LOCAL 2030
LOCALIZING THE SDGS

Financing Policy Brief Series

Recommendations for FfD4: Local Finance is Development Finance

December 2024

Local 2030 Coalition

Launched in 2021, the Local2030 Coalition is a UN-system wide network and platform that supports on-the-ground delivery of the Sustainable Development Goals (SDGs) at the local level, with a focus on those furthest behind.

The Coalition is at the convergence point between local and regional governments and their associations, national governments, businesses, community-based organizations and other local actors, and the United Nations system. Local2030 supports local leaders in collaboratively incubating and sharing solutions, unlocking bottlenecks and implementing strategies that advance the SDGs at the local level.

The Local2030 Coalition and its member UN entities aim to respond to demand for support towards financing the SDGs at the local level by:

- Consolidating **learning and experience** with local financing solutions, instruments and innovations, providing local governments access to cutting-edge knowledge and technical guidance.
- **Facilitating peer exchange**, triangular and south-south cooperation between governments and other stakeholders at the local level to learn from one another and shape locally-driven financing solutions.
- **Advocating for local governments** in global and regional policy processes and financing forums.
- **Building partnerships** with national development banks, international financial institutions, agencies across the UN system and other development partners, equipping them to respond to the needs of local governments in SDG financing.
- Assisting local governments in accessing available tools and technical support that the UN development system has to offer on local SDG financing and **promoting coherence** and coordination among UN agencies.

Key Messages

- About 62% of SDG targets and 70% of climate solutions are dependent on the leadership and empowerment of local and regional governments (LRGs). Effective SDG localization needs LRGs with robust fiscal frameworks able to mobilize sufficient resources and drive impactful changes for all, including children, women, young people and marginalized groups, like forcibly displaced or indigenous populations.

- Building a solid financing ecosystem, including adapting fiscal decentralization in line with each relevant governance structures and policies, requires equipping LRGs with the tools, knowledge, incentives and capabilities needed to plan, mobilize, allocate and utilize public resources efficiently, stimulate impactful private investment and enhance development outcomes.

- The potential to unlock investment from the private sector or other partners is also limited due to capacity constraints, regulatory restrictions or poor coordination across LRGs and with national governments. While there is great diversity across contexts, depending on degrees of decentralization, and within varying economic conditions, the challenges for unlocking private sector investments are significant for many LRGs, especially in least developed countries.

- Boosting local revenue collection, introducing new and innovative financing mechanisms and attracting private sector investments is a continuum of measures necessary for substantive improvements in delivering better social services, reducing vulnerabilities, environmental degradation and the impacts of climate change, improving resilience and equity and enhancing local economic development. A commitment in FfD4 to scale up support for local financing through the deployment of initiatives such as the Integrated Local Financing Frameworks (ILFFs) being developed by a growing number of LRGs can support a holistic approach to local financing.

- National systems within which LRGs operate can be strengthened to more effectively promote an equitable distribution of resources and incentivize performance of LRGs. This can be achieved by enhancing intergovernmental fiscal transfer systems, building capacity, strengthening public financial management practices, enhancing local budget planning and expenditure systems, improving utilization of existing resources, improving data systems to be better able to analyze and understand local needs and be able to develop investable sectoral projects that address environmental and socio-economic challenges.

- Efforts to reform the international financial architecture must enable LRGs to access resources to accelerate action on the ground. This will require increased efforts to enhance the readiness for finance of LRGs.

- It is essential to ensure SDG development financing reaches regional and local levels of governance through utilizing existing and new financing mechanisms and approaches.

- Multilateral development banks and development finance institutions should work closely with LRGs to identify and implement innovative financing models that ensure long-term sustainability of localized actions.

Problem Statement

The Sustainable Development Goals cannot be achieved without the leadership and empowerment of local and regional governments. More than 100 of the SDG targets (62%) require the engagement and participation of local and regional governments. [1]

In addition, as estimated by the Green Climate Fund, 70% of climate solutions are within subnational jurisdictions. If we are to accelerate progress, not only in key areas of local service delivery – water, sanitation, education, healthcare, transportation, for example – but also addressing challenges that cut across sectors and service delivery areas – poverty reduction, food security, gender equality, resilient infrastructure, combatting climate change, biodiversity loss, pollution and waste, safety and security and economic growth – then we must equip local and regional governments to deliver.

