New Urban Agenda Area:
Contributions to the Implementation of Issues Papers:

7. Municipal Finance and 12 Local Economic Development

To achieve the Sustainable Development Goal/s:
- SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- SDG 11: Make Cities and Human Settlements inclusive, safe, resilient and sustainable
- SDG 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development

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INTRODUCTION – UNDERLYING PRINCIPLES FOR MUNICIPAL FINANCE AND LOCAL ECONOMIC DEVELOPMENT

The Issues Papers have tended to apply a top-down approach in addressing how to build municipal finance and local economic development. They highlight systemic, institutional, and infrastructural reforms, yet they do not shed light on how to actually engage the *locals* in the development of their own economy. Essentially, the issue papers on *municipal* finance and *local* economic development seek to achieve sustainability, resilience, and inclusivity, but do not mention the means required to achieve this inclusivity. Engaging the community cuts across all the SDGs mentioned above, as bottoms-up participation is a major point that needs to be at the heart of the New Urban Agenda. As such, building a robust base of engaged citizens is one of the main issues that Habitat III should address.

Issue paper 7 highlights the need to utilize local assets and resources to build sustained and sustainable municipal finance. In order to do so, information about what and how the population base can contribute to economic development is crucial, as human capital is key to ensuring sustained growth. Such information is the most exhaustive and detailed when the people that make up these municipalities and communities report on their own skills, as only they know best what they can contribute, especially in informal settlements where governments have limited, if any, local knowledge.

Another issue mentioned is improving urban infrastructure financial systems to be more effective and sustainable, yet financial systems can never attain that if they do not go hand-in-hand with the development of communities and the people that utilize them. Property tax is identified as a source of revenue for municipalities; however, in many countries property rights are still muddled, and people are increasingly living in informal settlements, struggling to belong in what constitutes the 'formal' city. To truly build robust, resilient, inclusive, and just cities, we need to look at who is included and who is excluded from the city. Reforming property rights, as a long-term goal, is a key pillar to achieving sustainable, inclusive, and productive cities.

Embedding a bottom-up empowerment model for development requires some new thinking about allocation of resources. Needs based funding is often the platform for allocating resources, and this gives incentives for local data collection that validates impoverishment. There may be minimal return on such investment in terms of improving community wellbeing. A different model would be based on investing in “what works”, with funding options being assessed on the basis of demonstrated effort and commitment at the local level. Models for what works have the potential to lead to broader application through upscaling or adaptation, though this needs to recognize that each locality will have its own critical success factors and pitfalls to be avoided.

The work of Slum Dwellers International in community-led data collection processes of enumerations, community surveys, and censuses serve as a good example on how to let communities map themselves and generate their own data that they can then use to mobilize and organize themselves into federations and, more importantly, engage with more powerful stakeholders. By being the active generators and possessors of the data that represents them, they build political clout that allows them to participate in decision-making processes. In this way, they try to shape their environment by pushing for policies and projects that truly reflect their needs, thus contributing to the establishment of resilient, inclusive, and sustainable cities. The engagement of the community does not even have to be limited to official government institutions, but can also extend to private stakeholders in the form of public-private partnerships as a more innovative form of collaborative governance.

Underlying Principles

1. Drive local development processes through community participation mechanisms so as to build resilient, inclusive, and sustainable economies from the bottom up.

2. Develop financial systems and institutions at the local/municipal level that are rooted in the needs and capabilities of the communities involved and that work with the people not against them.

3. Reform and support property rights so that communities have an expanded asset base, as well as increased means of accumulating capital, gaining employment and contributing to the development of their local economies.

The following Policy Papers present concrete actions that can be included in the New Urban Agenda which apply these principles to particular components of development. The authors who have contributed to these papers are identified in the Appendix, together with some of the key reference texts that underpin these recommendations.

MUNICIPAL FINANCE IMPLEMENTATION STRATEGIES

7.1 FRAMEWORK FOR MUNICIPAL TAXATION
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7.1 FRAMEWORK FOR MUNICIPAL TAXATION

Increased autonomy at a local level results in better access to services and increased range of services[i]. The foundation of autonomy is access to a predictable flow of funding that can be used to provide current services and allow planning for future growth.

Local government funding usually derives from a mixture of locally raised taxes, fees and charges for services delivered, interest on investments, development contributions and financial contributions and subsidies and grants (transfers) from national and/or state governments.

The foundation requirement for effective and sustainable municipal taxation is a well-defined framework that allows taxes to be levied in accordance with good policy design principals. Land based taxes are, in many countries, a primary source of local government revenue. Regardless of the system of land tenure in a jurisdiction, effective application of a taxation system requires a framework that allows land usage, economic ownership and value to be identified. With such a framework in place a taxation liability can be established and, with an effective judicial system, enforced.

Where local governments seek to impose taxation other than by a land-based system, national and state based frameworks can be equally important. One example is vehicle registration and the imposition in London of the United Kingdom's local congestion taxes. In addition the framework for receiving grants and subsidies as transfers from other levels of government must ensure funds flows are predictable and transparent over the long-term to support municipal planning.

National statistical frameworks with robust integrity that gather data on population and economic activity are also integral to successful municipal government. Population based systems attempt to provide a per capita level of service. The aim is for economic activity generated by increases in population to pay for the services. Decreasing population and changing demographic affects the mix and costs of municipal services as well as the affordability of taxes and fees and charges. Key points in data collection, such as a national census, instigate revised plans of local governments, including infrastructure, finances and responsibilities. Large changes in population may result in a reconfiguration of the city's boundaries to meet economic and environmental needs.

Policy requests and commitments:
Commitment is required from national and state governments to establish and preserve the integrity of such frameworks. Where a city cannot provide population based levels of service, alternative bases, such as minimum services in line with the sustainable development goals, are funded with assistance from development partners.

Action framework
Taxation systems need to be accountable in terms of "who pays and who benefits" and flexible enough to keep pace with changing urban dynamics.

Measures of success
The community accepts that a fair system is in place which pays for essential urban services and infrastructure. *(SDG 11: Make Cities and Human Settlements inclusive, safe, resilient and sustainable)*

7.2 DEVOLUTION OF RESPONSIBILITIES AND FUNDING BE COMMENSURATE

Major Issues and Observations: The devolution of responsibilities to local authorities must be accompanied by adequate fiscal decentralization and strengthening of capabilities at the local level.

Policy requests and commitments

Governments should pursue the following practices.

- Expand endogenous resources – promote national and local reform processes to provide opportunities to diversify local tax bases, and incentives to increase the efficiency in the use of these resources and of government assets. Land-based resources should also be explored, through the use of precisely-defined and well-framed land and real-estate valuation mechanisms. This increase in local power must come with strengthening of human capacity, transfer of technical and technological tools, and more local autonomy, in particular in low and middle income countries where the investment gap is wider.

- Strengthen financial and asset management – strengthening national and local institutions to encourage more effective management by subnational governments of local revenues and expenditures, and of their assets, through capacity building and an enabling legal framework. Subnational governments need to be empowered to amend and levy local taxes, set services tariffs, negotiate with private partners and donors to access different financing sources and develop innovative financing models.

- Improve urban infrastructure finance systems – a nationally facilitated process to expand sources of, and instruments for, financing capital investments and recovery of costs from the beneficiaries of such investments. Strong and transparent municipal financing institutions enable local governments to improve their creditworthiness and reach borrowing capacity that meets investors' criteria and offer on the financial markets. Indeed, mechanisms like municipal development funds and municipal banks have a better efficiency in leveraging access to credit or capital markets for long-term investments in infrastructure, that effectively meet cities' needs.

- Develop 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.

Action framework

Governance reform – A national process to clarify responsibilities for, and build institutions to deliver and finance urban infrastructure and other services across different levels of government in an efficient, transparent and accountable manner. This requires the administrative division that matches the scope of perimeter of local development, economic and residential. This also relies on the availability of transparent and reliable data on local finance at the national level.

Measures of success:

Improve local governments' **transparency in resource management** by promoting easier and better access to data on local finance to use in planning and by creating national financial reporting mechanisms. This provides local and central governments with a knowledge management and analytical tool on local finance, and enables them to benchmark their financial performance and to develop their own strength/ weaknesses analysis, as regards to fiscal and budgetary autonomy and local fiscal management. *(SDG 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development)*

7.3 AUTONOMOUS CITY GOVERNANCE

Observations

Cities are generally the legislative creature of another jurisdiction, and "cities" are expanding rapidly across their administrative boundaries, creating mega cities of a number of municipal administrative entities.

