a whole metropolitan area. Redistribution between poor and rich, more choices for taxation. Threat to local autonomy. What is really the appropriate boundary? Limited economic regions. Cape Town, Toronto, Shanghai, Abidjan.

- **Two-tier:** Upper tier (economies of scale, redistribution), and lower tier (access and accountability). London, Tokyo, Barcelona,

- **City-states.** City and state powers. Once you want to go further once settled, it is more difficult to advance. Berlin, Bremen, Hamburg, Singapore, Shanghai

- **Special purpose districts:** Single function place: ABC Region in Sao Paulo, Bogota and Mumbai.

She concluded that, even though we can point to some successful innovations, there is not one governance model that stands out above the rest. The wide variety of governance institutions and structures around the world reflects both the complexity and the context-specificity of the issues to be resolved. Nevertheless, most countries would...
benefit from some form of regional structure for their metropolitan areas that addresses regional issues but, at the same time, responds to local concerns.

Paula Ravanelli witnessed the approval of Public Consortium Law in Brazil. One of these consortiums (Municipal Commonwealth) managed a strategic regional Plan with a participative focus. The Consortium has a public jurisdiction, which has State competences such as taxation, public space regulation, and services that are conceived to private sector. In Brazil there is a problem between the region and the municipalities, because they are responsible for public urban services. But they are in an oversized municipal area, the scale is inappropriate and unable to give these services. Through a Public Consortium like this, the municipalities can create the adequate scale to provide quality services from an economic overlook.

She reaffirmed the status of Brazil, as a Federation that experienced the decentralized process in the 1980s that granted autonomy to local governments. This is the only world’s Federation that in its Constitution mentions the recognition of the municipalities with total autonomy. However, it was not accompanied with the right mechanism tools to assure the correct function of the bodies that were decentralized. It was also stated that various plans per year had to be carried out for all government levels.

The ABC region lies inside of Sao Paulo’s metropolitan area. This region has proper characteristics, a strong economic and cultural identity, but also heterogeneity between the municipalities. The Consortium has a simple constitution. They have invited seven cities to make the plan and the population discussed itself about it. Working groups were created and the process was then followed by a proposal. Majors then approved the Plan.

The proposal resumes in five aspects, and eleven challenges trying to solve mobility, garbage or health issues. The successful side of the Plan was its construction in a democratic and participative way at a regional level. And the relation created between municipal and regional entities. ABC region’s strength is notable today; members needed a solution, which was reached commonly through a pact between majors regardless of political parties and the social participation that has brought the sense of responsibility and compromise to both the government and its people.

Joaquim Solé Villanova presented the governance and metropolitan finance of the Metropolitan Area of Barcelona. According to his presentation, its origins go back to 1975 when it was formed by two types of metropolitan municipalities: one responsible for transport and the other for water and refuse disposal. Eventually they merged and an institution is now concerned for these kinds of services, a metropolitan government, that may be consider as obsolete, because of the lack of direct elections, he remarked.

He added that urban planning is a solution to permanent coordination, and is shared with the regional government. Furthermore, the metropolitan government works as solution to the urban transport
economic promotion and land scarcity. Besides, the property surtax (tax on base) at municipal and metropolitan levels is not always collected with the municipal property tax. They want to continue with two taxes structure: one paid to the municipality and one paid to the metropolitan region. Reassessment of property is needed; otherwise the tax capacity is actually not real.

After the first participative budget, Carlos de Freitas wanted to conclude what had been the impact of this innovative form of discussion between institutional entities (cities) and their inhabitants, how this dialogue had transformed the administration within the local authority system.

Social and solidary economy, instead of a pure economy outlook. A fight between orthodox and heterodox economist, but thanks to the crisis, there has been a door for new success in relation to city networks.

Twenty years later, the participative budget outcome has made a great impact on local governance; it has brought a very strong participation, effective tax control, public service supervision, all of which lead to both implementation and maintenance cost reduction. It also allows and hybridization of municipal resources and as it is a direct democratic mechanism, it has modified the administration of the people's enquiries. Local currencies that allow the wealth produced within a certain territory would not go out of it. This is a strong mechanism of local economic resilience.

