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1. Introduction

Inviting input into UN Habitat III Issues concerning Municipal Finance and Local Economic Development

As reported by Dr Jane Stanley in the October 2015 Issue of this eBulletin, EAROPH has been recognized as a lead agency for preparation of several policy papers in the lead up to Habitat III. Since there was a great deal of information in the last eBulletin, this issue focuses on additional information.

The New Urban Agenda is composed of eight themes:

1. Social Cohesion and Equity – Liveable Cities
2. Urban Frameworks
 - Urban Rules and Legislation (SECOVI – FIABCI)
 - Urban Governance (IFHP)
 - Municipal Finances (EAROPH)
3. Spatial Development
4. Urban Economy
5. Urban Ecology and Environment
6. Urban Housing and Basic Services
7. Spatial Development
 - Spatial Strategies (Communitas)
8. Urban Economy
 - Action Aid India (Circ)
 - Local Economic Development (EAROPH)

Kerry McGovern, from EAROPH-Australia, attended a meeting of the General Assembly of Partners (GAP) at the New School in New York on 2 October 2015.

There are three lines of work for the GAP:

1. Fostering engagement in an inclusive dialogue to develop common positions on key principles and thematic areas, to be articulated in the New Urban Agenda that builds on *The Future We Want*, *The City We Need* and the future *Framework for Post-2015 Development*. The GAP will consider inputs provided by the Partner Constituent Group, Urban Thinkers Campuses, Thematic, Regional and other relevant meetings.

2. Proposing a set of actionable recommendations supported by evidence and knowledge, exemplary urban solutions and experiences related to sustainable urbanization generated by practitioners from all backgrounds.
3. Advocating for and publicizing the outcomes and collective positions that emerge within GAP to the Habitat III Conference and associated programs and processes via all available channels.

EAROPH was given the task of proposing recommendations for UN Habitat III Issues Paper 7 on Municipal Finance and Paper 12 on Local Economic Development. This eBulletin reproduces these Issues Papers for you. See: <http://unhabitat.org/issue-papers-and-policy-units/>.

Many groups are working with UN Habitat to ensure the positions that emerge within GAP for the Habitat III Conference are practical and will achieve the seventeen Sustainable Development Goals (SDGs), which were adopted by the UN at a plenary meeting of the General Assembly on 27 September 2015, after the UN Sustainable Development Summit.

Other organizations are also collecting and reporting contributions: SECOVI (from Brazil); International Real Estate Federatopm (FIABCI); International Federation of Planning and Housing (IFHP); Communidas and Citizens Rights Collective (CIRIC) Action Aid, both from India.

Within these Issues Papers, the areas of priority for EAROPH to address are:

Municipal Finance:

1. Municipal Taxes, Fees and Charges
2. Infrastructure Maintenance
3. Strategies for urban infrastructure development through local government including Public Private Partnerships.
4. Waste Management

Local Economic Development:

1. Tools for LED
2. Microfinance
3. Fresh Produce Markets
4. Creative Industries
5. Formalizing the Informal
6. Local Supply Chains
7. Rural-Urban Linkages
8. Self-Help Communities
9. Housing as an Economic Driver
10. The economic activity of cities (Action Aid – India)
 - a. Decent work and economic growth
 - b. A Living Wage
 - c. Social Protection
 - d. The contemporary challenges in Rights to organize and collective Bargaining.

We have a DEADLINE of 1 December 2015 to collect contributions.

EAROPH-Australia has also produced two videos to assist you.

1. <https://youtu.be/dAIPj27alwo> explains what we in EAROPH are doing for Habitat III, which will be held in Quito, Ecuador.
2. https://youtu.be/ZvHAS_g_k34, will explain how to use the template.

Key References: <reference documents that further the implementation of support the selection>

Key Stakeholders: <identify key stakeholders affected by or responsible for implementation>

Contributor:..... **Email:**

Organisation:.....

DEADLINE 1 December 2015

One page contribution to Barbara Sikorski at woo1961@optusnet.com.au

- (i) The contributions that will be made by identified partners to achieve SDGs and
- (ii) The enabling environment that the supporting governments need to provide to support those contributions.

QUERIES: EAROPH-Australia
Dr Jane Stanley or Kerry McGovern
president@earophaustralia.com

3. Reference 1 – Habitat III Issue Paper 7 concerning Municipal Finance

New York, 31 May 2015 (not edited version 2.0)



KEY WORDS

Revenue enhancement, financial management, transfers, decentralization, taxes, cadastral system, land value sharing, basic infrastructure, services, local assets, transparency, accountability

FIGURES AND KEY FACTS

- Globalization continues at a fast pace, but localization, the process whereby local governments have greater responsibility to provide infrastructure and services, is also increasing. While globalization has been rapid, urbanization has been growing even faster and today there are more than 4,000 cities with populations over 150,000, and some 500 have over one million inhabitants.¹ Globally, cities generate over 80 per cent of the GDP, with similar shares in developing economies.²

¹ UNDESA (2011) *Population Distribution, Urbanization, Internal Migration and Development*.

<http://www.un.org/esa/population/publications/PopDistribUrbanization/PopulationDistributionUrbanization.pdf>

² World Bank (2015) *Urban Development Overview*

- Despite their economic importance, cities are starved of development resources. In many countries local taxes and other revenue sources could be a major source of development finance but territorial governments are not allowed to expand their revenue base. In Developing countries, local taxes account for 2.3% of GDP, compared to 6.4% in industrialised countries.¹
- Local governments are under pressure to do more with less. In many cases, municipal functions are becoming increasingly complex, encompassing issues of employment generation, social inclusion, and climate change. So, they have to be creative about finding sources of revenues and judicious in rationalizing their expenditures. Most cities in the developing world still rely heavily on transfers and grants and a great deal of effort is being made to reduce this dependence on central government. The structure of local revenues show that property tax is potentially a good source of local revenues but in more developing cities, property tax represents less than 3-4% of local revenues, compared with 40-50% in cities in Australia, Canada, France, UK and the US.²
- Local governments are learning to deliver services more effectively with better public financial management when they are given more responsibility and autonomy. A World Bank study covering 190 projects involving 3,000 municipal development projects concluded that increased autonomy and responsibility resulted in better access to services, for example water and clinics, and increases in the scope of services.³
- There are important opportunities for local governments to leverage their own resources with the support of national government and the international community. Local governments in developing countries rarely use alternative sources of funding such as those available from the private sector, including loans from commercial banks or public private partnerships. Just 4% of 500 cities in low-income countries have access to international markets.⁴ However international loans can expose local governments to exchange rate risk to which they have no natural hedge and which can be crippling. A number of countries prohibit this practice by law. Many local governments are a long way from credit worthiness and need to go through the unglamorous steps of keeping their books in order before entering the world of lending. There is such a thing as a bad loan and there is such a thing as a bad project.