Cost shifting can occur between levels of government. For example, in the following areas the expectations of local government may not be matched by funding:

- the withdrawal or reduction of financial support once a program is established, therefore leaving local government with the choice of continuing a program or suffering the political odium of cancelling the service;
- the transfer of assets without appropriate funding support;
- the requirement to provide concessions and rebates without compensation payments;
- increased regulatory and compliance requirements; and
- failure to provide for indexation of fees and charges for services prescribed under state legislation or regulation.

Own-source revenue rarely covers the expenditure demanded of cities. It may include: • taxes imposed by local government; • user charges, fees and fines; and • commercial activity. The higher the proportion of own sourced revenue, the greater the autonomy of city administration and local governments generally.

Funds received from other levels of government include shared taxes, imposed by the federal or State government, from which a proportion of the revenue is allocated to local government; unconditional grants; and conditional grants.

Where functions are decentralized, cities can be left without resources or sources of funding to deliver the decentralized services. If sustainable development goals are to be achieved, they need the active participation of autonomous city administration and local governments.

Policy Requests and Commitments

National governments should ensure certainty of funding to city administrations through constitutional recognitition or through access to funding that is reliable and predictable over the long-term.

Each level of government should codify fiscal arrangements through which funding is provided by national and state levels to local governments, including cities.

Action Framework

Ensure the responsibilities of cities to deliver services and functions are matched by access to funds.

Measures of Success:

Costs of the collection of local taxes, fees and charges and commercial charges reduce. Successes in cities are lauded and scaled for implementation in other cities. *(SDG 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development)*

7.4 RAISING OWN-SOURCE REVENUE

Observations

The autonomy of cities is maximized where the level of own-source revenue is high. One source is by capturing benefits from increasing land values for redistribution and urban investment.

City administrations with financial and regulatory control over real estate projects depend on the land resource base and benefit from integrated and coordinated planning, master-planning and financial capabilities. Committees of interested stakeholders including financial institutions can engage with communities that have an economic stake and voting right in the land based projects that affect them.

Without coordinated planning, the interests of informal stakeholders may be splintered and unconnected to formal democratic accountabilities. Financial (windfall) benefits from increasing land values may flow to land owners without regard for urban investment requirements.

Funding investments requires access to loan funding. Accessing loan funds requires the city to have specialist financing capabilities as well as the ability to manage financial instruments in partnership with private consortia. This capacity is not always present. Models where specialist fundraising entities serve a number of cities, local governments and state owned corporations by, for example issuing bonds, managing loan documentation and negotiating interest rates and repayment details, can spread the risks across cities and even jurisdictions and provide cities with more financial certainty.

Policy requests and commitments

1. Specialised bond-raising / financing specialist / project management entities be established to raise funds for cities and manage the risks of the pool of cities in the jurisdiction.

2. The efficiency of tax collection be considered in determining sources of own-source revenue.

3. City administrations raise property taxes, fees and charges with reference to the equity and long-term impact on residents.

4. City administrations consider introducing betterments taxes and infrastructure charges on major land development projects at an early stage in the urban development process.

Action framework / Modalities of Implementation

- Municipal finance partnership arrangements across levels of government and with the private sector.
- Bond raising and management by specialist entities able to manage risks
- Fund raising commensurate with development requirements and targeted to development needs.

Measures of success:

Cost of borrowing by cities reduces, and financial stability of cities increases.
(SDG 11: Make Cities and Human Settlements inclusive, safe, resilient and sustainable)

7.5 MUNICIPAL FINANCE: LAND BASED TAXATION

Observations

It is essential that local governments have a financial capacity to provide goods and services for their urban residents. One of the ways of achieving this is through taxation based on ownership or occupation of land. This is not necessarily a modern phenomenon, as many customary land tenure systems include payments to rulers for the right to either acquire or to occupy land. If the traditional systems endure, it should be recognized that local government taxation of land may operate as a second layer of payments.

Taxing land owners on the basis of a notional value attributed to the land they own is a common system of taxation in some countries. This can take the form of local government rates, government land tax, or both. These forms of taxation base their taxation levels on the assumed capacity of landholders to pay, but there are sometimes adjustments that have to be made (for example exemption of low value holdings from taxation, concessions to elderly people). Failure to pay taxes can sometimes lead to legal proceedings resulting in government seizing ownership, though this may be politically controversial. This method has been used in some jurisdictions to "legally" acquire the land of indigenous peoples and therefore governments need to recognize this history and use the imposition of land tax within an ethical context that guarantees land to its rightful owners.

Taxes based on occupation of land are often an alternative to taxing land ownership, though sometimes both operate side by side. These are often termed poll taxes. There can be problems identifying who should pay, particularly within populations that are transient. Taxing each household rather than each person may be easier, but not necessarily equitable. Taxing ownership may be less of a burden on poor households, so that poll taxes may exacerbate inequalities in wealth.

Taxing profits made from increases in land value ("betterment"), for example as a result of urbanization, is a strategy that has much appeal in terms of equity, but governments have generally been reluctant to apply this approach. It can be offset by payment of compensation to those whose land value decreases as a result of development (for example resumption for road building). It may be easier to establish a regime for betterment taxes if this is done early in the urbanization process, as part of the spatial planning framework, rather than leaving this until after some landowners have made substantial profits without being taxed. Some jurisdictions tax the capital gain on land sales, exempting residential dwellings.

Policy requests and commitments

1. Land based taxation systems be established as early as possible in the urbanization process, in parallel with spatial planning, so that there is consistency and equity about who pays and who benefits.
2. Local governments design systems that are demonstrably accountable and fair, having regard to:
   - avoiding doubling up on taxation between different layers of governance
   - establishing taxation regimes that are within the capacity to pay of those being taxed
   - establishing an adequate resource base for funding infrastructure and services.
3. Consideration should be given to introduction of betterment taxes that provide funds for compensation payments, to reduce the inequity between "winners and losers" from urban development.

Action framework
There is substantial documentation based on experience that can be used by local governments wanting to design or redesign their land based taxation systems. There is a need to pull this together in the form of a toolkit that can be used by newly urbanizing jurisdictions, or directed by national governments.

Measures of success
Funds collected by local government will be adequate to provide essential infrastructure and services for all city residents, using systems that are accepted by the public as a whole. (*Relevant to all SDGs)*

7.6 NEGOTIATING PARTNERSHIPS

Observations

Mobilizing resources for local government to provide urban infrastructure services will often require negotiating partnerships with the private sector, and these are often referred to as Public-Private Partnerships (PPPs). Some of these have been very successful, but there are other examples where local government has suffered loss of long term income streams and disproportionate loss of short term benefits, in the rush to secure resources. Local government should exercise due diligence to ensure that:

- the objectives of the negotiating parties are clearly stated from the start
- there is a mutually beneficial overlap of end results
- there is equity in who pays and who benefits in the short and long term.

In 2001 the World Bank published a series of reports on the global lessons to be learnt from tri-sector agreements, combining resources from the public, private and community sectors. It was found that this cross-sector combination can provide synergy, adding value to the sum of the individual resources of the different sectors. However for these agreements to be negotiated effectively it was often necessary for non-government organizations (NGOs) to act as advocates for the local community, ensuring that the most disadvantaged people were given a voice. It was also found that these agreements are most successful if each party clearly identifies and put on the table the resources they are able to contribute to an agreement, recognizing their own underlying interests. For example, a private sector company's motivation for negotiating an agreement with the community may be to provide a "social licence to operate", not necessarily because of its philanthropic aims, and this should be clear from the start. A community's motivation may include self-determination as well as gaining benefits from external resources, and the best agreements can access significant self-help resources.

Rapid urbanization presents a significant challenge for local government in sourcing funds for provision of infrastructure, and it is unlikely that taxation or other fees and charges will be sufficient. Seeking partnerships across sectors is likely to become increasingly important in future.

Policy requests and commitments

- The World Bank promotes appropriate processes for negotiating partnerships drawing on its previous Business Partners for Development workbooks.

- Specialist financial and project management entities develop the capability to negotiate PPPs act on behalf of city administrations to ensure the required infrastructure services are available to expanding cities.

Action framework

The World Bank Business Partners for Development workbooks provide a useful framework for local government, the private sector, non-government agencies and community groups to ensure successful outcomes from negotiated partnership agreements.