To conclude, Mr. De Freitas remarked that when instruments of social economy are discussed, they create new levels of social restructuration and innovative resource diversification. Finally, he stated that it is important to have a different “population treatment”, because it is unthinkable to believe that diverse consumption classes are treated under a same equality policy.

DEBATE

Mr Pandey started by commenting that one-tier entities such as the Metropolitan Planning Committee in Mumbai should be looking deeper into the aspects of jurisdictional and distributional nature, as well as into three different types of budget: budget for the poor (p-budget), environmental budget (e-budget) and gender budget (g-budget). Enid Slack reminded the importance to consider the context when regional and metropolitan authorities seek for solutions. In a two tier-system, she commented, the lower-tier is often the taxing authority who collects the taxes in its behalf and the upper tier taxes the lower tier. On the other hand, Matt Glasser was interested on the process of consolidation that aligns the municipal structure at once. However, the downside is to try to integrate the diversity of regions, which have historic and cultural differences in management. In addition, merging municipalities increases expenditures per capita according to Mrs. Slack.

Paul Smoke showed his concern regarding the connectivity with citizens. They must be involved in the decisions that are made around their local communities. Mr. Van Ryneveld seconded this though by explaining how finance creates community, when referring to the benefit of getting tax collection volunteers in South Africa who get together as a group and solving problems collectively. Moreover, Mr Masunda commented that according to his experience, as former Major of Harare, the key for fighting revenue generation pressure was to cope with the private sector and remarked the importance for governments to depoliticize service delivery issue. Oriol Balaguer stressed that nowadays cities deal with urban transport and transformations, climate change, integrated public space dynamics and informal economy in order to refound municipal financing and be more inclusive with their citizens. Mr. Ardila closed by making emphasis on the social exclusion currently faced by the poor and their general distrust towards norms.

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SESSION 3: PUBLIC SERVICE PROVISION IN PERI-URBAN AREAS AND SMALL TOWNS IN DEVELOPING COUNTRIES

William Fox opened session 3 stating that peri-urban places and small cities have a lot in common. The unique thing about these places can be divided in terms of revenues, public choice incentives and service delivery. He pointed out; there may be places with very low demand for services because income is low, but also because businesses may choose to locate themselves in areas where taxes and regulations are lower. He affirmed that when you have decentralized local revenue generation you are more likely to have limitation, and thus, inconsistence between the real service demand and the revenues that are collected. In addition, the revenues that can be generated do not often reflect the demand that people have for the revenues.

In peri-urban and smaller areas, the need for transfers may be great, but people must have a role in financing the services themselves. Mr. Fox suggests to “Use your fees”, when talking about the best option to know how much service to produce and can be auto financed. He pointed out that within the tax system, big cities are given better options to collect taxes than smaller places as big economic activities concentrate in big cities. The ability to collect taxes where people live at the fringe of the city is limited and is more likely to have poor collection systems. The political process does not always get the outcome in terms of service deliveries as hoped. He made a classification for three types of economies:

Economies of geography: Anticipation as the city grows bigger, to get a lower cost per person to deliver services.

Economies of density: More people within a fixed geography might well get economies.

Economies of scope: Diversified services in a specific range or area of the city.

Everything is time and place specific. The reality of these economies are probably changing rapidly with technology that eventually brings efficiency. He continued with the idea of thinking about services in two groups: capital intensive services (electricity, water, sewer, solid waste collection, roads) and, on the other hand, the labor intensive services (public schools, police and fire protection).

In big cities, people need more services. However, in the attempt to take advantage of economies, the quality of the service is reduced, on the other hand, small places might have a disadvantage when having access to management or financial talent. There are clearly benefits from broad planning of services. Cost is not the only issue that matters for cities and small places have a number of other advantages: they are likely to have less diversity, tax completion might be less harmful and people might just live happier. Corruption is lower if you have smaller governments but this again requires decentralization of governments.

