

Municipal Budgets and Improving Infrastructure Development in Asia and the Pacific

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Introduction

- ESCAP study of local government systems in 14 countries
 - Australia, Bangladesh, China, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, Pakistan, Philippines, Republic of Korea, Sri Lanka, Thailand
- Issues of financing local government in Asia-Pacific similar to those in Uzbekistan
- Around 70 to 90 % of revenues spent on operations and maintenance
- Most infrastructure development involves national government

Sources of local government finance

- National government transfer of funds
 - Earmarked grants (capital grants)
 - Non earmarked grants (occasional)
 - Shared revenues (sales tax, VAT etc.)
 - Block grants
- Loans
 - From donors (guaranteed by national government)
 - Bonds from local and international markets

Sources of local government finance (continued)

- Local revenues
 - Property taxes
 - User charges and fines
 - Business taxes, License fees
 - Local tax (Octroi, sin taxes)
 - Hoardings (Bill-boards)
 - Revenue from municipal assets
- PPPs
- Community-based approaches
- Corporatization
- Climate financing

Challenges and solutions

- National government transfer of funds
 - Often used to control local governments
 - Promised but not delivered
 - Inability of local governments to plan
- Innovative approach: Block Grants
 - In Japan National governments collect 2 times more taxes. Local governments spend 2 times more revenue.
 - Guaranteed funds (% of VAT in Thailand)

Challenges and solutions (Continued)

- Loans and bonds
 - Have to be paid back
 - No clear payment mechanism
- Innovative approach: Bankable projects
 - Clear revenue and payback streams
(India, Thailand, Pakistan, Philippines)
 - No sovereign guarantee needed (Vietnam)

Challenges and solutions (Continued)

- Local taxes and charges
 - Higher levels of government take the cheapest and most elastic taxes
 - Determining taxation rates
 - Collecting taxes is expensive and difficult
- Innovative approaches:
 - Octroi tax outsourcing (South Asia)
 - Self determination of property values (Indonesia)
 - Tax collection by higher authorities, spending by local governments (Japan, Thailand)
 - Progressive/differential user charges (Thailand, Pakistan)

Challenges and solutions (Continued)

■ PPPs

- What value added is private sector bringing?
- Will it be pro-poor?
- Anti-corruption measures?
- Are local governments ready?

■ Innovative approaches:

- Manila Water (Philippines)
- Guangzhou solid waste disposal PPP with Veolia Environment (China)
- IRRCs (Vietnam, Sri Lanka)
- PPP readiness tool-kit

Challenges and solutions (Continued)

■ Corporatization

- Parastatal organizations (little oversight)
- Political interference
- Lack of capacity
- Revenue shortfalls and debt

■ Innovative approaches

- Independent boards and competition (New Zealand)
- ISO 9000 standards (Malaysia, Thailand)
- Citizens charters (India, Indonesia, Republic of Korea and Thailand)
- One corporation shared by several local authorities (Pakistan, New Zealand)

Challenges and solutions (Continued)

- Community based approaches
 - Communities not organized
 - Problems of bulk buying and paying back
 - In transition economies collective mechanisms are not trusted
- Innovative approaches
 - ACCA Programme: Community-based settlements development and management (Thailand, India, Mongolia, Nepal, Vietnam, Philippines, Sri Lanka)
 - Orangi Pilot project and Khuda-ki-basti (Pakistan)

Challenges and solutions (Continued)

- Climate financing
 - CDM complicated, expensive and time consuming
 - May not survive beyond 2012
 - Often does not pay enough
- Innovative approaches
 - Works best for solid waste management
 - Landfill gas recovery
 - Composting/IRRC approach

New financing mechanisms

- Accessing foreign reserves of Asian countries
- Sovereign funds financing
- Channeling remittance funds
- Need:
 - Bankable projects
 - Regional/sub-regional financial infrastructure for bond markets
 - Mechanisms for recovering debt or equity

Lessons learnt

- ❑ Decentralization is not always the solution
- ❑ Principle of subsidiarity
 - What can be done at a lower level should not be done at a higher level
- ❑ Three pillars of decentralization
 - Executive powers and fiscal powers
 - Capacity development
 - Vibrant civil society to ensure accountability and transparency

Lessons learnt (Continued)

- One solution does not fit all
- Importance of experimentation and pilot testing
- Documenting and disseminating innovative practices
- Often solutions are non-fiscal
 - Regulatory framework reform
 - Other incentives to change behaviour
 - Resource recovery
 - Eco-efficiency
- Holistic and integrated approach needed