Measures of success

Local governments double the resources available for infrastructure, through securing effective cross-sector partnerships. *(SDG 9: Build Resilient Infrastructure, Promote Inclusive and Sustainable Industrialization and Foster Innovation; SDG 11: Make Cities and Human Settlements Inclusive, Safe, Resilient and Sustainable)*

7.7 ESTABLISHING THE NEED FOR INFRASTRUCTURE

Observations

Building infrastructure and new buildings and providing residents with public assets provides opportunities to expand endogenous resources. Capital investment, of itself, is assumed to create growth. But is this so? Especially if the revenue of the city is not sufficient to pay for, operate and maintain these assets to ensure citizens and visitors can enjoy their benefits. With the privatization of services, there is a risk that city governments become enablers for private sector activity, rather than providers of valued services.

The ability of a city to demonstrate the benefits it provides depends on the information it collects, collates and is able to report. The Asian Development Bank (ADB) has stressed the importance of knowledge management in its Urban Operational Plan. There is a good reason for this. Without good information, the actual costs of services cannot be identified, and the real benefits cannot be captured[ii].Green Cities[iii], Inclusive Cities[iv], and Competitive Cities[v] cannot be created without a way to monitor and evaluate how objectives are being successfully achieved. These benefits can be communicated to residents and will eventually replace the cruder "photo opportunity" of politicians announcing new infrastructure projects.

Policy requests and commitment

City administrations to prepare long-term plans that:

- Describe the city's activities and the community outcomes it aims to achieve
- Establish infrastructure needs to serve required purpose and deliver community benefits
- Show accountability to the community.

Action framework / Modalities of Implementation

Long-term planning is required of local government in New Zealand. This can serve as a model.

Measures of success;

The proportion of infrastructure projects that demonstrate economic, social, environmental and cultural benefits increases. (SDG 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development)

7.8 MAINTAINING INFRASTRUCTURE

Observations
Inadequate infrastructure maintenance has long been recognized as a challenge. The premature deterioration of infrastructure affects lives. It can translate into fewer people having access to health clinics; fewer children going to school; deaths from vehicles colliding when negotiating pot holed roads; and disease resulting from the contamination of water sources because of blocked drains, untreated sewage, and the exposure to hazardous waste.

The demand for new maintenance worldwide exceeds US$1 trillion a year. The World Bank states: "*Over 1.3 billion people—almost 20 percent of the world's population—still have no access to electricity. About 768 million people worldwide lack access to clean water; and 2.5 billion do not have adequate sanitation; 2.8 billion people still cook their food with solid fuels (such as wood); and one billion people live more than two kilometers from an all-weather road. This strong unmet demand for infrastructure investment in EMDEs is estimated at above US$1 trillion a year*".

Estimates of the resources required for infrastructure maintenance range from an average of 2.5 per cent of gross domestic product (GDP) in middle income countries to 3.73 per cent of GDP in low income countries. The amount required varies across types of infrastructure, with many maintenance budgets being estimated as a percentage of the total asset replacement cost. Estimates vary between 2 – 8% depending on the sector, with energy, rail and road assets requiring approximately 2% expenditure each year, waste management, water and sanitation requiring approximately 3%, and telecommunications requiring up to 8%.

Maintenance creates more sustainable employment than short-term construction. It also builds resilience, autonomy and local capacity regardless of the sector providing the maintenance services.

Policy requests and commitments

1. Governments and donor agencies should require all new significant infrastructure projects to include a maintenance plan and estimate of future maintenance costs.

2. Governments should review the needs of priority maintenance and basic service provision to ensure the integrity of services which would otherwise be compromised if maintenance is not routinely undertaken.

3. Professional bodies should build local capacity for maintenance planning, budgeting and implementation.

4. All asset owners should keep asset registers up-to-date, and assess the condition of all assets and required maintenance work and regularly.

Action framework / Modalities of Implementation
Pacific Regional Infrastructure Facility has worked with Pacific Island Countries to manage their maintenance and can provide a framework for action that can be scaled to all countries as it is integrated into full communities.

Measures of success: Targets for downtime of infrastructure services reduced and met. (*SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation*)

7.9 FUNDING INFRASTRUCTURE MAINTENANCE

Observations

Infrastructure assets can last for decades, increasing economic and social welfare, but without timely maintenance and renewal, functionality will rapidly decline and the asset will be lost. Where the asset has been built with borrowed funds this can often mean that the costs continue long after the asset has ceased! Where it has been built with donor funds, it discourages future donors.

Forward planning for infrastructure maintenance and renewal is necessary to avoid this gross wastage. Traditional depreciation accounts for the use of infrastructure but does not provide a fund for renewal. However Condition based depreciation, which is based on the cost of maintaining functionality over a reasonable forward period, is designed to assess the funding that needs to be recovered to ensure the correct level of maintenance and renewal takes place.

Condition based depreciation is independent of valuation. It is based on asset management plans that forecast the resources needed to maintain existing function over a future time period. For councils this has typically been 5 years and for water utilities, 10 years, but the period itself is flexible. Information required is limited to an estimation of the age of the asset or component, an estimate of the economic life, and an estimate of the renewal cost. Annual estimates are based on a share of the rolling 5 or 10 year projections and are revised every year

Condition based depreciation, used for many years in New Zealand, encouraged the development and use of asset management plans, which has contributed to New Zealand's advanced standing in asset management today. Condition based depreciation also provides a baseline from which future asset management improvements can be both projected and measured.

Policy requests and commitments

4. Governments to require/permit organizations to use the Condition based depreciation measure for depreciation, provided that it is supported by a well-developed asset management plan.
5. Local governments to prepare auditable asset management plans
6. Donor agencies to require or fund the appropriate level of condition based depreciation to maintain asset functionality.

Action framework

The substantial work carried out by Australia and New Zealand can be used as a basis for developing principles on how government and donor agencies can ensure that infrastructure assets maintain their functionality. These principles can be recommended for adoption by all governments and donor agencies.

Measures of success

Adoption of auditable asset management plans by all councils and other infrastructure providers. Adoption of asset management training to help reduce and manage renewal and maintenance costs Recognition by donor agencies of the value of ensuring their support for infrastructure is not whittled away by poor maintenance and untimely renewal. (SDG 9: Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation)

7.10 MUNICIPAL WASTE MANAGEMENT

Observations

Management of all types of waste (solid, liquid, marine, hazardous) arising from urbanization is a critical issue, with poor sanitation having a severe impact on human health as well as amenity. Removal of nightsoil is a high priority, to prevent pollution of groundwater or streams used for drinking water as well as removing breeding grounds for insects and harmful micro-organisms. Solid wastes can also fester and create health risks if not appropriately managed, though there are important opportunities for recycling some solid waste streams. Marine wastes can pollute fishing grounds and hazardous wastes pose a problem for the safe storage of volatile material.

Provision of septic tanks or sewerage systems and their maintenance is essential for healthy urban housing. This infrastructure needs to keep pace with population growth, as an overflowing system creates the same health problems that the infrastructure was intended to avoid. This is relatively expensive infrastructure, but even more so if it is not planned in advance or maintained. As an interim measure, provision of communal composting toilets could be considered.

In low income areas much of the domestic and commercial solid waste is organic, capable of being composted to produce a valuable resource, or in some cases fed to animals or used to produce biogas. One of the obstacles to this is the proliferation of plastic bags distributed by shops and market stalls. While this is an entrenched problem, it can be addressed cost effectively. In general, with relatively little financial assistance, communities can address solid waste management on a self-help basis, funded by recycling activities.

Residual solid wastes can be disposed of in controlled landfill operations, but there are alternatives such as high temperature incineration that convert waste to energy, which are preferable in the long term.

Policy requests and commitments

1. National, regional and local government work together to ensure that urban communities are provided with infrastructure for sanitary disposal of nightsoil, as a matter of high priority.

2. Local governments maximize opportunities for recycling solid wastes, including placing a ban on plastic bags that contaminate organic wastes where appropriate, and encouraging local recycling micro-enterprises.

3. While sanitary disposal of residual wastes in controlled landfill operations is preferable to exposed rubbish tips, governments to invest in appropriate waste to energy technologies that are more sustainable for the long term.

4. Donor agencies assist in identifying and funding technologies and infrastructure that is appropriate for particular local circumstances.

5. Governments, donor agencies, local communities and private sector work together to reduce waste generation and to identify means for the safe management of waste created.