He also stated that major governments encourage consolidation: a mergence of governments. Nevertheless, it is likely not to happen because of the fear from politicians to loose power, workers to lose their jobs or consumers to witness prices rise. Research concludes that it is more likely to have consolidation when there is a smaller amount of governments. The use of public sector is an alternative to consolidation, and is more likely to take place when talented political leaders and skilled decision makers seek for cooperation.

In peri-urban areas home or private production is already taking place. Therefore, privatization may be an important factor in the isolated areas. The big issue for privatization is that the market is not ready yet for the private sector to deliver the services. As the privatization grows, many private services can be unbundled to seek more transparency.

He concluded making reference for the need to have more information, accountability and transparency to know how profitable the distribution of services really is.

Tekalin Tsige held that water and sanitation sector is mainly an engineering problem, but also an institutional, financial and an environmental issue. Tsige suggested having a practical and pragmatic approach in order to make water and sanitation provision affordable while addressing economies of scale issues. “The challenges have always been there; rapid urbanization,
deteriorating urban infrastructure, demand and cost increasing, when we look to factors that affect the cost of water and sanitations supply”, he continued.

He followed his intervention by presenting a resumé of Rwanda. According to him, a uniform water tariff is set in all Rwanda, and is estimated on the base of aggregating the cost and volume of water production. Hence, tariff should be site-specific so that each urban center has its own distinct water supply system. In order to arrive to that aggregate value, eight urban centers where selected, based on factors such as population size, water supply scheme type and geographical location. Furthermore, a performance based on tariff-modeling assistance and its targets for performance indicators was set. In Rwanda, inefficiency is common; having 50% to 60% of water leakage is a waste of money to the soil, partly due to management negligence or incapacity for infrastructure replacement. Another problem lies on the unclear difference between rural and urban centers. The full cost recovery varies drastically from Kigali to other urban areas. There must be an average tariff and an urgent subsidy system.

He summed up that Rwanda is under good circumstances. After the 1994 genocide things have changed and there has been a series of reforms. The crisis have left the country unified and on the road towards progress.

Juan Miguel Roca explained that within the Metropolitan Area of Barcelona (AMB for its initials in Spanish), that comprises 36 municipalities, the most important political, economic and social decisions are taken, clarifying the impact of this region in both Catalonia, and Barcelona City itself. In 1953 there was an incentive to make an urban plan including 27 municipalities around Barcelona city. Urban planning was not the only characteristic that linked these municipalities. Other problems were shared among them such as residual disposal recovery, water, transportation and public space generation. In 1986 this plan was abolished but recovered in 2010, and AMB, was officially created. Beaches, parks and transport system (taxis and buses) are now being managed by a supra-municipal enterprise because of its grand scale.

Yoel Siegel stated that over the last 25 years local governments in Israel have been increasingly faced with the demand to provide services and initiate regional development. Local government in Israel has been caught between the dual pressures of accelerating demands for services and development on one side while having national government decrease its involvement and transfer of funds on the other side. They have had to move from the margins of rural Israel and peri-urban areas to the forefront.

In keeping with the change from development based upon national programs set by national priorities, local governments in rural and peri-urban areas have set up municipal industrial authorities. They are usually structured as subsidiary companies owned by the municipalities. This has enabled them to leverage large tracts of land suitable for industry that can be a source of revenues from land taxes needed for funding public services and that can also create places of employment.
Like most local authorities the primary course of action in “M” to develop the industrial park was to request funds from the national government to prepare a statutory zoning plan, build the roads, put in a sewage system, electric lines, drainage etc. This would then provide an attractive site for expanding local businesses, attracting new businesses, and resulting in significant new sources of land tax income to needed improve community services. These tax revenues also serve as the source of funds to maintain the infrastructures over time.

After unsuccessfully seeking funds from the national government to cover the costs of the infrastructures, the local government of “M” came to recognize that the national government was not going to be the answer to these needs so critical for increasing local revenues. There needed to be a strategy that was more independent. After a series of considerations a strategic decision was made by the mayor of “M” and his senior staff to radically change the local government – national government relationship by fully using the legal/statutory authority of local government as delineated in the national legislation granting powers to local government to levy development taxes to cover the costs of the infrastructures needed for development (roads, sewage, water, electricity, etc.)