ISSUE SUMMARY

Drivers of Global Municipal Finance

Many central and local governments recognize the importance of cities to their national economies. They also recognize that cities need a sustainable flow of resources and the necessary conditions to unlock endogenous financial resources to achieve sustainable urbanization. However they are yet act on that recognition. Effective financing mechanisms operating within a strong legal and institutional framework are needed to cater for urban expansion and to provide better services in existing urban areas. However, many city financing systems are structured for their role in the economy of a bygone era, rather than being in line with global best practice.

Some governments, however, are more clearly defining the responsibilities of authorities for the delivery of urban infrastructure and services and better structuring transfers and mandates for local revenue generation to encourage efficiency in service provision, and in the management of resources for operations and capital investment. Yet this process needs to be extended and systematized. The sections below set out the key drivers in the development of an effective system of local government finance.

¹ Bird, Richard & Roy Bahl (2008) *Subnational Taxes in Developing Countries: The Way Forward*. Institute for International Business, Working paper Series IIB Paper No. 16.

² Farvaque-Vitkovic, Catherine & Mihaly Kopanyi, Editors (2014) *Municipal Finance: A Handbook for Local Governments*. World Bank.

³ World Bank (2009) *Improving Municipal Management for Cities to Succeed*.
http://siteresources.worldbank.org/EXTIMMNGT/Resources/Municipal_eval.pdf

⁴ World Bank (2013) *Planning and Financing Low-Carbon, Livable Cities*.

Improving out-dated governance systems

Governance systems not only provide the political and organizational context for the process of resource mobilization, but, more importantly, the outcomes of urban governance systems determine the potential revenue mobilized. There are three key shortfalls in global urban governance:

1. **Incoherence of urban institutions:** Urban institutions, such as local governments, very often do not cover the totality of the urban area, and planning coordination institutions do not effectively encompass sectoral silos – they are geographically and sectorally incoherent. In effect, this means that local governments are often too small to have a coherent long term vision (particularly a long term economic vision), to have sufficient financial leverage to achieve their visions, and to avoid political pressure from unrepresentative pressure groups resisting development that has long-term and geographically widely-spread benefits.

A good example of the creation of geographically coherent structures comes from Germany, where a regional authority has been created for Greater Stuttgart to coordinate regional economic development initiatives and transport. In terms of achieving sectoral integration, some developing countries have raised their major cities to provincial level as in BMA (Bangkok Metropolitan Administration) for Bangkok, and DKI (Jakarta), although these structures do not encompass the full urban areas of these megacities. Perhaps, the best example in the developing world comes from South Africa, which has created well-empowered, territorially integrated “category A” municipalities for their large metro areas. This has resolved many of the vertical and horizontal coordination problems of the previous system. By and large, international experience indicates that it is very difficult to introduce effective vertical and horizontal coordination mechanisms between different local governments within the same large city area in low capacity environment. Institutional coordination tends to be the more effective path, wherever possible.

2. **Inadequate structures for integrated urban planning and inter-governmental fiscal relations:** While not immediately obvious, planning is strongly linked to financing as very significant real or potential revenue from taxes and fees comes from urban development, and the scale and efficiency of this development is, in turn, largely controlled by the planning process. Aside from the level of transfers, which is always considered by local governments as too low, the structure of many transfer system provides perverse incentives for a variety of behaviours that reduce the efficiency of local governments. Basing transfers only on population, for example, provides no incentive for improved performance. In many developing countries, the relationship between planning and development does not hold due to lack of enforcement of development controls. Aside from leading to adverse environmental and social outcomes, the increased risk for investors from an uncertain regulatory context is passed on as increases in expected returns and in financing cost, in turn increasing the cost of infrastructure and other urban development.

Nevertheless, good examples of planning, development value capture and financing do exist. The Hong Kong Metro, one of the few transit systems that actually cover capital and operating costs, is perhaps one of the most effective examples. Incentives for effective use of grants (and assets) also exist. The Philippines Department of the Interior and Local Government has a “Challenge Fund” to provide an incentive to local governments to invest in environmental infrastructure; and in Bangladesh, the Urban Governance Improvement Project rewards good performance by local governments with access to additional resources.

3. **Inadequate support to building an effective and financially viable process of urban development; insufficient support to the evolution of the institutional base and strengthening of its capacities:** Many countries have local government academies which aim to strengthen the financial performance of local government. However, the programmes offered tend to be very focused on building individual skills, which are essential, but not sufficient. Nonetheless, examples of more structural approaches to building broad capacity exist. For example, in Indonesia the Capacity Building for Urban Infrastructure Management Project was formulated to support national and local institutions implementing the Integrated Urban Infrastructure Development Programme. Under the Programme, each participating city had to produce a Revenue Improvement Action Plan to demonstrate the capacity available to maintain the infrastructure being built under the Programme. The World Bank also has a large portfolio of lending projects focusing on Municipal

Contracts, which provide an opportunity for local governments to work both on the strengthening of their daily functions (including financial management and revenue mobilization) and on investments. Benin, Cote d'Ivoire, Guinea, Madagascar, Mali, Mauritania, Rwanda, Senegal and others have been engaged in this process for many years.