Finance is a crucial enabler. The financial architecture – globally, nationally and locally – channels and incentivizes investments that can either accelerate or undermine progress. The UN Secretary-General has highlighted reform of the financial architecture as a "game-changer in accelerating SDG progress."

Yet LRGs often face daunting challenges with financing.[2] The responsibilities they hold are often orders of magnitude greater than the 21.5% of total public spending that they account for on average.[3] Despite significant local infrastructure requirements, subnational public investment, for example, represents only 1.5% of GDP globally and only 0.7% of GDP in Africa.[4] LRGs often need to cope with unfunded or underfunded mandates where resourcing is crucial.

LRGs are heavily reliant on intergovernmental fiscal transfers, which account for more than half of their revenues.[5] Unpredictability, disbursements based on formulas that may not respond to local needs, poorly functioning fiscal transfer systems, more earmarking of funds that does not reflect local priorities and other issues, make effective budgeting for service delivery and local public investment planning challenging. Access to external finance, including concessional finance from international financial institutions, is limited, and multiple barriers hamper access to this type of finance for LRGs. On both the revenue and expenditure sides, capacities and systems to manage and monitor programmatic and outcome-oriented budgets are often insufficient.

At the same time, LRGs operate within complex, multi-tiered government structures. Fiscal decentralization reforms, including fiscal autonomy, often lag behind administrative and political decentralization processes, leaving large unfunded mandates for service delivery. In addition, the capacities for fiscal decentralization, domestic resource and revenue mobilization, the development and management of effective local plans and budgets and overall financial management and local service delivery are often limited.

The 2015 Addis Ababa Action Agenda recognizes the crucial role of local and regional governments in financing, the importance of devolution of expenditure and investment and the common challenges of lack of technical and technological capacity. It set out commitments to scale up international cooperation, support local revenue mobilization and debt management, promote lending and investment and support participatory approaches to financing.[6]

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[1] https://www.oecd-ilibrary.org/urban-rural-and-regional-development/a-territorial-approach-to-the-sustainable-development-goals_ba1e177d-en.
[2] UN Habitat, The Challenge of Local Government Financing in Developing Countries, 2015
[3] World Observatory on Subnational Government Finance and Investment, 2022 Synthesis Report.
[4] World Observatory on Subnational Government Finance and Investment, 2022 Synthesis Report.
[5] World Observatory on Subnational Government Finance and Investment, 2022 Synthesis Report.
[6] Addis Ababa Action Agenda. See paragraph 34 in particular.

Yet the ambitions for local governments set out in the Addis Agenda have not been realized and, in the face of growing service delivery and local investment needs, as well as increasing risk and shocks, there is an urgent need to renew and extend both the ambition and practical commitment to support local governments as a key driver of SDG progress in line with national development priorities, including by empowering LRGs and removing some barriers hampering their access to finance from local, national and global levels.

It is crucial to ensure the voices of local governments and other local actors, which are often absent from global processes, are represented in the FfD4 preparatory process and other global fora so that the agenda adequately reflects their needs.

Policy Solutions

To effectively implement the 2030 Agenda and its Sustainable Development Goals, it is essential to **support the development of national policies and devise solutions that enhance the role and capacities of LRGs**. Strengthening their public financial management practices, institutional frameworks and technical capacities on financing can significantly improve local service delivery, infrastructure management and private investment, and enhance local economic development. This can be achieved **by developing and delivering comprehensive institutional and capacity strengthening programmes, facilitating exchange and learning** and providing resources for best practices, as well as improving access to data that informs decision-making processes. A critical component of this effort is **strengthening financial systems and capacities at the local level within an integrated approach to financing**.

Effective SDG budgeting requires a holistic approach that incorporates both local expenditure and revenue generation. Enhancing financial management practices, such as aligning local budget planning and expenditure processes, strengthening local revenue collection, improving accounting systems and reporting mechanisms and boosting intergovernmental coordination is vital for the delivery of effective and efficient local services and local economic development. Implementing robust SDG budgeting frameworks and ensuring strong intergovernmental fiscal transfer systems will enable local governments to allocate resources more effectively, ensuring that financial planning aligns with development priorities. This approach not only enhances transparency but also increases accountability in how public funds are utilized.