The solution which led to the actual development of the industrial park came in the form of restructuring the by-laws to levy development taxes on developed land (land with infrastructures) rather than land upon which construction of buildings/businesses had been completed. In this case the situation seemed at first impossible and complicated because the land was owned by the national government in fact became a wonderful example of turning a liability into an asset.

Muchadeyi Masunda, former Mayor of Harare, Zimbabwe, explained that Harare is a modern metropolis with an obligation to provide water, sanitation and other house services to an estimated 4.5 million people. However, the situation has worsened because of the political unjust socioeconomic meltdown, particularly after the Crisis of 1998. The city does not receive any funding at all from the central government. He remarked that in Zimbabwe, municipal bonds are primarily the ones that contribute immensely to infrastructure.

According to his experience, Mr. Masunda mentioned that private sector, the real driver that contributes to the economy, has to be more involved in addressing the economic challenges faced by authorities. In addition, cities must learn from other developed cities, and should work closely with multinational, multilateral and international organizations.

Finally, he stated that cities should be ruled with some kind of despotism. Harare, for instance was left in hands of elected officials with no experience at all, suggesting that strong leadership for five to ten years is what cities need today. To conclude, he mentioned the need to depoliticize service delivery issues because politics often become polarized during elections.

DEBATE

On the debate, Tsige argumented that there is an element of subsidy within the city of informal settlement areas. There should be an integrated approach to attract investment to where water abounds. Qualitative aspects should be regarded. By his side, Le Denmat said that Land taxes and services fees are the only resources of local governments. They are very hard to collect. Urban rent has two components (land added value and the economic productivity). We know that when a city is productive the revenues go to the national government, not to the local government. Speak about local financing without relating it to economic system. It has to be re-linked.

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Muchadeyi Masunda. Former Mayor of Harare, Zimbabwe.
4. CLOSING REMARKS

Jorge Martinez Vazquez referred to this seminar as an opportunity for UN-HABITAT to help advise and enable countries to develop intergovernmental relation systems that work. Mr. Walters stressed how these case studies can be misinterpreted, calling to be aware that successful study cases depend highly on a specific history and particular location. He made clear the idea that there is no best way to govern. According to Carlos De Freitas, an international campaign is being launched to rethink the economic and financial tools that helped to secure the urban development. Latin American representatives talked about the failure of privatization in their countries, which has led to a low quality service provision, with a tendency to maximize profits. Mr. Ardila also commented how commercialism has turned natural resources into pure business, and that enterprises are now hardly involved in no profitable areas of public services provision. Mrs. Ravanelli stated that difference of scale is a vital point when treating urban and financial problems. However, she was reminded to take experiences from megacities that could be useful for the scale on which Brazil is working now. Elkin Velásquez pointed out that local authorities taken more into account by the United Nations in global processes, but reminded that the intermediaries are the nations themselves. Mr. Siegel, proceeded him by affirming the importance of institutional arrangements as one of the focal points and the process of public legitimation. Finally, Mr. Benitez thanked participants for coming as he remarked that conclusions and practices learned of UN-HABITAT seminars constitute a guide to define and orientate Barcelona’s own urban and economic development policies.

5. KEY MESSAGES

The Experts Group Meeting began with a session on local financing instruments and challenges: the experience of Barcelona. Two presentations were made in this session – one entitled the Barcelona’s management model: the politics and management deal and the other entitled the public finance recovery in Barcelona: 1980-2000. The following key messages came out of this session:

- Separation of politics from management, transparency, information sharing, strong leadership in crisis situations, improved relationships between city council and its citizens, and finding complex solutions to complex problems all contributed to the public finance recovery in Barcelona during the 1980-2000 period.
- The public sector needs to create an enabling environment for businesses to prosper.
- The public sector should find ways to become competitive in a globalized world.
- Strategic public financing is the key to achieving sustainable economic development.