Bridging shortfalls in endogenous resources

While national transfers discussed above are important, critical to the sustainability of developing cities in the medium to long term will be their ability to raise financial resources from their own assets. There are several issues related to this major driver:

- The first is whether or not cities are levying all the taxes and user charges they are entitled to levy (and which are net revenue earners – there is no point in collecting a tax which costs more to collect than it raises); whether they are actually collecting the taxes and user charges they, in theory, levy; and if they are levying them at the correct (maximum or cost recovery) level. The key question is: are there incentives in place to ensure that local governments actually collect all the taxes they are supposed to collect? In theory, central funds were linked to a reform agenda but, in practice, not much reform has been realized (especially in own source revenue collection). There is a need to discuss the “infrastructure” needed to properly manage local taxation.¹
- In particular when it comes to land based taxation such as land registration, there is a need to look at the functioning of judicial systems. In many developing cities, which are growing fast and informally, where property rights are difficult to ascertain, where registration systems are not working properly, property valuation and fiscal cadastres may not be the most cost-effective options.
- The second issue is the design of local tax systems as determined by national, state or provincial governments. Again, these designs were a response to circumstances applicable in years gone by and no longer reflect current circumstances, capabilities or best practice. For example, are property taxes based on highest best use of land rather than the value of the property on the land?
- The third issue is the need to increase the resources of local governments, in the context of insufficient resources for urban development – even given well-designed, well-implemented resource mobilization systems – through additional taxes or the extension of existing ones. For example, such measures may take the form of amortizing of a certain amount of, or creating surcharges on, national and local sales, income and corporate taxes, or the levying of property tax surcharges for specific purposes, for example Tax Increment Financing in the USA or betterment levies in Colombia.² Good examples of tax surcharges for local government are found in the US where local governments can, for example, levy a surcharge on income taxes. Hong Kong has excellent systems of capturing land value increase to finance infrastructure investment and the US PACE system of paying for environmental improvements is an excellent example of investment of investment financed by property tax surcharges.

Again, it is important that national governments give due attention to the process of such issues, of moving to implement them, and of building capacity in the area of resource mobilization. This process will involve coordination across a number of national and local ministries or departments. The focal point for coordination needs to be given a clear mandate to undertake the process.

¹ The property valuation exercise may not be the most effective, since will run the risk of (1) cover a small part of the city; (2) have to be updated very quickly; (3) run its course after the international consultant leaves; (4) does not yield the expected revenue increase in the expected timeframe, so a better alternative is to explore the possibility of working directly with the municipality on street addressing which is much better suited for this type of environment and can be directly connected to many municipal applications. In municipalities where street addressing has been implemented, a 25 to 30% increase in local revenues has been achieved across the board, just by reconciling the street index with the fiscal registers.

² World Bank (2013) *Planning Connecting and Financing Cities – Now*.

Building better local financial and asset management systems

Both from a theoretical viewpoint (OECD), and from some available evidence (US national transfers), funding local projects from local sources is seen as efficient. However, implementation is a persistent challenge. Once revenue is mobilized, it is essential that the proceeds be used as efficiently as possible.

Subnational governments should improve transparency, providing easily accessible public data on provision of infrastructure and services, and link those expenditures to increased taxes/fees collection. Efficient use of public funds is a key concern. It is essential that local governments be able to report their financial situation in a transparent and accountable manner to: a) their Ministries of Finance; b) their citizens; and c) their financial partners. The World Bank has been working on a Municipal Finance Self-Assessment tool (MFSA) to determine priority actions to improve transparency and effectiveness in the use of public funds.

Budgeting should be seen as a means to implement an agreed plan. Prioritization of expenditure – whether capital or recurrent – should be done on the basis of establishing the most cost effective way of providing the planned and mandated services to the city. Few cities have the capacity to prepare an investment plan, with plans balancing investment, operation and maintenance expenditure posing greater challenges. There are both regional support facilities (for example, the Cities Development Initiative for Asia) and national systems to develop prioritized investment plans, but they are not automatically integrated with citywide financial and asset management. Once investments are decided and funded, the city agency responsible has the duty of ensuring value for money when it procures the investment. Procurement systems are thus critical components of city financial systems. They must be both flexible and rigorous in respect of probity – a difficult mix requiring considerable skills.

There are some examples of structured systems capable of leveraging local and transfer revenues with community or private sector resources. The city of Chicago has the Chicago Infrastructure Trust, which has been effective in leveraging the city's resources for a number of projects including retrofitting to improve the energy efficiency of government buildings.

Effective use of the city's assets is a significant component of a good financial and asset management system. The question is: does the government need to own assets to retain or recycle? Sale of government assets is controversial, but effective programmes that link sales to new assets and services, such as the government of New South Wales' Asset Recycling Programme in Australia exist. Ministries of Finance tend to dislike such hypothecation of revenue, but citizens can see direct benefits from them and may support them. More flexible use of government assets is also possible, but agencies tend to fiercely defend their stocks. Again, such decisions are best made by a cross-jurisdictional, cross-sectoral agency.

Many cities are required by law to prepare and implement a Capital Investment Plan. However, many lack the capacity to do so. The World Bank has, in parallel to the Municipal Finance Self-Assessment, developed the Urban Audit, which helps local governments to: 1) assess their needs in terms of services and infrastructure; and 2) prioritize their investments programmes in a way that is consistent with their financial capacity. This tool does not pretend to substitute or replace the mandatory local planning and programming documents but, rather, provide a jumpstart to the investment prioritization process and a platform for greater coordination among the various municipal departments in charge of finances, city planning, public infrastructure and public utilities.

Better systems for infrastructure finance

Infrastructure is a special case as it is a “lumpy” asset, meaning it has a high construction cost relative to recurrent income of most jurisdictions. It is often cross-jurisdictional, meaning its provision needs to be coordinated over two or more political jurisdiction if it is to be financially viable and it is a long lived asset giving rise to inter-generational issues in funding. It is also an asset that is prone to mismanagement in terms of under-funding or inflating of operation and maintenance of capital costs.

Prioritizing infrastructure investments and the financing of those investments thus needs to take place in the context of a rational plan for city development. However, the financing of trunk infrastructure in a large urban area is typically beyond the capacity of one local government. Paradoxically, even if a project is implemented by a

cross-jurisdictional, cross-sectoral entity,¹ the success of the project and of the financing often need the cooperation of all concerned local governments. Cross-jurisdictional, cross-sectoral implementation has proved to be difficult in low capacity environments.

Transit Oriented Development projects, such as the one in Atlanta, USA, often provide good examples of cross-sectoral development along corridors. Such projects constitute good interventions of the demand side of infrastructure provision, providing the long-term planning and revenue base on which to build a viable financing package. On the infrastructure finance supply side, there are different solutions, depending on the sophistication of the capital markets and of the borrowers – from project bond based financing subscribed to by institutions (mainly pension funds) in Canada, to the Tamil Nadu Urban Development Fund's pooled financing mechanisms used for financing infrastructure in small local governments in India.