Action framework
A shared action framework for all agencies is to aim for elimination of all solid, liquid, marine and hazardous waste streams through recycling supplemented by waste to energy projects, and to eliminate waste, for example untreated night soil, from densely populated urban areas.

Measures of success
Local health improvements through reduced incidence of cholera, dysentery, gastroenteritis, scabies etc. (SDG 9: Build Resilient Infrastructure, Promote Inclusive and Sustainable Industrialization and Foster Innovation; SDG 11: Make Cities and Human Settlements Inclusive, Safe, Resilient and Sustainable)

LOCAL ECONOMIC DEVELOPMENT IMPLEMENTATION STRATEGIES

12.1 LOCAL ECONOMIC DEVELOPMENT PROCESS & TOOLS
12.2 FORMALIZING THE INFORMAL
12.3 MICROFINANCE
12.4 CREATIVE INDUSTRIES
12.5 FRESH PRODUCE MARKETS
12.6 HOUSING & INFRASTRUCTURE AS AN ECONOMIC DRIVER
12.7 RURAL-URBAN ECONOMIC LINKAGES

12.1 LOCAL ECONOMIC DEVELOPMENT PROCESS AND TOOLS

Observations

Even the poorest communities have the capacity to develop an effective economy. This is based on the cumulative spending power of local residents, however meagre this might be at the level of the individual household, and harnessing this through the multiplier effect to create local suppliers of goods and services. This can improve local self-reliance and build local incomes, with particular benefits for women and young people. There are many manuals providing guidance on the Local Economic Development (LED) process, which can be used within communities of all income levels. It is a process of local empowerment, but informed by what works and what doesn't work. There should be concern that historically investment has often been made in single enterprises rather than whole economy building, and this is not optimal because:

- individual enterprises cannot thrive without good knowledge of local markets, the support of appropriate enterprise infrastructure and linkages to other components of the required supply chain
- there is a high level of risk for any individual enterprise operating without a framework that recognizes the strengths and weaknesses of the local economy, including its resources and consumer demands
- without knowledge of the full range of opportunities for enterprise innovation, individual entrepreneurs may opt to start an enterprise they are familiar with, within a market that may become saturated with this type of enterprise
- there may be vested interests amongst companies outside the community which prevent small scale local enterprises from flourishing without some initial support.

Policy requests and commitments

1. Governments and donor agencies should assist local communities and NGOs in putting LED processes into effect.
2. NGOs should work with local communities in establishing an LED framework as a priority before assisting in the establishment of individual enterprises (for example, through microfinance or other assistance).
3. UN Habitat should update and publicize available manuals on LED, with case studies, to assist in selection and application of appropriate models for local circumstances.

Action framework

The LED process should be recognized by all stakeholders as a foundation for local community empowerment, with benefits flowing through to all aspects of community wellbeing.

Measures of success

Potential entrepreneurs in local communities have access to information about local resources and markets, leading to an increased success rate for establishment and long term sustainability of local businesses. This results in a local multiplier effect from investments coming into a local community of at least 1:3. (*SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all)*

12.2 FORMALIZING THE INFORMAL

Observations

The informal sector commonly provides incomes for the poorest people in the city, particularly women and young people. This sector of the economy is classified as informal because the participants do not have registered companies, often pay no taxes, and sometimes operate outside regulations. As these businesses grow, they may develop a capacity for formalization within the regulatory and taxation framework.

There are many grey areas. For example market stall vendors and some street traders often pay fees to local government or others, and are bound by operational rules, but they are usually classed as informal businesses. In developed countries some businesses that operate from home, or from "business incubators", operate outside formal structures. There is some confusion between the informal sector, which operates outside the regulatory framework, and the "black economy" which may be based on criminal activity.

It is in the interest of local and national economies in both developing and developed countries that the informal sector operates as an incubator for legitimate small businesses, but that its participants are encouraged to grow their businesses, become formalized, and contribute to the broader economy.

The value of the informal sector is often downplayed, despite the fact that there are many jurisdictions within which the informal sector provides more jobs and more income for poor households than the formal sector does.

Policy requests and commitments

Governments at all levels should:

1. review their regulatory practices for small business to ensure that business registration is accessible to all small businesses

2. ensure that fees and charges imposed on small businesses are within the operator's capacity to pay

3. facilitate the growth of the informal sector rather than closing down informal sector businesses or physically moving them on unless this is clearly in the public interest (for example, as a matter of safety).

Action framework

The role of the informal sector as an essential part of the economy should be recognized, as it provides jobs and employment for the poorest in the community and serves as a business incubator for the whole community.

Measures of success

There is a clear pathway for informal enterprises to grow and become formalized, increasing their capacity to provide jobs and to contribute to local and national economies. (SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all).

12.3 MICROFINANCE

Observations

Microfinance is a set of financial practices serving those without banking services. The potential of microfinance lies in its ability to sidestep government interference, lower poverty levels, target those groups most in need and empower local communities by developing financial and political participation. Most recently, consumer protection and financial capability have emerged as key objectives, while donors are shifting from direct provision of funds for loan capital and operating subsidies to facilitation of enabling environments, suppling information and financial infrastructure and making room for the private sector to manage and distribute loans. However, the impact of microfinance on poverty has its limitations; low levels of participation persist. They are explained, in part, by persistent barriers to inclusion. There is also a need to enhance security, flexibility and certainty of finance.

The broader view must be taken. Institutional and regulatory settings as well as the intricacies of local customs and obstacles need to be understood and if necessary changed. This extends to the development of supply chains for products created with the assistance of microfinance.

Some of the key challenges recently identified concern:

- the need for improved program design, including removing mismatches between what is provided and what is needed;
- better understanding and incorporation of political and cultural contexts which have particular local expressions;
- introduction of methods to avoid and resolve conflict over priorities and implementation;
- loan default and lack of incentives to repay;
- those most in need (informal sector workers, petty traders, poor women, politically or religiously marginalized groups) being denied loans due to their 'risk assessment';
- the distribution of loans on the basis of ability of need rather than a preoccupation with the requirement for timely repayments;
- unwieldy and unnecessary regulation in some cases (for example, a need for identity cards, land certificates for resident permits) and lack of regulation in other cases (of accountable NGOs);
- divergent views and approaches of consultants versus NGOs;
- high turnover of staff;
- lack of engagement with pre-existing organizations such as women's groups and other volunteer networks who have experience in microfinance;

Policy requests and commitments

To improve the situation, the following recommendations are made:

- strengthening of security of tenure;
- introduction of reasonable repayment timeframes;
- streamlining of regulations;
- coordination of consultants and NGOs;
- ensure community-based organizations involved in micro-credit schemes have adequate and appropriate education and skills that enhance their general capacity, management ability and knowledge, particularly of finance and computer literacy;
- encourage ownership of schemes through both user contributions and savings regimes;
- maintain realistic levels of interest;

- develop better understanding of customs and practices of household management and expenditure of finance.
- investigate technology (mobile money, biometric identity systems, smart phones, and wireless broadband Internet access) that can assist assessment, distribution and management of funds;
- more flexible arrangements in what loans can be used for, for example, immediate unforeseen misfortune such as illness.

Action framework

NGOs to:

- encourage more potential lenders in order to increase competition, therefore improving products and lowering interest rates;
- provide adequate training, including arbitration mechanisms and skills;
- require collateral for loan eligibility;
- review regulations;
- put in place regular communication between all parties;
- donors, investors, practitioners and academics to convene to assess and develop microfinance strategies, programs and methods of delivery.
- savings of beneficiaries are linked to income derived from loans from which loans themselves are drawn;
- introduce incentives to retain staff;
- firmly identify target groups by quarantining loans for specific groups only and requiring that those groups are represented in management structures;
- set targets of increased outreach;
- health insurance, education and skills transfer are built into microfinance packages.

Measures of success:

- staff remain engaged in the one project for several years;
- training has been completed;
- regulations have been reviewed;
- meetings are conducted regularly;
- management structures include target group representatives;
- targets are met to increase outreach;
- better standards of health, education and skills in communities engaging microfinance.

12.4 CREATIVE INDUSTRIES

Observations

"*Cultural resources are replacing natural resources as the primary raw material of economic growth. Where timber, iron and oil once ruled, knowledge, creativity and design are establishing themselves as the crucial sources of added value*." (Matarasso, 1991)

The World Commission on Culture and Development estimated that manufacture of handicrafts based on cultural heritage accounted for nearly a quarter of all micro-enterprises, providing a livelihood for millions of people, particularly women. The resources that support these and other cultural industries are readily accessible to people, and participation can provide dignity and respect as well as a vital livelihood.