The following key messages underpin the overall theme of the Experts Group Meeting:

- There is a very clear positive correlation between increased local public expenditures and equity and human development.
• Financial resources are a necessary but not sufficient condition for the efficient and equitable provision of urban basic services. Good governance is also very important.

• Revenue generation at the local level is greatly influenced by the political economy factors at all levels.

Session 1

The theme of this session was political economy challenges facing urban authorities in generating revenues from within and solutions to these challenges. The theme paper entitled urban government revenues: political economy challenges and opportunities and three cases were presented in this session. The following are key messages of this session:

• Although there is a well-developed set of public finance principles for choosing and designing local government revenues, and it is often used as the anchor for developing intergovernmental and local fiscal reform, urban revenue performance in developing countries is commonly mediocre or worse. This state of affairs persists both because the mainstream principles do not adequately consider key factors that influence local revenue generation and because the principles are not always appropriately implemented.

• Underlying this situation is a set of diverse, complex political economy considerations that rarely get the attention they deserve. These range from the behaviors of national politicians and bureaucrats who shape the rules of the intergovernmental fiscal game and how they are implemented, to local political economy dynamics among elected councilors, local government staff and citizens. These actions and interactions play out in a broader context that also influences the options for effective local revenue reform and decentralization in general. Insufficient understanding of and inattention to these dynamics can result in serious flaws in revenue reform design and or implementation.

• Some remedial actions to improve local revenue generation can be taken by urban governments on their own, but others require national level action or support, or at least recognition of what is feasible locally given constraints imposed by higher levels. Even where local action can be productive, urban officials must be mindful of essential linkages among the elements of the local governance system. Pursuing a state-of-the-art but revenue-specific reform without attention to other relevant factors, such as expenditure policies, fiscal transfers, accountability mechanisms etc., is unlikely to result in improved local revenue performance.

• Given the complex array of actors and interdependencies involved in urban revenue generation and the common need for considerable policy and system modifications in many developing countries, it is important to be strategic in pursuing urban government revenue reform. Sudden dramatic changes are likely to overwhelm local capacity and may even provoke pushback from those parties most affected by the reforms. Particularly critical at the local level is to invoke the social contract - to ensure that those citizens who will pay more to their local government under revenue reforms feel that they are getting some benefit from doing so and are being treated fairly in the process.

Session 2

The theme of this session was challenges in the use of various mechanisms for mobilizing financial resources for urban development and solutions to these challenges. The theme paper entitled mobilizing financial resources for public service delivery and urban development and three cases were presented in this session. The following key messages came out of this session:

• In order to fulfill their mandate in a fiscally responsible manner, local governments in developing countries must have available significant sources of own tax revenues and also non-tax revenues in the form of user charges and fees. Adequacy of own revenues is the key to improved ability to deliver needed goods and services and to better accountability of local officials to their constituents. Own revenues - unlike tax sharing and other transfers - uniquely bring an element of horizontal accountability of public officials to their constituents on the revenue side of the budget.

• Given that effective fiscal decentralization requires meaningful revenue autonomy, we need to ask what form of autonomy is preferable and then how much revenue autonomy is needed. The most desirable form of autonomy at the subnational level is to allow elected authorities to set the tax rates for a closed list of taxes set in national level legislation. The desirable degree of revenue autonomy should allow the wealthiest subnational governments - those with the largest tax bases - to finance most of their expenditure responsibilities with own revenues.

• No design of a decentralized system of finance ever reaches a perfect balance between expenditure assignments and revenue assignments at the subnational level. Transfers need to be used to address vertical and horizontal imbalances, including tax sharing, unconditional equalization grants, and conditional grants. In addition, disciplined access to credit is an appropriate source for financing subnational government capital investment responsibilities. Because borrowing can lead to
overspending, there is a need for controls, most commonly through explicit government rules.

• Subnational governments cannot always count on the availability of capital grants and borrowing to finance their infrastructure needs. Increasingly, subnational governments have introduced “innovative” approaches to financing infrastructure. The most common of these innovative avenues are several methods for capturing the increment in land value resulting from public investments. But, although welcome as a complementary tool, these alternative revenue sources cannot be seen as a long-term solution to the shortage problems for operating budgets, which need to rely heavily on the existing conventional revenue tools.