Implementing such mechanisms needs innovations in governance, fiscal incentives, and incentives for improved financial and asset management; supported by reforms in the capital markets and by international development assistance agencies and the private sector. There is also a need for a dedicated agency for this, which can be the Ministry of Finance. Among the mechanisms in particular:

- Land based financing is becoming a major potential source of funding for infrastructure and other services, but it needs appropriate institutional arrangements to be effective. Central and territorial governments need to work together on enhancing the potential sources of finance through such mechanisms as municipal development banks or municipal development corporations as appropriate to the financing needs of cities for their infrastructure.
- The technical capacity for planning, accessing and administering the range of financing instruments is a major challenge for smaller municipalities. Capacity building programmes, that provide the basis of effective financial management, can make a big difference and produce rapid results. For smaller local governments, more structured programmes encouraging the more efficient management of local revenues and expenses, and supplying tailored finance for infrastructure, may be more effective.
- For larger cities there is a need to diversify sources of finance, encouraging them to tap the capital markets and to involve the private sector through mechanisms such as bond issuance (requiring credit ratings), credit from commercial banks and Public Private Partnerships.

Developing Systems for Effective Use of Exogenous Sources of Finance

Improving municipal finance is an incremental process and the mechanisms used evolve over time as the circumstances of the city and the national capital markets change. Critically, local governments should focus first on getting the basic conditions right, by maximising the potential of their endogenous resources and strengthening and improving their financial capabilities. When the “house is in order” local government can, in turn, maximise their leverage of endogenous resources and tap wider sources of finance as available in the country concerned. For example, where the national policy context provides for it and where capital markets are capable of providing long-term sub-sovereign debt, cities should aim to attain credit ratings needed to access bond markets and potentially in international markets. Where such conditions do not apply,² a sound financial base will enable them to access more conventional forms of finance such as municipal development funds and pooled financing mechanisms, on the best possible terms. Local governments have been able to successfully issue bonds, though results are mixed. Outside of South Africa are issuing bonds. The recent case of Dakar (whose bond issuance has been suspended by the Minister of Finance) shows that cities are not there yet in many parts of the world. In India, barring a few cases such as Ahmedabad, there is no track record.

¹ For example, water and sewerage infrastructure needs to be augmented if densities are being increased in a Transit Oriented Development project.

² Conditions among countries differ greatly and different approaches are required to strengthening the enabling framework for financing local governments from the capital market. See, for example, Sood Mays and Lindfield (2012) *Subnational Finance for Infrastructure* ADB Sustainable Development Working Paper 20.

National policy needs to squarely address the issue of city financing and the need for national systems to evolve. But national institutions must ensure that fundamental prudential mechanisms – such as rigorous assessment of debt service capacity – are maintained as the system evolves.

- There is much to be said about the links between serious commitment to decentralization and city finances. In many developing countries, the political commitment to decentralization remains weak if such efforts exist – especially in the case of municipal development funds. The case of Findeter (Financiera de Desarrollo Territorial) in Colombia is instructive as it moved from its roots as a municipal fund to become a sophisticated bank for sub-sovereign infrastructure finance. In developed countries, municipal finance systems have developed mechanisms such as bond banks (Finland, Spain, Sweden and cities in the United States) which act as intermediaries offering guarantees and pooling resources from local and international investors.
- National governments have also encouraged cities to improve their credit rating as a pathway to improved municipal finances and expanded resources,¹ and some cities are aiming for investment grade ratings that can even allow them to access international markets. Mexico is a good example in using city credit ratings as part of its local financing systems for infrastructure.

KEY DRIVERS FOR ACTION

The Way Forward

There needs to be a coherent and internationally supported national process of developing financially sustainable urban systems. These processes need to target the key drivers of urban development discussed above. In the context of well thought out economic development plans, actions need to focus on the areas set out below:

- **Governance reform:** a national process to clarify responsibilities for, and build institutions to deliver and finance urban infrastructures and other services across different levels of government in an efficient, transparent and accountable manner.
- **Expanding endogenous resources:** national and local reform processes to provide opportunities and incentives for increasing the local resource base and efficiency in the use of these resources and of government assets, including enabling local government to access the capital markets and to leverage its funds with private sector resources.
- **Strengthen financial and asset management:** strengthening national and local institutions to encourage more effective management by territorial governments of local revenues and expenditures, and of their assets.
- **Improving urban infrastructure finance systems:** a nationally-facilitated process to expand sources of, and instruments for, financing for capital investments and the recovery of costs from the beneficiaries of such investments.
- **Developing systems for effective use of exogenous sources of finance:** national governments providing the opportunities and incentives for effective use of exogenous resources on the one hand and the conditions for the prudent supply of such resources on the other.

¹ The World Bank has introduced a Creditworthiness activity which includes some face to face workshops (Academy).

SUMMARY

To strengthen global urban financing processes there is a pressing need for:

1. Clear acknowledgement of, and systems to support, the economic primacy of cities at the national level and commitment to appropriately finance urban development so as to achieve sustainable development of the urban economy.
2. Coordinated action to: build effective institutions for delivery; support institutional capacity for planning and finance; and to maximize the integration and efficiency of planning and finance; as well as actions to provide incentives for best use of both own-source revenue and transfers, and leveraging of private sector funding and efficient use of assets.
3. Support from the international community to build a global city network fostering best practice in the above areas so as to maximise the contribution of urban economies to sustainable national and global growth.

PLATFORMS

- World Bank: Municipal Finances: A Learning Program for Local Governments.
- UN-HABITAT: Through the Achieving Sustainable Urban Development (ASUD) initiative follows a three legged approach to sustainable urban development, integrating planning; legislation and finance for planned city extensions and infills. Within the context of finance, the organization focuses on endogenous sources of finance such as property taxes, land value capture, public assess, and other sources of finance, and coordinates with local governments.
- UNCDF: United Nations Capital Development Fund. Works in least developed countries promoting inclusive finance for citizens and local development finance.

The Habitat III Issue Papers have been prepared by the United Nations Task Team on Habitat III, a task force of UN agencies and programmes working together towards the elaboration of the New Urban Agenda. The Issue Papers were finalized during the UN Task Team writeshop held in New York from 26 to 29 May 2015.

This Issue Paper has been co-/led by the World Bank and UN-Habitat with contributions from CBC.

4. Huairou Commission Comments

Issue Paper 7: Municipal Finance

(Comments are reproduced here verbatim.)