While a **diverse range of financing instruments are already available** – public and multilateral finance, private investments, blended finance models that combine public and private resources – many LRG, especially in least developed countries, have limited or no access to such instruments that are essential for enhancing their financial capacities and fueling private investment in the local economy. According to the World Bank, [7] innovative financing mechanisms can attract additional resources for local development projects. These mechanisms, such as Green Bonds, Catastrophe Bonds, carbon credits and public-private partnerships (PPPs), are designed to attract both public and private investments, especially in developing countries. These approaches have proven useful in addressing financing gaps for critical development needs like healthcare, infrastructure, climate and environmental action and stimulating sustainable investment and economic growth. Scaling up such mechanisms and fostering cooperation between public and private sectors are essential to meeting long-term development goals. Diversifying funding sources will enhance the financial resilience of regional and local governments and their capacity to implement SDG-related projects effectively.

Integrated Local Financing Frameworks (ILFFs) are a member state-led initiative that enables LRGs to bring the elements of public and private financing together within a holistic approach to financing local priorities, within local institutions. These frameworks facilitate coherent financial

[7] World Bank, Leveraging Innovative Finance For Realizing The Sustainable Development Goals, Arunma Oteh, Vice President and Treasurer, World Bank Speeches and Transcripts 2018.

planning at the local level by encompassing all available funding sources and finance policy tools at the disposal of LRGs. An ILFF provides clear pathways for local governments to access and manage these resources efficiently, mobilizing and aligning public and private capital according to the needs, priorities and the suitability of different types of finance for different investments.

As highlighted by UN-Habitat,[8] aligning local development strategies with national and global financing mechanisms ensures that resources are allocated where they are most needed, thereby achieving sustainable outcomes. A growing number of LRGs are using the ILFF approach, building on the success and lessons learnt from the integrated national financing frameworks being used in more than 85 countries.

Integrated Local Financing Frameworks

ILFFs bring together the financing policies and instruments within the responsibility of LRGs within a holistic approach to financing local sustainable development priorities. They build on the concept of an integrated national financing framework, which was first introduced by UN Member States in the Addis Ababa Action Agenda and is now being used at the national level by more than 85 countries.[9]

To date, LRGs in more than 10 countries are using the ILFF approach to explore and strengthen financing for local priorities. Pakistan's Punjab Province, for example, was the first subnational government to launch an integrated financing strategy in February 2024. The strategy focuses on mobilizing private capital and advancing innovative financing mechanisms to boost impactful investment in climate, housing, health and other sectors.[10] The Government of Zanzibar launched its financing strategy in Q4 2024 to advance financing priorities for blue economy, infrastructure, economic diversification, resilience and other areas, embedding an approach across public and private financing for these priorities within the planning and financing system. Work to strengthen tax collection, promote SDG-aligned investment opportunity areas and deploy an innovative sukuk instrument are already ongoing. Ghana initiated its adoption of the INFF approach at the local level, developing integrated assembly financing frameworks in five assemblies. These IAFFs looked across various financing channels advancing reforms including capacity building for local revenue mobilization that has led to an average 17.5% increase in revenue generation.[11] LRGs in other countries, from Thailand and Mexico to Malawi and Zambia, are using the approach to shape innovative solutions to mobilize and align public and private finance for local priorities.

Strengthening fiscal transfer systems is essential for enhancing predictability, effectiveness and equity in resource allocations. According to the OECD,[12] predictable and transparent fiscal transfers significantly enhance local government performance. Ensuring equitable allocation of financial resources across regions will enable LRGs to respond more effectively to local needs, ensuring that vulnerable populations receive the support they require. By working with relevant national governance and legislative frameworks to bolster fiscal transfer systems, we can improve the service delivery capacity of LRGs and better align local efforts with national SDG objectives, fostering more resilient and sustainable communities.