• User charges and fees, property taxes, betterment levies, vehicle and transportation taxes, local business taxes, excise and sales taxes are good sub-national level taxes.

• Value added taxes, local border taxes, corporate income tax (profit tax) are not good sub-national level taxes.

• Properties of desirable local level axes are that they are: buoyant, with revenues roughly changing in proportion to the economic base; horizontally equitable, providing equal treatment to taxpayers in similar circumstance; relatively efficient, causing low distortion in economic activity; relatively low in administrative costs; and politically acceptable.

**Session 3**

The theme of this session was innovative governance mechanisms and institutions to support the efficient and equitable provision of public services in metropolitan areas. The theme paper entitled innovative governance approaches for metropolitan areas in developing countries and three cases were presented during this session. The following are key messages of this session:

• Improving the level of service delivery in metropolitan areas in developing countries is always a question of resources but it is also a question of governance. Governance determines how efficiently costs are shared throughout the metropolitan area, how service delivery is coordinated across local government boundaries, how effectively local residents and businesses can access governments and influence their decisions, how accountable local governments are to their citizens and how responsive they are to their demands.

• A review of governance models around the world does not point to one model that works best. The types of governance structures and initiatives that have emerged in various metropolitan areas reflect the local and national context - differences in constitutional provisions, division of responsibilities, assignment of revenue sources, history and politics of the country, and various other factors.

• Criteria used to evaluate governance structure in a metropolitan area: (1) economic efficiency, (b) economies of scale, (3) externalities, (4) equity, and (5) access and accountability.

• There are some examples of initiatives that have worked well in specific contexts – one-tier consolidated structures where the geographic boundary reflect the economic region (e.g. Cape Town); two-tier government structures (e.g. Barcelona); voluntary cooperation among municipalities within the metropolitan area (e.g. Sao Paulo); national government financial incentives to create regional bodies (e.g. U.S.); open initiatives (e.g. Seoul) and participatory budgeting (e.g. Brazilian municipalities) which encourage citizen participation and greater accountability.

• Metropolitan areas everywhere face the challenge of how to balance regional and local interests. As the world becomes more urbanized and metropolitan economies evolve, there is a need for a regional vision and for many services to be delivered on a regional basis (e.g. transportation, land use planning and economic development). Most countries would thus be well advised to move towards developing more effective systems of governance for the whole metropolitan area than now exist if they want to improve service delivery. A strong regional structure that encompasses the entire economic region is essential to ensure that services are delivered in a coordinated manner across municipal boundaries and to be able to improve service delivery by reaping the benefits of economies of scale and internalizing externalities. At the same time, some services are very local and would benefit from more local provision (e.g. local streets, parks and recreation).

• The social participation in metropolitan governance is very important, even at the regional level because it holds both the government and public responsible, it encourages both parties to accept outcomes of the choices they make, and it encourages governments to prioritize their actions.

**Session 4**

The theme of this session was how to make public service provision more viable in peri-urban areas of large cities and small urban centers in developing countries. The theme paper on structuring service delivery in small urban areas and two cases were presented during the session. The following are key messages of this session:

• Consumption and delivery of services are
localized and therefore access to them can vary across different parts of a city.

- Problems on both the delivery side and financing side are the main sources of inadequate accesses to urban services in these areas. Contributing factors are (1) decision makers with different goals and motivations on the levels and distribution of public services, (2) higher service provision costs relative to the core of larger cities, (3) governments are too small to allow low cost service delivery in small towns, (4) political decisions that result in uneven services across cities or demographic groups while acceptable service levels are available in other parts of the city, (5) inadequate revenues due to weak local tax systems, and (6) low effective demand for urban services.

- User fees are the best option for financing local services. They allow determination of the appropriate level of services and provide a financing source for service delivery. User fees are good for charging for water, sewer, intra-city transit and electricity. User fees are poor instruments where pricing inefficiently crowds out consumers as in the case of basic education, or where collection may be costly or inefficient. However, user fees can be regressive. Taxes must be imposed in cases where user fees are not available.