HUAIROU COMMISSION
Women, Homes & Community

A. Issue missing from the paper which need to be added, particularly related to women

Magdalena Garcia Hernández, MIRA (Mexico)

In the case of keywords you need to add: gender budgeting, progressive taxes, redistributive fiscal policies and participatory budgeting. Absent is the issue of social participation.

B. Major points (good and bad) that relate to women

Magdalena Garcia Hernández, MIRA (Mexico)

It is necessary to develop good urban policies. The shortcomings of governance systems affecting government operations and classified into three:

1. **Inconsistency of urban institutions:** those that can be addressed with the instrument Statute of Cities, which gives order and coherence in territorial planning. A policy instrument of this nature should regulate the real estate sector manner, to achieve the comprehensive development of neighbourhoods that cover the different needs of women and men in their different age conditions holistically. Additionally institutional coordination alone is not enough to achieve structures geographically coherent, it also requires inter-sectoral coordination (public, private and social sectors) involved women, which favors the vertical and horizontal coordination.
2. **Inadequate structures for integrated urban planning and intergovernmental fiscal relations:** they must be neutralized by virtuous incentives associated with those related to the reduction of carbon footprint, but also with incentives linked to the improvement of urban sustainability indicators gender perspective to be built. In addition, government subsidies in public services are increasingly necessary in areas where their wage policy does not conform to the compensation recommended by the ILO, the regressive distribution of the value generated in the production process, with huge concentration tendencies in short hands, dislocated the subsidy schemes that could be reduced with affective income redistribution policies, which include closing the income gap between women and men.
3. **Insufficient support for building an effective and economically viable urban development process:** what processes can be improved with strengthening citizenship to guide government action continuously, before natural discontinuity periods governance.

At the governmental level, manuals and simple protocols and certification processes for permanent government staff, project management with a gender perspective, defined and constructed in these areas of inter-sectoral coordination are required. Mechanisms and instruments to neutralize the labor mobility of government staff. The type of World Bank projects must be reviewed and validated so that they are relevant to the realities that apply. We also need mechanisms and instruments to neutralize also the labor mobility of government staff.

C. Key ideas that are beneficial to women and relevant to women's issues

Magdalena Garcia Hernández, MIRA (Mexico)

The need to improve public finances through financing, training and local technical assistance to provide better services. The need for improved urban governance. The recognition of the existence of corruption. Points relevant to women's issues:

Municipal budgets from a gender perspective

- Participatory budgeting
- The existence of local development agencies planning the territory, with equal participation of women and grassroots women
- Women's organizations basic moral guarantees as collateral for loans in urban projects financed by credit institutions, which are involved in the design, monitoring and evaluation monitoring

D. Relevance or no-relevance to grassroots women

Magdalena Garcia Hernández, MIRA (Mexico)

It is highly relevant to grassroots women, since they are the main managers of public services in their communities.

E. Engendering the New Urban Agenda

Magdalena Garcia Hernández, MIRA (Mexico)

It's the topic that includes the fact that the main purpose of the municipal finance is providing the welfare of the community that are composed of women and men with a condition, position, needs and different interests to be taken into account to achieve welfare of both.

F. Strengths and weaknesses, editorial comments

Magdalena Garcia Hernández, MIRA (Mexico)

It refers to important issues:

- Weak decentralization
- Poor governance systems
- Weak tax collection
- The underdevelopment of the municipalities to access the capital markets
- The visibility of corruption Not developed

Anything about:

Women and equality between women and men

- Inter-sectoral coordination involving civil society
- Redistributive policies
- The negative impact of the internationalization of the government with the negative effects produce for the "reforms" with the privatization process of public services

G. General suggestions and commentary

Magdalena Garcia Hernández, MIRA (Mexico)

It is necessary to strengthen the principle of federalism linked to the strengthening of local governance that will lead to the existence of mechanisms for consultation, observation and social control.

Conduct participatory budgets with a gender perspective, as already happens in many Latin American countries (Argentina, Brazil, Uruguay) it is further measures necessary. Reducing inequality of income redistributive policies promoted by the three levels of government, will be a measure that results in an increase in government revenue and increased resources for local governments. Exercise of transparency in spending reinforces progress in the tax culture of the population.

The most effective delivery of public services requires the strengthening of municipal governance, to achieve synergies in the provision of relevant and appropriate services to the population accessing their rights, especially grassroots women who are managers quintessential thereof. The international financial market financing of local

governments may be less risky if there are further local development agencies involving civil society in which women, to monitor the type of projects and the exercise of spending involved. Endogenous financial resources for the development of secure, productive and livable for women and men, cities come, largely as a result of productive development policies, wage policies attached to the guidelines of the ILO decent wages. Seeking to increase public resources in conditions of extreme inequality and widespread poverty, the tax burden will fall in captive cause, without improving the quality of life of the population. A better structuring of transfers and mandates for local income generation to promote efficiency in service delivery and resource management for operations and capital investment requires consultation with women and men from the town who contribute to the determination of their immediate and mediate needs in your community. It is essential that governance schemes listed, women have a leading role, according to the ongoing activity in this area developed by grassroots women.

The type of World Bank projects must be reviewed and validated so that they are relevant to the different realities that apply. The agenda of consistent reforms in privatization of public services has not given the expected results, has become more expensive services and their quality deteriorated, with the difference that the resources do not enter the public purse. The informal growth of cities caused by job insecurity and slow economic growth limited the increase in property tax revenues, again, redistributive income policies, reactivate the domestic market and employment and thus the production process and collection corresponding tax.

It would be important that the self-assessment tool of municipal finance from the World Bank include the gender perspective, and social participation, including women in their application. The prioritization of expenditures must respond to social cost and benefit not only to criteria of profitability, in what appears to be a business approach, which is not relevant in public administration. An important instrument to assess the balance in the distribution of municipal spending is provided by the Urban Prosperity Index of UN Habitat, which must incorporate the gender perspective. The regulation of environmental activities, green buildings, eliminating emissions, etc., can be a source of fiscal incentives or charges for penalties that would favor the municipal public finances in the short, medium and long term.

Transportation projects should be considered in studies of the routes, the corresponding women and men of different form, because in this case an average not reflect the route either. Good design of routes, means, also, a good economic recovery in spending, which will contribute to the increase of municipal finances.

