

Reaching people with development financing: The role of cities and regions

The global agenda for inclusive development needs to reach people where they live and work

The Sustainable Development Goals (SDGs) represent a global agenda, but many of the targets they cover require national governments to work hand-in-hand with regional and local governments. Local conditions and contexts often determine opportunities for economic activity and social progress. Urbanisation processes raise global opportunities and challenges, and the radical transformation of human settlement patterns has consequences for rural areas and food security.

What does all of this mean? Public and private financing for the SDGs needs to be mobilised in ways that reach people where they live and work. The **OECD Regional Development Policy Committee** is the premiere international forum where dialogue on these issues takes place to help national and sub-national governments design and implement better policies for cities and regions.

Reliable data on sub-national finances is essential for the design of development policies

The OECD, United Cities and Local Governments (UCLG) and the French Development Agency (AFD) have joined forces to build a worldwide database on sub-national finance indicators. Sub-national governments typically provide services such as water supply, education, energy, transport and related infrastructure. Understanding the extent of decentralisation of such services is essential for effective development strategies. However, decentralisation is difficult to assess in developing countries because of the lack of reliable and comparable data. The new database on sub-national finance will help identify possible fiscal gaps and formulate policies to address them. In addition, improved knowledge and transparency on the state of sub-national finance can help to create a climate of trust and accountability, as well as enhancing the multi-level governance of public investment.

Effective public investment requires co-ordination between national and local governments

Unlocking investment will be critical to achieving all SDGs. Improvements in the management of public investment can significantly enhance the efficiency of the public sector and help close the infrastructure gap in developing economies (IMF, 2015; OECD, 2013). But public investment involves all levels of government, with around 60% of it being undertaken by regional and municipal governments in OECD countries. Effective public investment requires substantial co-ordination to bridge gaps in information, policy or fiscal matters. It also calls for critical capacity to work collaboratively across levels of government in the design and implementation of investment projects. This is particularly relevant in developing economies, where investment in new infrastructure is widespread.

What key elements need to be put in place?

- national government policies to cope with the variety of territorial development challenges, matched by tailored ways of addressing them and informed by sound data
- effective public investment across all levels of government – notably infrastructure, to help unlock private investment – backed by adequate co-ordination mechanisms and sub-national capacity-building instruments
- national-level capacity building and donor support targeting metropolitan governments struggling to cope with rapid demographic and economic change, as well as with the environmental consequences of urbanisation
- a more localised and holistic approach to rural development to enhance food and nutrition security in rural areas, with better integration of programmes and policies, improved local capacity and increased autonomy
- water finance that is mobilised in an efficient, transparent and timely manner

The *OECD Recommendation on Effective Public Investment across Levels of Government* can help governments assess the strengths and weaknesses of their public investment capacity and set priorities for improvement¹. The OECD is working with countries, regions and cities through place-specific studies with an implementation toolkit that gathers good practices, data and indicators.

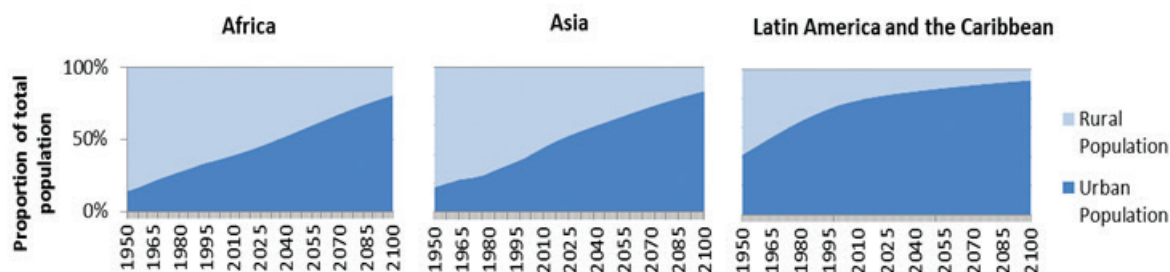
Inclusive urbanisation is crucial for development

According to UN estimates, over 90% of the world's urban population growth (almost 1.3 million people per week) is in developing countries; 60% of this growth is in Asia. The SDG goal to “make cities and human settlements inclusive, safe, resilient and sustainable” will require policies to improve the planning, finance and management of cities. Financing for urban growth often originates from varied sources: international donors, national governments, or even, in some instances, private investors; yet its efficiency and effectiveness depend on the ability of often fragmented local governments to participate in the investment process.

Locking in bad urban development patterns can have results that are economically, socially and environmentally dramatic: excessive contributions to global carbon emissions, inadequate water supply and sanitation, poor air quality, inefficient and car-dependent transport networks and, in many places, informal settlements and shanty towns. Moreover, fast-growing cities in developing countries – in particular port cities – are especially vulnerable to risks related to natural disasters, principally flooding in coastal areas. This can cause disruption of their activities, with disastrous consequences for local and global economies.

Most urban growth will take place in Africa and Asia

Urbanisation levels across the world, 1950-2100



The OECD engages with mayors, regional leaders and national public officials responsible for urban and regional policies to address these issues. This includes thematic work on urban development, housing policies and urban green growth, as well as specific reviews of metropolitan regions and national urban policies. Recent urban policy reviews were conducted in China and Mexico; metropolitan reviews were carried out for the Gauteng City-Region (South Africa) and Guangdong (China); and a green-growth study was conducted for Bangkok (Thailand). The Sixth OECD Roundtable of Mayors and Ministers will take place in Mexico City, 16 October 2015 with the title “The metropolitan century: Policies for resilient, inclusive cities” (www.oecd.org/urban/roundtable).

An integrated approach is needed to tackle development, poverty and hunger in rural areas

An effective strategy for poverty relief cannot ignore the rural dimension. According to the World Bank, around 29.4% of the world's rural population was living in poverty (below USD 1.25/day) in 2008, compared to 11.6% of the urban population. As of 2012, the FAO reports that approximately 840 million people were still undernourished, the vast majority of them in rural areas. Because the threats to food security vary between rural and urban populations and also across different kinds of rural places, a sectoral approach may not be sufficient to eradicate hunger in vulnerable countries. Cash-transfer programmes and educational programmes may also need to be adapted to local circumstances. The OECD is developing a territorial, place-based approach to rural development, enabling governments to deal with food and nutrition security in a more integrated manner.

Access to water and sanitation are the basis for development

The proposed SDGs include a dedicated goal (no.6) on water and sanitation, as well as several water-related goals (on disasters, resilience of cities, energy, etc.). Access to water is often more dependent on good governance than on physical resources. Yet the water sector is highly fragmented and largely decentralised. Appropriate economic instruments and strategic financial planning can catalyse the needed revenues for the water sector. The OECD's Principles on Water Governance call for better governance arrangements to help mobilise and make the most of water finance. They include transparent budgetary and accounting practices to shed clarity on who pays for what. Also important are the transparent allocation of water-related public funds and the minimisation of unnecessary administrative burdens related to public expenditure, while preserving fiduciary and fiscal safeguards.

For more information on the OECD regional development policy, please visit our website:
www.oecd.org/gov/regional-policy

1. See <http://www.oecd.org/effective-public-investment-toolkit/>