Although many cultural industries are based on the heritage resources of the past, they can also reinterpret heritage and project into the future, ensuring a dynamic and creative environment for industries based on contemporary cultural identity. However with rapid urbanization comes the danger that heritage resources and cultural identity will be lost.

The Stockholm Action Plan for Cultural Policies on Development, 1998 included action to renew and reinforce national commitments to applying UNESCO's Conventions and Recommendations on the conservation of the moveable and immoveable heritage, on the safeguarding of traditional and popular culture, and on the status of the artist and linked issues. This action is still essential for protecting the resource base and providing a supportive environment for creative industries.

Policy requests and commitments

1. Governments should protect heritage resources from redevelopment pressure, enabling creative re-use of built infrastructure where appropriate, providing incentives for maintaining built heritage, and protecting raw materials for heritage crafts, for example.
2. Local economic development initiatives pursued by local government, donor agencies and others should ensure support for product design, product reproduction, development of promotional materials and programs (including exhibitions), and accessing markets (including galleries) for the benefit of all creative industry participants.
3. Governments should protect the cultural integrity of creative industries by preventing commercial exploitation of cultural industry practitioners, seeking to prevent misuse of cultural property, and empowering local communities to develop cultural industries within their own precincts.

Action framework

The Stockholm Action Plan for Cultural Policies on Development, 1998 provides a useful framework for contemporary action, and adoption of its principles by all governments and donor agencies is recommended.

Measures of success

Protection of cultural resources and promotion of essential infrastructure for cultural industries will increase employment and incomes within poor communities, and amongst women and young people. A target of 50% growth in the number of participants in cultural industries by 2030 is appropriate, outpacing population and urbanization growth. (*SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all)*

12.5 FRESH PRODUCE MARKETS

Observations

Fresh produce markets are often the building blocks for local economies, turning farmers' primary produce into cash that is then circulated through other goods and services. Traders in fresh produce are often relatively poor, mainly women and young people, but their cumulative impact can be very significant. Large markets can be multi-million dollar businesses, as well as major employers in many urban centres. Markets serve an additional purpose in providing food security, with market traders often acting as distributors of food in any disaster event. However without good infrastructure and management, they can become dangerous and unhealthy places for traders and customers.

Governments at national, state/provincial and local level have often regarded market traders as insignificant, operating in the informal economy. Some governments have sought to move markets out of key localities where it is perceived a greater return from more formal business could be achieved. Nevertheless the traders have often been heavily taxed through stall fees and other charges, and this forms a large component of the income of some local governments.

Donor agencies have often assisted in provision of basic infrastructure (for example, shelters) but this has sometimes resulted in management and maintenance regimes that are not sustainable, or which do not strengthen the way that markets function. Markets are at their best when they facilitate a wide range of activities that enrich the social and cultural life of the city, and they have the potential to deliver benefits that include education and enterprise innovation. More developed countries are discovering the value of markets in providing a social, cultural and innovation hub for the whole community.

Policy requests and commitments

1. Governments should recognize the economic importance of fresh produce markets, acknowledging their contribution to the formal economy, and should avoid displacing them from key locations in the city.
2. Local governments that rely on market fees for their income should be assisted in finding alternative revenue streams, so that stall fees can be reinvested in improving market infrastructure.
3. Donor agencies should assist local government in enhancing infrastructure and market management in a way that does not restrict legal market activities, and that provides sustainable improvements to the way markets function as economic, social and cultural hubs.

Action framework

The substantial work carried out by UN Women in the Asia Pacific region can be used as a basis for developing principles on how government and donor agencies can invest in markets to best enhance their performance. These principles can be recommended for adoption by all governments and donor agencies.

Measures of success

Funds invested in market improvements result in measurable increased incomes of traders, enabling them to contribute to local government revenue that is then reinvested in a cycle of ongoing sustainable market improvements. A measured investment return of 20% pa can be targeted. (*SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all)*

12.6 HOUSING AND INFRASTRUCTURE AS AN ECONOMIC DRIVER

Observations

Making improvements to housing and infrastructure within the poorest communities involves a significant investment of funds. There are opportunities for using this investment to develop local skills and create long term jobs for local residents, putting money into local circulation that can stimulate local economic development. There are also potential cost savings if communities are mobilized to carry out the upgrading themselves, and this can be encouraged by incentives. However there are also risks to be avoided as:

- self-help local projects can take a long time to complete
- they may present risks to works in the short or long term as a result of poor skills
- there is a lack of quality assurance which presents risks for end users
- in some cases they may result in increased costs.

For people to invest in their own housing and infrastructure, they need to be provided with secure tenure. The quality of the end results can be assisted by training programs to develop trade skills, and by provision of good quality materials All levels of government can work together to provide communities with financial incentives including cash payments based on performance, loans, or progressive equity arrangements in new housing and infrastructure as well as upgrading/rehabilitation projects.

One of the clear advantages of self-help improvements is that the built infrastructure is respected by the local community, with reduced risk of vandalism or poor user maintenance.

The best results may be achieved from self-help initiatives if local residents are assisted in the design process. Without such support there may be missed opportunities and unintended mistakes. However if the design process is supported, it is likely that the involvement of residents will ensure a built environment that is best suited to their needs, and valued.

Policy requests and commitments

1. All funding agencies should consider directing investments into skill development for constructing, operating and maintaining housing and infrastructure as an alternative to conventional top-down investment, with clear targets set for local job creation and contracts for local businesses.

2. Project managers should ensure that local workers are supported by:
    - trade training
    - strategies for promoting worker safety
    - advice on appropriate design
    - access to appropriate construction tools and materials
    - financial reward for work done.

Action framework

A shared action framework for all agencies is to mobilize local resources for improvements to housing and infrastructure in areas of most need, by investing in local skill development and labour.

Measures of success

There is a strong and measurable multiplier effect from investments in housing and infrastructure in terms of local job creation and enterprise development (*SDG 8: Promote Sustained, Inclusive and Sustainable Economic Growth, Full and Productive Employment and Decent Work for All)*

12.7 RURAL-URBAN ECONOMIC LINKAGES

Observations

While there is a general movement of population from rural areas into urban centres, the economies of urban and rural communities often remain interlinked. This is because (for example):

- moving into cities is often seen as temporary, part of circular migration patterns, movement to take up work, or because of a need to access specific urban services (health, education)
- many urban migrants do not regard the city as “home” and intend to return to rural areas eventually
- urban workers are often involved in sending remittances home to their relatives in rural areas, and this occurs across national boundaries
- rural producers are often able to market their goods in the city through relatives who live there.

Movement into cities is sometimes prompted by extreme hardship in rural areas, as may be experienced after a natural disaster, or violent conflict. Sometimes this movement is seasonal, peaking during the off-season for agricultural work, or when rural food supplies are low.

Urban policies should recognize that not all residents are fully committed to settling for the long term, and should not penalize people for wanting to maintain their rural links.

If governments and donor agencies focused on investing in cities at the expense of rural communities, this would further disadvantage rural communities and accelerate the pace of urbanization. This would have adverse effects on national economies, reducing countries’ capacity for food production and exacerbating demands for urban services (including housing and infrastructure). A balanced approach is therefore required. This needs a concerted effort to counter the trend for capital to be pulled into larger population centres.

Policy requests and commitments

3. National governments and donor agencies should ensure a spread of investment between urban and rural communities.

4. Remittances from urban workers to their rural relatives should be facilitated through taxation arrangements imposed by governments.

5. Governments should encourage financial institutions to provide cost effective money transfer arrangements for worker remittances within and between countries.

6. Governments and donor agencies should support rural communities in developing their economies, including creation of year-round local employment, and establishment of local suppliers of goods and services.

Action framework

A shared action framework for all agencies is to foster a productive relationship between urban and rural communities, for mutual benefit.

Measures of success

Rural communities benefit from urban remittances, and spend these funds locally to strengthen their own economies. (*SDG 8: Promote Sustained, Inclusive and Sustainable Economic Growth, Full and Productive Employment and Decent Work for All).*

MUNICIPAL FINANCE TOOLKITS

A number of toolkits have been developed to assist local authorities / municipalities to improve their municipal financial management. A number of these, from English speaking jurisdictions, are listed below. Most are developed to assist local authorities / municipalities to comply with policies within the given legislative jurisdiction. Therefore, the application of the following toolkits assumes compliance with a set of principles that may, or may not, apply in every jurisdiction. They are provided as an illustration of the kind of toolkits available.

