



## Dialogue on Municipal Finance: Innovation and Collaboration

Wednesday 22 June 2006

Vancouver Convention and Exhibition Centre Ballroom C

This dialogue aims to provide a platform for sharing experiences on innovative methods and partnerships in the field of municipal finance with the discussions focussing on the following:

- ways of enhancing municipal revenue and access to resources,
- innovative approaches to financing infrastructure and the provision of urban services,
- reform in institutional and regulatory frameworks to enhance municipal finance.

### Background

Municipalities around the world are facing a paradox: The need for a strong fiscal base to create and maintain infrastructure and services as opposed to the pressure of lowering taxes to attract foreign and domestic investment.

Cities with small populations and limited economic activities have a constrained tax base to improve and maintain the mix, quality and sustainability of infrastructure and social services.

The challenge for most cities in developing countries is even more basic. Their tax bases are too small to even meet their operating 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.

### Innovative sources of municipal finance

There are, however, on-going reforms and innovations that allow municipalities to better finance their increasing expenditure and manage their financial system in a more transparent and efficient manner. These approaches include:

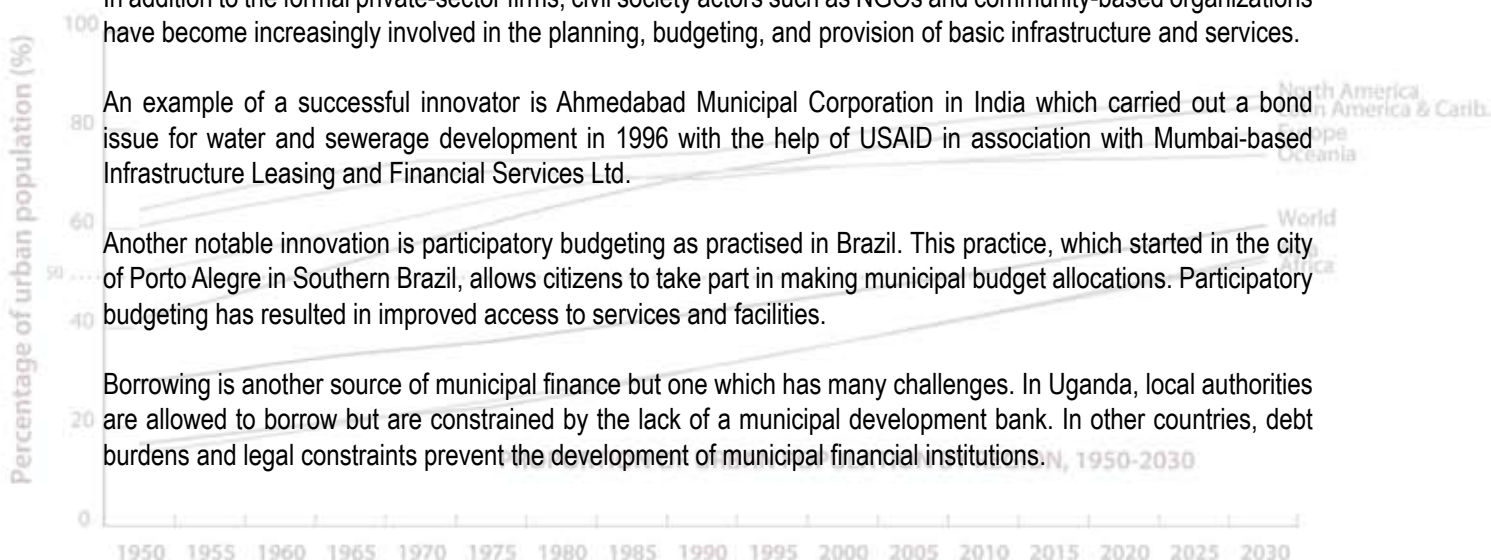
- contracting out all or part of individual services,
- accessing domestic capital markets,
- forming private-public partnerships and franchises, and
- making individual service units in municipalities compete on a commercial basis.

In addition to the formal private-sector firms, civil society actors such as NGOs and community-based organizations have become increasingly involved in the planning, budgeting, and provision of basic infrastructure and services.

An example of a successful innovator is Ahmedabad Municipal Corporation in India which carried out a bond issue for water and sewerage development in 1996 with the help of USAID in association with Mumbai-based Infrastructure Leasing and Financial Services Ltd.

Another notable innovation is participatory budgeting as practised in Brazil. This practice, which started in the city of Porto Alegre in Southern Brazil, allows citizens to take part in making municipal budget allocations. Participatory budgeting has resulted in improved access to services and facilities.

Borrowing is another source of municipal finance but one which has many challenges. In Uganda, local authorities are allowed to borrow but are constrained by the lack of a municipal development bank. In other countries, debt burdens and legal constraints prevent the development of municipal financial institutions.



### Comparative Budgets of Selected Commonwealth Cities (2003)

City	Population	Total Expenditure	Expenditure Per Person
Toronto CC, Canada	2,418,495	5,420,000,000	2,184
Surat MC, India	2,755,200	344,800,000	125
Auckland CC, New Zealand	420,000	246,000,000	586
Lushato, Tanzania	419,970	974,300	2.32
Sheffield CC, UK	512,000	1,558,023,790	3,043.02
Sunyani, Ghana	203,267	3,908,835	19.23
London Borough of Power Hamlets	196,106	544,446,287	2,776.29

Source: Commonwealth Local Government Forum (CLGF)

All figures in the comparative spending tables are expressed in international dollars based on purchasing power parity

### Composition of local government revenues in four countries

Revenue %	Ghana	Uganda	Australia	UK
Own taxes	22	15	38	16
Shared taxes	0	0		
User fees/charges	23	5		12
Single source revenues	18	0		
Central government transfers	3	66	13	46
Donor contribution	0	11		
Other non-tax revenues	34	4	15	
Borrowing	0	0		
Investment income				
Trading surpluses			32	
Redistributed business rates				16

Source: Commonwealth Local Government Forum (CLGF)

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