A key aspect of enhancing subnational governance is **promoting transparency and accountability in fiscal systems**. Participatory budgeting stands out as an effective tool for achieving this goal,

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[8] UN Habitat "Financing Sustainable Urban Development".
[9] INFF Facility 2024, Making finance work for people and planet.
[10] Punjab Integrated Financing Strategy, Planning and Development Board, Government of Punjab.
[11] INFF Facility, 2024, Making finance work for people and planet: how countries are building their sustainable finance ecosystem through integrated national financing frameworks.
12] OECD, Adapting intergovernmental fiscal transfers for the future: Emerging Trends and Innovative Approaches, 2024

fostering citizen engagement and oversight in local financial decision-making processes. Many subnational governments struggle with issues of lack of public trust and inefficient resource allocation. Implementing participatory budgeting can address these challenges by directly involving citizens in budget formulation and monitoring. This approach enhances civic education and strengthens the social contract between local governments and their constituents. Furthermore, transparent fiscal systems, supported by open data initiatives and regular public reporting, can significantly improve accountability. By making budget information readily accessible and understandable to the public, subnational governments can build trust and with it unlock private investment, ensuring that financial decisions align more closely with community needs and priorities.

An increasingly critical aspect of subnational governance is integrating climate change adaptation, mitigation strategies and environmental sustainability principles into local fiscal policies. This integration is essential for empowering subnational governments to finance and implement both green infrastructure and environmental sustainability initiatives effectively as well as to ensure protection of core SDG aligned social sector spending. Many local governments face significant challenges in addressing climate change impacts and environmental degradation, including limited financial resources, lack of technical expertise and competing priorities. By incorporating climate change and environmental considerations into subnational fiscal policies, subnational governments can prioritize and protect SDG investments. This approach may include establishing dedicated climate funds, implementing green bonds or offering tax incentives for environmentally friendly practices. Furthermore, integrating climate change and environment into local fiscal policies can attract additional funding from national and international sources, as it demonstrates a commitment to deliver the Multilateral Environmental Agreements (MEAs), such as the Paris Agreement, Convention on Biological Diversity and SDGs.

In conclusion, prioritizing policies that enhance the role and capacities of LRGs is vital for the successful implementation of the SDGs. By focusing on financial systems, aligning with human rights and child rights, and diversifying funding sources, we can empower LRGs to meet the needs of all community members and achieve equitable development outcomes. Together, these policy solutions will pave the way for sustainable progress at the local level.

Specific Recommendations for FFD4

1) Highlighting the Role of Local and Regional Governments in the Global Fora: The outcome document of the Financing for Development (FFD) should explicitly underscore the vital contributions of LRGs in tackling global challenges and driving change. Local and regional governments are essential in implementing international agendas and achieving sustainable development outcomes. By recognizing their critical role, we can better facilitate partnerships with global and national stakeholders, ensuring a cohesive approach to development that incorporates local perspectives and needs.

2) Joint Call for Support: The Local 2030 Coalition will provide direct support to LRGs and invite Member States to collaborate and support its work in enhancing LRGs' financial capabilities, enabling them to design and implement targeted measures that strengthen their financial systems. By empowering LRGs, we can significantly increase their capacity to meet SDG targets at the local level, ensuring that development initiatives are both effective and equitable.

3) Advancing Integrated Local Financing Frameworks: The FfD4 outcome can make a reference to strengthening ILFFs as a holistic approach to mobilizing and aligning public and private finance across all elements of the FfD agenda at the local level.

4) Development of Financial Instruments and Enhancing Use of Existing Ones: UN agencies and Member States must collaborate to create and promote financial instruments and mechanisms tailored for regional and local levels. Enhancing revenue mobilization will empower local governments to devise budgets aligned with SDG objectives. Additionally, it is crucial to identify pathways that ensure both development and climate finance reach local levels of governance, making a tangible difference in their lives.

5) Promoting Horizontal Knowledge Exchanges between LRGs: Encouraging cooperation and knowledge sharing among local governments will enable exchange of good practices and working solutions as well as promote approaches that work beyond administrative bounders and for whole territories. By facilitating partnerships between LRGs, we can enhance the capacity of local governments to implement innovative solutions that address unique local challenges, ultimately contributing to a more effective development landscape.

6) Recognizing Proximity and Agility of LRGs: The unique position of LRGs enables them to respond adequately and effectively to emerging needs and risks. Their proximity to the communities they serve grants them insights into local priorities, making them essential players in democratic governance and participatory oversight. Recognizing and supporting agility will enhance the overall effectiveness of governance and development initiatives at all levels.

7) To ensure that LRGs are adequately reflected in the FfD4 outcome document, it is vital that they are able to feed into the preparatory process. To this end, the Local 2030 Coalition, in collaboration with other partners, can play a crucial role in facilitating engagement and advocating for and with LRGs to ensure their priorities are heard.