These include:

Planning
1. Strategic Operational and Planning Toolkit – Tasmania, Australia
2. Systemic Asset Management Planning - EAROPH
3. Municipal Viability Self Assessment Toolkit – Federation of Prince Edward Island Municipalities, Canada

Taxation
1. Toolkit for Local Revenue Mobilization – RTI, Worldwide (Based on Malawi Toolkit)

Environment and Asset Management, including Infrastructure
1. Australian Infrastructure Financial Management Manual (AIFMM)
2. Infrastructure Maintenance in the Pacific: Challenging the Build-Neglect-Rebuild Paradigm – Pacific Island Countries
3. A toolkit for Municipal Asset Management – RTI, Worldwide
4. Local Heritage Toolkit – Victoria State Government, Australia
5. Management of Municipal Finance for Environmental Infrastructure in the new independent states – EAP Task force, OECD

Financial Management
1. IPWEA Financial Management – Australia and New Zealand
2. Worldbank Municipal Finance – Worldbank resources

Security and Risk Management:
1. Local Government Security Risk Management Toolkit – Australian Local Government Association
2. Open Data for Local Government Toolkit – New Zealand

Evaluation
1. USAID Cities' Assessment and Implementation Toolkit – USA - Worldwide
2. Inter-Municipal Cooperation - Europe
3. ALGIM Toolkit – New Zealand

Community Engagement:
1. Worldbank's Manuals on Tri-Sector Partnerships – to be reloaded to the web.

Other toolkits in English, as well as in other languages: Chinese, Japanese, Indonesian, Russian, Farsi, Arabic, French, Spanish, Portuguese and African languages have yet to be assessed and included in the above list. A depository of these can be built to enable a wider distribution to city administrations.

LOCAL ECONOMIC DEVELOPMENT TOOLKITS

There are numerous toolkits for Local Economic Development, produced for different applications.

These include

Cole, Barbara A. and others (1990) *Business Opportunities Workbook: a rural revitalisation program for community leaders*, produced by the US Small Business Administration and the Rocky Mountain Institute, Washington DC

UN Habitat and Ecoplan International (2005) *Promoting Local Economic Development through Strategic Planning*, UN Human Settlements Programme, Nairobi, Kenya

EAROPH Australia has identified a gap in terms of toolkits for building local economies, rather than focussing on particular enterprises. A new handbook on Building Local economies is therefore under preparation, which we are keen to launch in parallel with Habitat III. The table of contents follows.

A HANDBOOK ON BUILDING LOCAL ECONOMIES

by Dr Jane Stanley for EAROPH

PART ONE: UNDERSTANDING THE ECONOMY

PART TWO: CASE STUDIES

(Others are being collected)

PART THREE: LEARNING FROM EXPERIENCE

CASE STUDIES FROM INDIA

CASE STUDY 1 -INDIA

Municipal Finance

Politico - Administrative Setup

In City, there are three administrative/political levels. The first is Central Government, second is the State Government and the third is Municipal Government. In case of Delhi, the Central Govt. is of one political party but the Government at State level is of another political party and again the Municipal government is of first political party. The priority of political party of State Govt. neither matches with that of Central Govt. for higher level issues nor at municipal level for local issues. The Municipal Govt. is helpless because the State Govt. is not supporting them whereas the Central Govt. is although of the same party, but is not directly able to help them.

Many a time, the Municipal Govt. does not have the money even to pay even the salaries of the employees of the Municipal Corporation hence to spend money on maintenance of services becomes more impossible. Therefore, there is a requirement of suitable amendments in the Politico – administrative system at city level.

Over Employment

The Municipal Corporations and other Local Bodies have massive over employment at the level of lowest category of maintenance staff. In fact even the List of employees are not correct as in several cases, it has been discovered that the list of employees contained many fold more names than the actual employees in the Local Bodies. The salary of additional staff was going to the pockets of concerned controlling persons. This type of situation leads to huge financial burden on the already financially stressed Local Bodies.

Corruption

Most of the expenditure intended to be done on provision/augmentation/repair of services are inflated and sometimes even the fake billing has been observed for the works which have never been done, by the Local Bodies. This leads to extreme poor upkeep/deterioration of even the existing services.

Mismatch between Collection and Expenditure agenda

For various services, in some of the Local Bodies, escrow funds have been created. The idea is to collect the fund, deposit it in an escrow account, so that it can be spent on specific purpose in a particular area. It has been observed that in several cases the amount thus collected is not spent or spent on some other purpose and not for it has been collected. Therefore, the target area remains neglected.

Illegal Construction Areas

Due to hassles of formal sanctions, weak enforcements, possible manipulations/connivances, the formal permissions for sanctions, registrations etc. are done in a limited area of the city and in the remaining large part of the city, these systems are not followed. Hence, there is big revenue loss and the revenue thus generated is only from a small part of the city.

Registrations System is Hurdle in Formal Transactions

The revenue generated through the registrations of properties needs improvement as in some cases it has literally stopped the transactions. The State Govt. increases the circle rate of properties of different colonies, based on their characteristics and posh ness. Therefore, in some cases, the circle rate (presumed prevailing rates) has gone so high that nobody wants to get the property transacted/registered. The registration amount is supposed to be the actual considered transaction price therefore, the taxes like stamp duty charges, income tax charges, property tax charges etc. are to be paid on this amount.

Online Working to be preferred over Manual Multiple Committees

For every small thing, there are Committees in the city Corporation and these Committee are headed by one or the other elected Municipal Council Member. There are more than 100 councilor members in the city and to get high social status and opportunity to make money, they are Chairman of different committees. To get the works done by these committees are very difficult and cannot be done without greasing the palms. It is required that the online working and granting of permissions should be preferred over these manual system to ensure that the revenue collection is used for the services and not for the benefit of few individuals.

Social Audits

In different cities, the elected Government is in power for full five years and the development of the city is fully in its hands. Therefore, there are aberrations, discriminations, mismatch in priorities and even social tensions in the city. There are no public meetings, no social audits for the working of those who are in position. It is important to have social audits to ensure the developments as per the expectations of the local population.

Welfare of Women and Girl Children

Although the Local Govt. has started schemes for women welfare in form of specific health facilities but there are no separate provisions for their employment opportunities, education and family welfare. Similarly, some schemes have been initiated by the Local Govt. for granting the money to the girl children for their marriage, which is given at their birth in form of fixed deposits but these schemes are also not working to the satisfaction of the people as the restrictive eligibility criteria of such kind of facilities, benefit to only low percentage of the local population. More comprehensive detailed schemes for women welfare need to be considered.

CASE STUDY 1 – INDIA

LOCAL ECONOMIC DEVELOPMENT

Land Use Distribution

The land use planning of the city has been done on rational basis for different functional aspects keeping a focus on requirement of population housed/to be housed in the city during the Plan Period. It does not consider the Local Economic Development through adjoining hinterland areas, which are abutting the outside administrative boundary of the capital city. Although, people from large areas come here for Health and Education facilities but the city has not been planned to cater to this requirement and generate revenue on this front.

Industries for Economy Generation

The different types of industries have been provided for in the city, except the hazardous industries. Agro based industries have been supported but manufacturing industries are reducing their importance and are being succeeded by tertiary sectors for employment and economy generation. No large industries or IT industries are permitted hence the areas adjoining to the city are attracting these activities and are flourishing much better than mother city. Their economy is comparatively healthy on many fronts.

Household Industry

For employment and strong local economy, the household industry has been accepted in residential premises as per the provisions of the Master Plan. A comprehensive list of such industry has been made part of the Plan and is working well especially in areas constructed illegally and is not so posh in planning terms. These industries however, have no specific relief/facility for female workers.

Agriculture Mandis

Agriculture Markets are known as Mandis in local language. The agricultural produce come in these mandis and is generating a good income to the population engaged in the agricultural sector. This population is living in villages, which have been engulfed by the urbanization or in the villages, which are in peripheral / fringe part of the city. The vegetable mandis operate on daily basis and generate good revenue for the city but the other agricultural produce which depend on seasonal harvest come in different oil/grain mandis and add to the income substantially and generating good local economy.