To maximize the potential of endogenous resources and strengthening and improving financial capacities of municipalities, it requires no impoverished population, so many redistributive policies must happen: fiscal, productive labor, will be the best way to dispose of allowing local resources to be supplemented by loans with lower leverage. Rigorous evaluation of the ability to service the debt of government authorities must have an inter-sectoral mechanism with equal participation of women, to monitor and avoid excessive debt has led to losses of entire countries. Commitments decentralization can strengthen them by strengthening mechanisms for inter-sectoral involvement in women's participation. It is proposed that the financial sector recognizes the social guarantees given by women's groups to follow up on the implementation of the projects.

On the issue of credit rating agencies of municipal government levels, they must disclose their rating criteria, so that their actions do not exhaust the existing social comptrollers. The reforms of urban governance must incorporate the equal participation of women, with a prominent position of women grassroots main management of urban services. The expansion of endogenous resources requires income and heritage redistribution policies that reduce the social and economic inequalities of gender and ethnicity in the territories. Strengthen financial and asset management through private participation mechanisms for inter-sectoral and social issues, with equal participation of women. Improving systems of urban infrastructure financing using non-onerous resources from development banks. Include collateral from the involvement of grassroots women in the design, monitoring and progress of projects funded credit resources. The support of the international community to build a global network of the city with equality between women and men to become of better generalized practice in the world.

5. Reference 2 – Habitat III Issue Paper 12 concerning Local Economic Development (LED) *New York, 31 May 2015 (not edited version 2.0)*



KEY WORDS

Local economic development, competitiveness, urbanization, equitable development, diversification, resilience, externalities, business-enabling environment, skills development

The sustainability of cities and towns should be based on endogenous growth, and for this a local economic development (LED) approach is essential. Municipalities need to use their own assets and comparative advantages to the full. Yet, this is not always accomplished. This paper aims to raise the awareness about the benefits of an LED strategy for urban areas. While there is a burgeoning literature of LED, it is beyond the scope of this paper to cover all its aspects.

MAIN CONCEPTS

- **Local Economic Development:** LED is a participatory development process that encourages partnership arrangements with representatives from all sectors. It aims to provide a roadmap between the main private and public stakeholders in a defined territory, enabling the joint design and implementation of a common development strategy. The strategy makes use of local resources and competitive advantages in a global context with the final objective of creating a resilient and sustainable city with decent jobs and stimulating economic activity.
- **Economies of urbanization & localization:** Economies of agglomeration have two forms: economies of urbanization and economies of localization. The former entails benefits accruing from different types of companies near each other. The latter entails benefits from companies in the same sector locating near each other. Higher densities of people and firms allow for ideas to flow giving birth to innovation. Density also allows firms to benefit from economies of scale and links to input and product markets.
- **Partnerships and networks:** local economic development requires collaboration among sectors and institutions, individuals and organizations. Success is possible when collaboration is effective, accountable and coordinated.
- **Business-enabling environment:** positive and predictable context in which to do business, where conditions related to policy, institutions, regulations, infrastructure and culture lay the foundations for markets to work.

FIGURES AND KEY FACTS

- Cities generate more than 60% of global GDP and house more than 50% of the population. It is estimated that 600 cities will generate nearly 65% of world economic growth by 2025.¹ For example, 1.9% of the population of China lives in Shanghai and the city produces 13% of GDP.
- Higher productivity results from economies¹ of urbanization and localization, which attract skilled workers, as well as more productive entrepreneurs and firms.² Controlling for skill level of labour force, elasticity of income

¹ McKinsey Global Institute, *Urban World: Cities and the Rise of the Consumer Class*, (2013)

per capita with respect to city population has been estimated to be between 3 and 8%. Smaller cities also have a role to play with medium sized cities becoming centres of manufacturing at mature stages of urbanization. Smaller cities serve as links between larger urban markets and rural areas. A city's competitiveness depends foremost on the strengths of its economic sectors. However, competitiveness also depends on the quality of the governance institutions, including their ability to tax, plan, legislate, and enforce laws, support enterprises and human capital development, and elicit public participation in decision-making. A total of 11 out of 20 of the world's most economically competitive cities also rank as having the highest quality institutions in the world.³

- Youth comprise one of the largest untapped sources of economic potential. Some 262 million youth are economically inactive; and most of these youth reside in cities.⁴ Gender-based occupational segregation persists, as does the gender pay gap; while women, including young women are more affected by unemployment and under employment.
- LED is important to promote a sustainable and inclusive urban economy and consequently to improve the quality of life in cities, and address inequalities between rich and poor as well as gender inequalities. LED is also important to make cities more resilient and ready to address crises. During crises, connections to regional, national and the global economies are particularly difficult.

ISSUE SUMMARY

Decisions taken by city leaders today will be long lasting and hence have the potential of building long-term success or sending their cities down a path of unsustainable development. A high per-capita economic productivity, grounded in the clustering of firms and skilled labour, means cities are regional economic engines. Growing cities could inject up to US\$30 trillion a year into the world economy by 2025.⁵

Given the productivity of cities, rapid urbanization presents a unique opportunity to lift hundreds of millions out of poverty. However, if left to proceed unchecked, rapid population growth can also adversely affect the quality of life by reducing access to good health care, increasing environmental degradation leading to lack of adequate housing, and increasing inequality. This condition contributes to diseconomies (e.g. congestion, pollution, displacement) that over time will affect a city's efficiency, productivity and competitiveness in a negative feedback loop. LED is necessary for cities of all sizes to exploit their strengths. In this context, three interrelated issues are highlighted. First, the overall role of LED strategy must be established. Second, how such a strategy should be geared to promote a business-enabling environment. Third, local capacity building and institutional development for LED are essential.

1. LED is a key urban development strategy

The complexity of the urban environment requires a strategy with a set of instruments tailored to local challenges. City governments have recognized this reality and many are actively taking more initiative in the management of their cities. The decentralized management of cities is becoming more than a practical solution, it is being formalized through national policies that are devolving powers to local governments. However, this is not always accompanied by the necessary access to resources or legal ability to implement new funding mechanisms. The new responsibilities for local government decision-makers and administrators also mean that there is an urgent need to develop local skills and capacity. Local economic development strategies can help city leaders lay the

¹ Rosenthal, S. & W. Strange, "Evidence on the nature and resources of agglomeration economies" in V. Henderson and J. Thisse (eds.) *Handbook of Regional and Urban Economics*, (2004). Vol. 4. Amsterdam: North-Holland, 2119-2171.