- Many factors determine the most appropriate size for local governments. The appropriate size may change more rapidly than the political dimensions of altering jurisdictional size. Thus, maintaining governments with the right size may not be possible.

- Economies of size in delivering public services are fact specific and can differ across services.

- Mobilization of adequate financial resources from local sources is the key to providing efficient and effective public services in peri-urban areas of large cities and in small urban centers. Small towns have low revenue base and they need to put an extra effort to generate same amount of revenue.

- Options to ensure efficient and effective delivery of services to peri-urban areas of large cities and in small towns in developing countries include (1) transfers from the national government, (2) cross subsidies, (3) single purpose governments, (4) privatization, (5) contracting out to other municipalities, and (6) municipal cooperation.

The following specific messages came out of case presentations and discussions:

- Preparation of a mid-term rolling plan and financial framework is an important tool for robust municipal financial management (Barcelona).

- Consensus and coherence at the national level in assigning tax responsibilities is critical. Shifting policy positions and messages create confusion and weaken momentum for reform (Tanzania).

- Principles for assigning tax and spending responsibilities are universal. But their application has to be calibrated to the relevant contexts and realities.

- Historical transition opportunities like in South Africa or financial difficulties arising from global financial crisis could offer a chance for reform. But crises may not necessarily result in successful outcomes. Success depends on prevailing political economy landscape.

- Effective municipal finance reform should be holistic and integrate technological, organizational and political dimensions. Revenue strategies require successful integration of service strategies, tax and tariff design, and revenue administration, while maintaining legitimacy and trust. Pre-payment systems assist significantly in revenue collection. (South Africa).

- More equitable service delivery can be achieved by ensuring that service delivery is improved in poor areas, while maintaining services in rich areas at acceptable levels. Technology, mechanisms to manage debt and innovative payment schemes combined with pro-poor service standards and thresholds can be used to achieve this (South Africa).

- Property tax (PT) is mainstay of municipal finance. But there is huge potential to mobilize additional funds from PT in many cities. PT has a steady revenue flow capacity and provides stability to municipal finances (Riga, India, Bogota)

- Data base on land and properties need to be updated to widen PT base and also apply other land based tools such as exactions, betterment levy and Impact fee (India, Bogota).

- The governance deficit should be minimized through promotion of downward accountability and transparency. To this end, civil society, judicial activism, right to information can be promoted.

- Allocative inefficiency and local response weaknesses of metropolitan governance models can be mitigated, to some extent, through innovations in bottom up approaches like participatory budgeting and solidarity economy. But the efficacy of these approaches depends on the different contexts.
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• Velásquez, Elkin. Director, Regional Office Latin America and the Caribbean.
• Malbrand, Anaïs. UN-HABITAT. Consultant (Spain).
• Pardo Díaz, Joaquín. UN-HABITAT. Consultant (Spain).
• Sánchez Rosales, César. UN-HABITAT. Intern (Spain).
ANNEX 2: PROGRAMME

WEDNESDAY, 25th JUNE 2014

08.45 Registration
09.00 Welcoming remarks

- Joan Clos. Executive Director, United Nations Human Settlements Programme (UN-Habitat) and Under Secretary General, United Nations (on-line).
- Albert Civit. Manager for the Area of Urban Habitat, Barcelona City Council.

A.30 Introductory remarks

“Experts Group Meeting overview and expected outcomes”

- Gulelat Kebede. Coordinator of the Urban Economy Branch, UN-Habitat.
- Jorge Martínez-Vázquez. Regents Professor of Economics and Director of the International Center for Public Policy, Georgia State University, Atlanta, Georgia, USA.

Participants’ introduction round

09.50 Local Financing Instruments and its challenges: the experience of the Barcelona City Council.


Moderator: Jorge Martínez-Vázquez. Regents Professor of Economics and Director of the International Center for Public Policy, Georgia State University, Atlanta, Georgia, USA.

Debate

11.00 Coffee Break

11.10 Session 1: The challenges facing urban authorities in developing countries in mobilizing adequate financial resources

(A) Political economy challenges facing urban authorities in generating revenues from within and solutions to these challenges.