Public Private Partnership

The transportation network is one sector in which Public Private Partnership is working up to some extent. For instance, the buses and other hired modes are of Private Sector. These modes are providing services and generating employment as well as economy for the city. The Office, which looks after metro has gone further ahead and has started property development for generating revenue so that the metro network can be operated and new metro networks could be laid. This Public Private Partnership is working but still needs several policy reforms as many projects are stuck in between due to multiplicity of Authorities and inadequate clarity in the documents of understanding, between them.

Real Estate in the City

The land values in the city are very high but somehow due to overall slump in economy, the Real Estate Sector is almost inactive. Although, there is big backlog of properties both in residential and commercial sector but due to less focus of the Local Govt. nothing much is happening, whereas this sector could have generated good local economy in form of Employment, Permission Fees, Registration Fees, Labour Cess, Sales Tax, VAT, Service Tax etc.

CASE STUDY 2 – INDIA

The Municipal entities in India derive their financial and tax powers from the laws enacted by the State legislature. The sources of revenue– both tax and non- tax are delegated to them under these laws as obligatory **and** discretionary taxes. However, the municipal bodies are at the liberty to levy a tax and may or may not levy all the entitled taxes. In addition to taxes, local bodies can also levy 'surcharge' on some taxes, such as stamp duty, entertainment tax, and sale of electricity, petroleum, food, etc. Toll is a form of tax, which helps to recover the cost of road, bridge or navigation channel and maintenance. The Municipality can also levy users charges for following services provided in the urban areas:

- Provision of water supply, drainage and sewerage
- Solid Waste Management
- Parking of different types of vehicles in different areas and for different periods
- Stacking of materials or rubbish on public streets for construction, alteration, repair or demolition works
- Other specific services rendered

The Municipality can also levy fees and fines for the following services and activities:

- Sanction of building plans and issue of Completion certificates,
- Issue of municipal licenses for various non-residential use of lands and buildings,
- Licensing of various categories of professionals, activities such as sinking of tube -wells, of meat, fish or poultry or premises used for private markets, slaughter house, hospitals, animals, carts or carriages and other activities.
- Sites used for advertisements on roads, parking lots, commercial locations and public or private buildings.
- Issue of birth and death certificates.
- Impact Fees is imposed on an owner, builder, or developer to compensate the impact and burden new project is going to have on social and physical infrastructure and on the environment.

Resource Constraints

The present framework in most of the Indian cities for the financing of urban suffers from several limitations and constraints as given below:

- Multiplicity of agencies and lack of coordination in planning and implementation.
- Legal and administrative bottlenecks.
- Reliance on government budgetary supports.
- Lack of innovation, technology upgradation and expertise project management.
- Lack of cost recovery of financial, planning, resource mobilization ability, financial control and commercial mandate.
- Lack of transparency and leakage of funds.
- Capital intensive nature, high interest rates and long gestation period of infrastructure projects.
- Profit motive effecting service delivery in case of infrastructure projects on commercial principle.
- Lack of accountability.

- Lack of information, training and capacity building, hindering effective service delivery.

It is often cited that for certain services, establishment costs of the ULBs are so high that only a fraction (as little as 10 to 20 per cent of the budget/grant) reaches the target population. There is a common feeling that the producers benefit from consumers service whereas the public from private services. The public sector finds it is easier to concede the demands of those who have power and not those of the common man who does not wield any power at all. The level of public services is generally low, with hardly any accountability towards the consumer. The distribution and delivery of public services is also often inequitable. The concerns for economy and efficiency are superficial and procedural. There may be a concern for internal accountability, but hardly any external accountability. The level of delegation of responsibility is so high that it almost amounts to dereliction of duty. With much emphasis on collective decision making, there is hardly any personal responsibility.

Hardly any relationship is discernible between the inputs and output. Consequently, in many public services, inefficiency and corruption continue to compound, whereas there is a constant depletion of the standard of services. On the other hand, the expenditure of these establishments keeps mounting.

Strengthening the Resource Base

To strengthen the resource base of the local bodies/service agencies, it is necessary to explore various options and innovative sources of resources. There are already various options and institutional arrangements available to mobilize long-term funds and financial intermediaries provide investment opportunities in urban development and infrastructure. Various funds have been constituted with contributions from the national and state governments, bilateral and multilateral agencies. The private sector and institutional sources of urban finance can be tapped for the financing of municipal services.

The following can be possible sources of municipal fund:

1. Stamp Duty and Capital gain tax on real-estate /property,
2. Land use conversion fee, additional Floor Area Ratio, mixed land use charges, Betterment levy on special zones (transport corridors, etc.),Betterment charges, Impact fee, pricing of Floor Space Index (FSI) above a certain limit etc.
3. Entry tax, congestion tax, toll tax on vehicles in special areas (inner city, CBD etc.),
4. Part of the TDS on real estate transactions valued over 50 Lakh ,
5. Vacant Land/ FAR tax on vacant land, or underutilized FAR.
6. Part of funds raised through land banking,
7. Cess on purchase of luxury vehicles say costing above 10 lakh,
8. Cess on electricity bill to cover the cost street lighting,
9. Urban Infrastructure Bonds,
10. Use of Provident Fund, Trusts Funds, multilateral development bank loans, etc.

Some states have an urban development fund which could be tapped by the project sponsors and urban local bodies to facilitate the supply of capital for infrastructure projects.

In spite of all the suggestions of commercialization and privatization of service sector, the fact remains that the urban bodies have to meet bulk of the expenditure from internal resources and government grants, as recommended by the fourteenth Finance Commission. The Government of India will have to arrange soft, long term loans by creating an Urban Development and Infrastructure Funds.

Municipal Equalization Fund

To take care of the fiscal disparities between the municipalities, a municipal equalization fund can be created at state level, and funds can be disbursed on the basis of a composite index linked to fiscal needs and capacities of the municipalities.

Development of Municipal Bond Market

After utilizing the internal funds and soft options, urban bodies tap the market borrowings, which are generally more expensive at the prevailing interest rates. Ahmedabad Municipal Corporation floated bonds carrying interest of 14%. Bond issues involve creation of assured redemption funds and credit rating procedures. Since urban bodies are not able to get full cost recovery for services and facilities, bond repayments get linked to general resources like octroi. These bodies cannot bear heavy debt repayment burdens. Alternatively, municipal bonds will have to be linked to commercially viable schemes. To augment local body/municipal resources various other mechanisms, such as given below need consideration.

Development of a municipal bond market in India appears to be a long term option for urban infrastructure financing. It would need considerable support of the central and state governments, framing of enabling legislation and development of an effective institutional framework. This would also help in creating a business-like work culture and a spirit of competitiveness among the local bodies in India. It also enables the municipalities in undertaking costing of services on commercial principles and to streamline the financial local decisions.

Resort to long-term bends can help in raising the finances for urban development and infrastructure projects whose benefits are spread over a long time horizon. The endeavour should be to make the municipalities credit-worthy in near future in order to enable to float the bonds on their own strength. This would, require that services be priced so as to recover all the costs.

Land as a Resource

Land in the urban context can be used as a major resource by the local bodies. The urban bodies have a duty to plan, regulate and provide infrastructure services and confer development rights as per Development Control Regulations/ Master Plan. The following measures are necessary for exploiting the land potentials:

- Vacant land tax, say @ 1 to 2 per cent of the capital value of land.
- Development charges for on-site and on-site infrastructure/facilities.
- Impact fees to meet the cost of direct and indirect impacts of development including externalities.
- Betterment levies to tap a part of the unearned benefits accruing to landowners due to infrastructure projects (road, parks, water supply improvements, etc.).
- Conversion charges of rural land to urban use and for other changes in the use of land

- Purchasable Development Rights/additional charges for FSI (floor space index) in excess of a basic FSI (say 1.0 or as specified by the master plan).
- Tradable development rights to grant incentive FSI to those land owners whose lands are compulsorily acquired for public purpose.
- Tax increment financing to use the inflation in bases of particular taxes due to development projects to repay the cost of such developments.
- Misuse charges against use of land in violation of Master Plan.
- Parking charges on public/municipal lands.
- Concept of land pooling and readjustment.
- Concepts of Excess Condemnation.

By using land as a resource, the local government finances can be strengthened so that they are less dependent on central/state government grants, loans, as well as leaning too much on the private sector.