² K. Behrens; G. Duranton, F. Robert-Nicoud, "Productive Cities: Sorting, Selection and Agglomeration", *Journal of Political Economy*, (2014) 122 (3), pp. 507-553.

³ The Economist Intelligence Unit, *Hot spots 2025: Benchmarking the future competitiveness of cities*. (2013)

⁴ World Bank Database, <http://databank.worldbank.org/> (Accessed 27 May 2015)

⁵ McKinsey Global Institute, *Urban world: Cities and the rise of the consuming class* (2013).

foundations for long-term and resilient growth by empowering local actors, building capacity, and providing the tools to better manage cities. Local economic development is a critical tool in managing long-term change and enacting short-term fixes.

As a strategy to harness the potentials of a territory and to manage and mitigate the negative externalities of urban growth, LED can help build up the economic capacity of a city and improve the quality of life of its residents. Designing a good LED strategy requires availability of high quality data that can be used to identify challenges and prioritize actions to address them. While specific activities should always respond to the unique needs of the local context, there are core elements, which any jurisdiction should consider as part of a LED strategy¹.

There are important connections between urban and rural areas—related to the workforce, division and exchanges of labour, value chains and capital transfers—which affect the economic and social development of both areas. Urban-rural connections and a territorial approach linking them are important for all. There is a positive relationship between adequacy of infrastructure connecting rural and urban areas and ease of mobility, access to decent jobs and livelihood opportunities and enhancement of urban food security and incomes. Adequate investment in rural-urban infrastructure, particularly transportation and communications infrastructure, also improves rural productivity and allows better access to markets, jobs and public services in both areas.

2. Creating business-enabling environments

A key aspect of LED is to create a positive and predictable business-enabling environment to support well-functioning markets that allow firms to thrive and attract new firms and foreign and domestic investment into the area.

To create this environment, local governments can think about a portfolio of policy instruments including strengthening local institutions and regulatory frameworks, providing the needed infrastructure to support innovation, enhance human capital, and promote the fluidity of markets (e.g. land and finance) while maintaining the cultural conditions and strengthening local identity.

By streamlining or redrafting onerous and out-dated restrictions, and helping smooth the business permitting process, policy makers can lower the barriers to growth and entry for established and emerging firms. This can include simplified and streamlined administrative processes, such as business licensing, land rezoning and development approval, and creating “one-stop business centres” to remove unnecessary red-tape.

Coordinated land use and infrastructure planning is also essential to create vibrant areas where people can reach their jobs with ease. Flexible land use and zoning regulations that adapt to a changing environment and take into account the infrastructure available are also important to support economic development (e.g. office space near the regional core, or industrial land near transportation rail or port facilities). Investing in the necessary infrastructure, including schools, housing, training institutions, hospitals, childcare facilities, recreation facilities, green space, for appropriate servicing of employment lands (e.g. transportation connections, water and wastewater, high speed internet) can further attract new businesses by reducing start-up cost. Regulations that allow financial markets to flourish will also have a bearing on investments.

Additional interventions like providing training in skills, and supporting incubators can also help foster innovation. Finally, an efficient and reliable legal framework that gives confidence to contracts as well as the administration of fair and transparent fees and taxation regimes will provide firms with the stability and confidence they need to make long-term investments in a region. By ensuring a portion of that revenue is invested back into local servicing and infrastructure, a local government can demonstrate the value of private sector investment in an area.

3. Strengthening local capacity and institutional development through LED

In many cases, successfully creating a business-friendly environment requires building local government capacity and increasing municipal self-sufficiency. Cities are increasingly expected to manage more with less as higher-

¹ Guidance on LED can be found for example in the platforms mentioned at the end of the paper.

level governments give more responsibilities to local governments. Rarely are these increased responsibilities accompanied by the necessary increase in skills, capacity or funding. Given this challenge, the importance of empowering local governments and the ability for local institutions to make major contributions to sustained economic performance cannot be overemphasized. The evidence supports this: 11 out of 20 of the world's most economically competitive cities also rank as having the highest quality institutions in the world.

Capacity building in local government includes leadership and management, efficient and transparent tax collection and revenue spending, local asset management, investment planning, and the ability to coordinate local and regional land use and transportation planning. Local government empowered with capacity and tools to implement LED programmes can leverage their local assets and advantages, diversify their economies and expand economic opportunities for their population.

Local governments require support to raise their capacity in developing LED strategies. In addition to traditional cooperation, involving Overseas Development Assistance (ODA) and international organizations, decentralized cooperation, city to city and multilevel partnerships can strongly enhance the value and the sustainability of the strategies developed.

KEY DRIVERS OF ACTION

Based on the analysis of the three broad issues above, a set of action points have been identified to LED:

- Ensure reliable data and careful analysis to drive the strategy. Quality data can improve understanding of the causes and local variation of negative externalities that accompany rapid urbanization and economic growth (e.g. poverty, rising land prices, environmental degradation). Trend analysis and sex disaggregation can help policymakers identify bottlenecks and opportunities. Data on demographics, employment and sector trends, will enable local governments not only to make better informed decisions about land allocation, infrastructure investments and policy, but also provide businesses with the tools they need to do the same. A global data strategy should be developed, involving local, regional and national governments and their associations so that quality, adequacy and accuracy are ensured along with their dissemination.

With the Big Data and IT revolution that the world is experiencing today, cities and local authorities have the opportunity to better understand their challenges on real time, and to steer their economies on a growth trajectory that is responsive and inclusive. But the increasing availability of large amounts of data also poses a challenge for their analysis. It is the analysis of the data rather than data per se that is of great value for a good LED strategy. Such analysis should identify the area's strengths, weaknesses, opportunities and threats. Building internal capacity for such analysis should be considered a key component of a LED strategy.

- Identify comparative advantages and priority areas for investment to leverage the existing assets of a region¹. Priority areas are identified through analysis of the local context that examines comparative advantage, competitive sectors opportunities for value-added activities and available natural assets. By leveraging and expanding local strengths and capabilities to support a city's role as an efficient hub for improving economic competitiveness, LED initiatives can stimulate economic growth throughout the surrounding region and foster urban-rural linkages. Specific activities can involve filling gaps in supply chains and building on sector specific value-chains to reduce economic leakage out of a region, or improving the access of goods to larger markets. Land use designations and policy can be appropriately adjusted to enable high value activities with limited externalities.

