

## **PART B: MUNICIPAL FINANCE CONDITIONS AND TRENDS**

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## **1 MUNICIPAL FINANCE FOR URBAN DEVELOPMENT**

### **1.1 General trends in fiscal decentralization**

- Lack of global and regional data in municipal finance. Difficulty and high cost of assembling information
- Steady increase in public expenditures channeled through the local level: a small but growing proportion
  - The Bolivia Decentralization Law
  - The Brazil 1988 constitution: rights granted to municipalities
  - Indonesia decentralization laws
  - West Africa decentralization process
- Impact of rapid urbanization and increasing disparities in the distribution of wealth, income and the benefits of development.
- Lack of mechanisms to finance urban investments in developing countries
- Lack of funding for maintenance in the poor countries

### **1.2 Major Issues at the regional level**

- Wide variations encountered in any one geographic region
- Large number of smaller, financially weak municipalities
- Accelerated pace of change in transitional economies
- Asymmetrical decentralization
- Retrenchment of central transfers
- Weakness of own revenue sources in developing countries
- Lack of strong domestic capital markets impedes the development of municipal credit institutions
- Inadequate capacity and rules for sound financial management of local authorities in many developing countries
- Concepts of rights to the city and access to urban services. The growing role of civic society.
  - Brazil, South Africa and the Philippines

### **1.3 The need to look at sub-regions exhibiting different characteristics**

- Brazil and Mexico
- West Africa and South Africa
- Middle East and North Africa
- Thailand and Indonesia
- India and China

## **2 MUNICIPAL RESPONSIBILITIES AND EXPENDITURE PATTERNS**

### **2.1 Operating Budget :**

- Salaries as a dominant component of recurrent expenditures
  - Examples from different regions
- Constraints on expenditure patterns
  - The Brazilian law of fiscal responsibility
- Lack of funds for maintenance of existing assets: Environmental and social impacts of delayed maintenance and neglect: breakdowns and deterioration

of existing systems. Water losses and perched water tables, contamination and corrosion.

## **2.2 Impact of decentralization of social services on municipal expenditures**

- The increasing scope of local responsibilities.
- The impacts of decentralization of education and health on municipal budgets.  
Poland, Szczecin  
Brazil, Juiz de Fora

## **2.3 Capital investment budget**

2.3.1 Lack of funds for investment purposes. Selected examples from the different regions

## **2.4 Participatory Budgeting**

2.4.1 The impact of popular participation on the allocation of capital investment resources

- Porto Alegre: The social impact of the OP
- Belo Horizonte: Investment in areas of need and slum upgrading

# **3 MUNICIPAL POWERS AND REVENUE SOURCES**

Taxing and borrowing powers: legal and regulatory constraints in selected countries

## **3.1 Reliance on central transfers**

- The impact of city size and development patterns: the vulnerability of small sized and less accessible towns  
Brazil (IBAM) and Africa (PDM) data
- Asymmetrical administrative, political and fiscal decentralization: local financial management in situations of changing institutional and legal frameworks  
Examples from Eastern Europe and Russia
- Local revenue sources  
Examples from different regions. Detailed analysis of Brazil, Indonesia and selected African countries

## **3.2 Performance of key sources of municipal revenue**

3.2.1 Central transfers. Issues of predictability and financial planning

3.2.2 Property Taxes

- Capital vs. rental valuation and the impact of rent regulations and tenant protection laws.  
Examples from Poland, Egypt and Morocco
- The impact of rapid urbanization: Obsolete cadastres and tax rolls.  
Examples from Peru, Morocco, Cote d'Ivoire
- Dealing with complex tenure and unclear ownership patterns. Property taxation in historic centers, unauthorized subdivisions, informal settlements and slums.  
Selected examples to show a range of prevailing rules and attitudes
- Occupancy taxes.  
Indonesia

### 3.2.3 Taxes on businesses

- Administering a multiplicity of low-yield taxes in developing countries. Tax burdens on small and micro-enterprises  
Examples from West Africa
- Relative importance of taxes on the commercial sector. Attitude towards the informal sector  
Examples from Benin, Morocco and Indonesia