Paul Smoke. “Paper on political economy challenges facing urban authorities in generating revenues from within and solutions to these challenges”. Professor of Public Finance and Planning, New York University, USA.

Case presentations:

- Matt Glasser. “Political economy of revenue enhancement in Dar es Salaam,
**Moderator:** Joe Hooper. Coordinator, Urban Legislation, Land and Governance Branch, UN-Habitat.

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**Session 1: Continued**

**(B) Challenges in the use of various mechanisms for mobilizing financial resources for urban development and solutions to these challenges**

**Jorge Martinez-Vázquez.** “Paper on the challenges in the use of various mechanisms for mobilizing financial resources for urban development and solutions to these challenges”. Regents Professor of Economics and Director of the International Center for Public Policy, Georgia State University, Atlanta.

**Case presentations:**

- **Lawrence C. Walters.** “Urban development financing in Riga, Latvia”. Professor of Public Management, Romney Institute, Brigham Young University, Utah, USA.

- **Kamla K. Pandey.** “Property tax mobilization in India: challenges and solutions”. Professor of Urban Management and Research Coordinator, Indian Institute of Public Administration, New Delhi, India.

- **Gerardo Ardila.** “Public financial mechanisms in Bogota City”. District Planning Secretary, Bogotá City Council.

**Moderator:** Gulelat Kebede. Coordinator, Urban Economy Branch, UN-Habitat.

**Session 2: Innovative governance mechanisms and institutions to support the efficient and equitable provision of public services in metropolitan areas**

**Enid Slack.** “Paper on Innovative governance mechanisms and institutions to support the efficient and equitable provision of public services in metropolitan areas of developing countries”. Professor and Director of the Institute on Municipal Finance and Governance. The Munk Centre for International Studies, University of Toronto (Canada).

**Case presentations:**

- **Paula Ravanelli.** “Greater ABC Regional Participatory Multi-Year Plan 2014-2017, Brazil”. The Presidency, Federative Secretariat, Sao Paulo, Brazil.

- **Joaquim Solé i Vilanova.** “Governance and metropolitan finance in Barcelona area”. Professor in Public Finance. University of Barcelona.

- **Carlos de Freitas.** “Contribution of Participatory Budgeting and local currencies to the provision and management of basic services at municipal level and management
of basic services at municipal level”. Head of Programmes, Global Fund for Cities’ Development –FMDV, Paris (France).

Moderator: Elkin Velásquez. Director of the UN Habitat Office for Latin America and the Caribbean, UN-Habitat.

Debate

17.30 Cocktail offered by Barcelona City Council.
20.00 Barcelona City Tour

THURSDAY, 26th JUNE 2014

09.00 Session 3: Public service provision in peri-urban areas and small towns

William Fox. “Paper on how to make public service provision more viable in peri-urban areas and small urban centers in developing countries”. Professor and Director of the Center for Business and Economic Research, University of Tennessee, USA.

Case presentations:

- Tekalin Tsige. “Making water and sanitation service provision affordable in smaller urban centres - The case study of water tariff setting in Rwanda”. Human Settlements Officer, Urban Basic Services Branch.
- Juan Miguel Roca. “The metropolitan area of Barcelona metropolitan and the services given to their municipalities”. Institutional Relations Coordinator, Metropolitan Area of Barcelona.
- Yoel Siegel. “Increasing revenues and improving services in peri-urban locations in small town and rural area in Northern Israel”. Consultant, Tel Aviv, Israel.

Moderator: Marco Kamiya. Programme Officer, Urban Economy Branch, UN-Habitat

Debate

11.00 Coffee break
11.15 Key messages and the way forward

- Ananda Weliwita. Human Settlements Officer, Urban Economy and Finance Branch, UN Habitat.

Discussion

12.00 Closing Remarks

- Gulelat Kebede. Coordinator of the Urban Economy Branch, UN-Habitat.
- Xavier Benitez. Resource Centre for Entrepreneurship, Barcelona Activa.

13.00 Lunch