¹ Assets can also include intangibles such as history, culture, natural beauty and heritage which can be capitalized to develop and promote the tourism industry. For tourism see for example Conceptual Framework for TSA <http://statistics.unwto.org/content/tsarmf-2008> (accessed 27 May 2015).

- Identify good practices. Global good practices can be adapted and implemented in city-specific contexts through LED. Practices should include those which:
 - Strongly reinforce cities, local and regional governments' capacities to develop inclusive LED strategies such as gender equality and women's economic empowerment.
 - Support a holistic implementation of the decent work agenda through LED.
 - Develop and reinforce networks of exchanges between cities, involving cities of similar size, interest and challenges with the support of relevant international organizations.
- Ensure that local values and objectives drive the development of actions that support the local economy. By conducting economic development at the local level, and as part of a participatory process, partnership and networks between local government, private sector (workers, employers and cooperatives), non-governmental organizations, including those representing the voice of women, youth and other local actors can be constructed and help make good decisions coordinated, broadly supported and thus durable over time.
- Use LED strategies to coordinate land use, transportation, infrastructure and investment planning. Coordinated actions across these lines can help cities overcome the challenges brought by rapid growth. While financing and investment planning are driving concerns for city leaders, investment alone cannot help economic development thrive. Coordinated decisions about land use, transport and infrastructure are essential. This will help local leaders identify the set of policies that will allow cities and their surrounding regions to reap the benefits of economies of urbanization and localization, attract and leverage private investments, and connect people to jobs, while minimizing risk hazards.
- Define and strengthen a full portfolio of instruments that enhance economic development while supporting a high quality of life. This will require as a first step: (a) understanding the trade-offs brought by enhances to productivity and economic growth in terms of costs to liveability and, (b) thinking about a comprehensive set of tools that supports growth and development while minimizing the negative externalities that rapid growth may bring with it (e.g. pollution, congestion, etc.). A comprehensive LED strategy requires a portfolio of instruments that include:
 - Tools for planning and land management, development rights, investments in human capital and innovation. Examples include supporting a business-enabling environment through policy and regulatory reform and effective public investment. Integrate training and education into LED activities.
 - Support to emerging industries and entrepreneurs through job training tools, to create a skilled labour force, advice and support services for potential entrepreneurs (e.g. incubators, one-stop business service centres), and extension services to help businesses modernize and export.
 - Tools to support youth employment creation, linking programs specifically designed to match the needs of local industry and connect students with potential employers.
 - Tools on how financing, including microfinance, and other types of investment can be targeted to achieve larger objectives.
 - Identify the best instruments to enhance efficiency while ensuring equity and minimizing costs is a key input to LED.

PLATFORMS AND PROJECTS

- [UN-HABITAT](#): Urban Economy Branch / Local Economic Development toolkit
- ILO: Local Economic Development LED [page](#)
LED dedicated [portal](#)

- World Bank: Local Economic Development [page](#)
- UNDP: [ART](#) supporting local development

The Habitat III Issue Papers have been prepared by the United Nations Task Team on Habitat III, a task force of UN agencies and programmes working together towards the elaboration of the New Urban Agenda. The Issue Papers were finalized during the UN Task Team writeshop held in New York from 26 to 29 May 2015.

This Issue Paper has been co-/led by the World Bank, UN-Habitat and ILO with contributions from UN DESA, WFP, UNWTO, CBD and UNESCO.

6. Huairou Commission Comments

Issue Paper 12: Local Economic Development



HUAIROU COMMISSION
Women, Homes & Community

(Sangeetha Purushothaman's comments are reproduced here verbatim.)

A. Issue missing from the paper which need to be added, particularly related to women

Sangeetha Purushothaman, Huairou Commission and Best Practices Foundation (India)

- Not enough scope to broaden the definition of LED to recognize women's contribution to Local Economic Development (LED).
- Not enough understanding of how to create an enabling environment to increase women's participation in LED.

B. Major points (good and bad) that relate to women

Sangeetha Purushothaman, Huairou Commission and Best Practices Foundation (India)

Gender-based occupational segregation persists, as does the gender pay gap; while women, including young women are more affected by unemployment and under employment.

LED is important to promote a sustainable and inclusive urban economy and consequently to improve the quality of life in cities, and address inequalities, between rich and poor and also gender inequalities.

By conducting economic development at the local level, and as part of a participatory process, partnership and networks between local government, private sector (workers, employers and cooperatives), non-governmental organizations, including those representing the voice of women, youth and other local actors can be constructed and help make good decisions coordinated, broadly supported and thus durable over time.

C. Key ideas that are beneficial to women and relevant to women's issues

Sangeetha Purushothaman, Huairou Commission and Best Practices Foundation (India)

- Recognition that women's voice is required for LED

- b) Recognition of discrimination against women in terms of gender pay gap and unemployment and under-employment.

D. Relevance or non-relevance to grassroots women

Sangeetha Purushothaman, Huairou Commission and Best Practices Foundation (India)

The paper does not have an understanding of:

- a) Barriers and contributing factors that influence the effective participation of women in LED
- b) How women's participation can contribute to LED
- c) What solutions, policies and programs can increase the effectiveness and quality of women's participation in LED

E. Engendering the New Urban Agenda

Sangeetha Purushothaman, Huairou Commission and Best Practices Foundation (India)

Not enough. It recommends partnerships and local participatory economic development that increases the voice of women and other marginalized groups in LED. It does not say how. Namely the importance of involving mobilized groups of women, of conducting gender needs assessments, of adequate measurements that capture women's contributions to LED, especially the invisible work that women engage in which is not acknowledged and therefore not measured.

F. Strengths and weaknesses, editorial comments

Sangeetha Purushothaman, Huairou Commission and Best Practices Foundation (India)

Weaknesses:

- a) Not enough scope to broaden the definition of LED to recognize women's contribution.
- b) Not enough understanding of how to create an enabling environment to increase women's participation in LED.

G. General suggestions and commentary

Sangeetha Purushothaman, Huairou Commission and Best Practices Foundation (India)

The importance of involving mobilized groups of women, and conduct gender needs; they require assessments. Needs for adequate measurements that capture women's contributions to LED, especially the invisible work that women engage in – which is not acknowledged and therefore it is not measured. Need to evolve solutions to increase women's participation in LED.

Need to understand barriers to their participation and evolve policies that create an enabling environment for women's increased participation.

End of Report

EAROPH-Australia bulletin Co-editors: KC Leong and Coralie Leong. kcleong7@gmail.com