### 3.2.4 User fees. Integrating social policies in the management of services. South Africa, West Africa and South Asia

### 3.2.5 Betterment taxes and development exactions USA Boston linkage program

### 3.2.6 Borrowing and debt service management

- Legal constraints on the borrowing powers of municipalities  
Brazil's ban on bond issues by local governments till 2010  
Colombia, Bogota domestic bonds issue.
- Off budget revenue generation: the proliferation of quasi governmental entities
- Special purpose entities and revenue bonds  
China's Municipal Special Service Vehicles (SPVs) and Extra budget funds
- Tax increment financing.  
Debt burden vs. future revenue streams, lead-lag considerations  
Managing shortfalls in anticipated revenue  
US examples to illustrate major issues and potential impacts on local budgets
- Credit enhancement to facilitate financing of municipal loans and bond issues  
Guarantees and subsidies. Examples from different regions

## 4 FINANCING LOCAL GOVERNMENTS

### 4.1 Sources of lending to municipalities

#### 4.1.1 Growth of government sponsored municipal development banks and their evolution into municipal financial institutions in the 1990's. These financial intermediaries link local governments to capital markets and mobilize additional resources from these markets

- The Impressive growth and diversity of funds led to the creation of the international association of development funds in 2000. At present the association has over 150 members
- Constraints on municipal borrowing and general weakness of domestic capital markets underscore the importance of local development funds for urban development  
India-Tamil Nadu Fund  
Philippines-Municipal Development Fund  
Georgia-Municipal Development Fund of Georgia  
Colombia-Findeter (Phase I & II).  
Brazil-Paranacidade  
South Africa-DBSA

- Credit Enhancements-examples from different regions.
  - Combining grants and loan in institutionally fragile situations and impoverished areas
- 4.1.2 Associations of municipalities  
Associations of municipalities coming together to access funding or lower the cost of financing their capital investment needs.  
Norway-Kommuninvest  
Czech Republic-Municipal Finance Co.
- 4.1.3 Pooled Finance facilities  
USA Virginia Resources Authority  
India-Tamil Nadu Fund
- 4.1.4 Development Banks and Funds offering credit to both public and private borrowers.  
Poland-BISE  
India-Tamil Nadu Fund
- 4.2 Targeted Funds**
- 4.2.1 Social Investment Funds and Environmental Funds  
Social Funds: examples from Latin America
- 4.2.2 Debt Swaps  
Assignment of discounted debt repayable in local currency to a special purpose fund  
Bolivia's strategy for poverty reduction under the initiative for heavily indebted poor countries (HIPC)

## **5 PARTNERSHIPS FOR LOCAL DEVELOPMENT AND SERVICE DELIVERY**

### **5.1 Privatization of Municipal service delivery:**

- Outsourcing and concessions  
Key issues: Government guarantees; capital investments requirements; servicing poorer areas and peripheral settlements
- Linking formal and informal operators  
West Africa, Cotonou, Water supply and solid waste management

### **5.2 Joint funding of infrastructure and urban development projects**

- Joint infrastructure programs  
Poland, Lublin and Szczecin

### **5.3 Joint Funding of community-based initiatives**

The potential of microcredit institutions as strategic partners  
India, Ahmedabad / SEWA Parivartan program  
Guatemala, Genesis Empresarial

**5.4 Partnerships for local development**

- Coordinating among key stakeholders (Different levels of government, NGOs, CBOs and private enterprise) in order to generate resources for local programs and projects.  
El Salvador, Nejapa, Local Development Fund

**5.5 Tapping migrant remittances**

- Municipal leveraging of remittances  
Ecuador, Cuenca
- The use of participatory budgets to attract and guide investments by migrants  
El Salvador, San Salvador

**5.6 Building the capacity of Municipalities and improving local financial management**

- The Partnership for Municipal Development (PDM)  
East and West sub-Saharan Africa

**6 PERFORMANCE OF MUNICIPAL FINANCE SYSTEMS.**

- A Brief Overall Assessment