Private Sector Participation (PSP)

Various cities have adopted different options for PSP in the sector. The main options can be distinguished by how responsibilities are allocated regarding ownership of assets and capital investment. A number of options have emerged in PSP in the financing and management of urban services in India. Several options have been identified in India which include; (a) service contracts (Chennai), (b) local body financing through municipal bonds and other sources and implementation with private project management consultant (Ahmedabad), (c) joint sector company to implement and finance the project (Tiruppur), (d) fixed price and fixed time contract with local body finance and a management contract for O&M (Pune), (e) BOT contract (Bangalore), (f) construction cum BOT (Alandur), and (g) Concession (Karnataka towns). Salient features of these projects are given below.

Chennai O & M Contracts: The Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) has made a significant advance in use of service contracts for PSP in O&M of water supply and sewerage systems in the city. Out of the 119 sewerage pumping stations existing in the city, 70 have so far been given to private contractors for operation and maintenance. The Board has also given service contracts for O&M of two sewage and one water treatment plants.

Ahmedabad Water Supply and Sewerage Project: The estimated cost of the project was Rs. 490 crores and it is structured within an urban finance framework. Ahmedabad Municipal Corporation (AMC) is implementing this project through 50 contracts and it has appointed a private project (program) management consultant to supervise and coordinate the construction. The AMC accessed the capital market in January, 1998 with a bond issue of Rs. 100 crores to finance part of the project. This was the first public issue from a municipal authority in India without the state government guarantee.

Tiruppur Area Development Project (TADP): Tiruppur is a small but economically highly specialized city which accounts for over three-fourths of India's cotton knitwear exports. Water is key to the operation of the industry and most of it is currently supplied by private tankers since adequate supply of piped water is not available. Realizing the need for water to survive in a highly competitive international market the Tiruppur Exporters Association (TEA) supported by the state and local governments took the initiative to involve the private sector in meeting needs for water. As a result, a public limited company with private sector participation, the New Tiruppur Area Development

Corporation (NTADCL), was formed to implement the project. It is the first of its kind in India that will provide water and sewerage system.

Bangalore Bulk Water Supply Project: The Bangalore Water Supply and Sewerage Board (BWSSB) has implemented the Cauvery water supply scheme stage IV (Phase 2), which will provide bulk water of 500 million litres per day to the city on BOT basis. The selected private firm will be responsible for construction and O&M of source, treatment as well as transmission of bulk water supply system over a long period (25 to 30 years).

Table: Salient Features of Private Sector Participation (PSP) Projects—Water Supply and Sanitation

City	Service Options	Management/Financed Arranged by	Capital Sources	Time Years	Project Cost (Rs Crore)
Chennai	O&M, WS&S (Pumping contracts station, tube wells and treatment plant)	Service Agency	Public	1-5	NA
Ahmedabad	Augmentation of WS&S Project	Private Agency Consultant	Public	NA	490
Tiruppur	Bulk WS and new sewerage	Joint Sector Company/BOT	Joint Sector Company/BOT	30	900
Pune	Augmentation of WS&S Project	Fixed Price and time, Construction contract management, contract for O&M of new facilities and part bill collection	Public Agency	5 for O&M	715
Bangalore	Bulk WS	BOT	Private Agency	25-30	800
Alandur	a) Sewerage collection b). Treatment plant	a) construction contract b) BOT	a) Public agency b) Private agency	a) NA b) 15-20	a) 800 b)8
Four Karnatka Towns	W&S, O&M, bill collection and augmentation	Concession	Private Agency	25-30	Not known

N.A. Not Applicable.

The various sources from which the private sector can access funds are:

i) Savings and surpluses of the purchaser/promoter.

ii) Borrowings from banks/financial institutions/non-banking financial institutions.

iii) Capital markets by way of equity or debt instruments like fixed deposits, bonds, etc.

iv) Overseas commercial borrowings.

v) Inter-corporate borrowings.

vi) Borrowings from informal sector.

Competition to improve public services

To make our cities more liveable and inclusive, the Government of India has embarked on a 100 smart cities project. Also, the Atal Mission for Rejuvenation and Urban Transformation aims to transform 500 cities. The focus is on core infrastructure services like adequate and clean water supply, sanitation and solid waste management, urban mobility, public transportation, affordable housing for the poor, power supply, information technology connectivity, e-governance and citizen participation.

The Government has also launched the 'Housing for all by 2022' mission that is being pushed by Prime Minister Narendra Modi. The mission seeks to provide 20 million housing units for the lower income group and includes the slum rehabilitation project.

For conservation of heritage, the Union Government has launched the Historic City Development Augmentation Yojana, which will initially cover 12 cities viz Ajmer, Amrawati, Amritsar, Badami, Dwarka, Gaya, Kanchipuram, Mathura, Puri, Varanasi, Velankanni and Warangal.

The Swachch Bharat Abhiyan is yet another major initiative by the Government that covers 4,041 statutory towns and villages in the country to provide sanitation and toilet facilities. The cleaning of the rivers is a high-priority agenda of the Government of India. The National Mission for Clean Ganga aims to clean the river Ganga during the next five years.

These missions can bring radical urban transformation in India. However, their success is largely dependent upon the performance of the urban local bodies and their planning capacity, together with legal, institutional and financial reforms. Looking at the dismal record of the Swachch Bharat Abhiyan, the future appears grim. Some radical thinking is needed.

In past decades, there has been a significant rise in urban growth, along with the workforce. Instead of the earlier practices of departmental works being contracted out to third parties, urban local bodies are now increasingly adopting public-private partnerships.

However, there are limitations of public-private partnerships, where profits are marginal, or where doing business is not easy, and payments are irregular due to political interventions. Public-private partnerships also tend to make the urban local bodies complacent and they tend to lean on the private party to deliver.

This situation is not only prevalent in India, but even in developed countries like the United Kingdom. In pursuit of 'value for money', the UK Government under the leadership of Prime Minister Margaret Thatcher evolved the concept of 'compulsory and competitive tendering' for public services. This was incorporated in the UK Local Government Act, 1988.

In its Preamble it states, "An Act to secure that local and other public authorities undertake certain activities only if they can do so competitively; to regulate certain functions of local and other public authorities in connection with public supply or works contracts; to authorize and regulate the provision of financial assistance by local authorities for certain housing purposes."

Under this, the local authorities are no more the sole providers of public services like electricity, public transport, housing or sanitation but they have to compete with other local bodies and private sector units. The aim of the programme to "roll back the frontiers of the state, and revitalize the enterprise." The consequential working strategy involved the following: De-nationalization of public corporations, sale of public corporations/Government assets, liberalization or removing restrictions on competition for public services, and contracting out public services by competitive tendering.

The following are the premises and objectives of this strategy: To provide a high level of public services; to save money and to obtain better value for public money; survival of the fittest; to save management time; to obtain expertise not available in-house; to retain flexibility; to re-establish management control.

Competitive tendering in the UK has opened up an alternative to the monopolies of urban local bodies and public-private partnerships in the pursuit of the delivery of services. Competition helps to reduce the burden on the state and lethargy of the urban local bodies.

The local and public service authorities are obliged to follow the prescribed system for tendering of its services. This has resulted in a drastic change in the Government structure, security of employment and the overall attitude of the officials towards the public.

In case a bid is not in favour of the existing local body or public sector, the employees have to find an alternative job. As a result, there is a considerable slimming down of Government bodies and corporations.

A close interaction is maintained with the workers' unions in enforcing the provisions of the compulsory and competitive tendering system. Many of the local authorities have geared up to face the competition, whereas some local bodies which were too big, unproductive or unable to change their working culture have been wound up. In India, as many municipal bodies are facing resource crunch and losses along with poor delivery of services, there is a serious concern to adopt such radical measures.

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KEY CONTRIBUTORS

A K Jain, President, Association for Settlement and Housing Activities, India
Anthony Kent, University of Monash/University of Victoria/RMIT, Australia
Barbara Sikorski, retired Australia Taxation Office lawyer, Brisbane, Australia
Bijendra K Jain, Architect Planner and Member of EAROPH, ISOCARP, IFHP and Societe Francaise Des Urbanistes
Committee on Local Finance, United Cities and Local Government, Barcelona, Spain www.uclg.org
Graham Squires, University of Birmingham UK
Jane Stanley, FOCUS Pty Ltd, Colac Australia
Jehane Akiki, The New School, New York USA
Kerry McGovern, K McGovern and Associates, Brisbane, Australia
Penny Burns, AMQ International, Adelaide, Australia

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