Global Platform for the Right to the City

Plataforma Global por el Derecho a la Ciudad

Plataforma Global pelo Direito à Cidade

HABITAT III

Policy Papers Frameworks

Review and Comments

February 2016

5.- MUNICIPAL FINANCE AND LOCAL FISCAL SYSTEMS

Overview

1. As a preamble, the paper should define some guiding common **principles**: equity and fiscal justice, sustainability, general interest, transparency, right to the city / cities for all, territorial cohesion, consent to taxation, participation.

2. The paper has a strong focus on revenues, mainly based on actual growth forecast. Indeed, the recession context and the stagnation of growth in OCDE countries, supposes to settle public capture of resources on new wealth that should come from green economy. In that context, one of the crucial challenges of local finances is to limit the increase of taxation based on household incomes and to settle the capture of wealth for the general interest on new productive basis.

3. The paper should also mention the fact that **local taxation systems** are more efficient to prevent tax heavens, because of the land basis of their capture. Nevertheless, they are not free of concerns, through fraudulent manipulations on the prices of estate transfers or urban development operations and fiscal evasion at national levels that has a strong negative impact in the capacity of states to transfer revenues. In that way, fiscal evasion has huge consequences for the common goods and should be tackled in the paper as an important challenge to address by the members States. Some local elected are strongly involved against tax heavens (see http://taxhavenfree.org/). The challenges and priorities omitted to address the **tax abuses and tax evasion** that have negative impact on anti-poverty efforts in the developing countries. The developing legal framework should enable community participation and consultation during implementation of fiscal law and taxation policy.

4. Municipal finance is one of the main fields to promote and enhance **decentralization** /localization of governance and citizen engagement toward the Human Rights Habitat we want. The Vancouver Action Plan (VAP) at **Habitat I** recommended (C.15 on Social services) "Decentralization of the administrative and financial machinery, in order to provide a greater measure of management at the community level" and gear essential services to the community needs. The **Istanbul Declaration** (Article 12) committed to promoting decentralization through democratic local authorities [local government or local authorities], which need to strengthen their financial and institutional capacities to demonstrate transparency, accountability and responsiveness to people's need. Para.189 of the Habitat II Agenda committed states and government, indeed all Habitat Agenda Partners, to 12 actions that would ensure equality and counter corruption with transparent systems for the financial accountability and performance-based transfer mechanisms.

Challenges

5. The paper should address the question of inequality of taxes (low tax system to attract investments) between territories as a mechanism to promote competition between cities at the expense of general interest.

6. Considering borrowing policies, a mention should be included regarding the variable interest rates that had heavy consequences on local finances. Some cases in Europe are very emblematic, and have been prosecuted (Saint-Etienne, France) (P.8).

7. Metropolitan finances should address the question of fiscal equity and justice within the metropolitan area. How to re-establish territorial cohesion between the poorest and the wealthiest territories of the metropolis? Unique taxation system within the metropolis or some advantages for poorest territories to promote investments? (P.10) (See French zones).

8. Generally, financial regulation, macroeconomic policies and economic recovery should be implemented in the context of a treaty-bound and human rights-based approach. The Habitat Agenda commitment seeks to "Develop efficient, fair, equitable and buoyant sources of national and local revenue, including taxation, user charges, tariffs and betterment levies, to promote national and local capacity for capital investment in housing, infrastructure and basic services, and devise, as appropriate, new fiscal instruments that disincentives environmental damage from both production and consumption;…" (Art. 189c).

9. The General Comments of obligations under ICESCR, with their several, collective, domestic and extraterritorial obligations, require governments' respect, protection and fulfilment of ESCRs without causing harm outside their territorial jurisdiction. Financial fields of international trade, investment, banking and finance, and taxation must retain standards consistent with human rights obligations." (See Article 17 of Maastricht Principles on Extraterritorial Obligations of States in the area of Economic, Social and Cultural Rights.)

10. The PPF piece omitted to dedicate financial resources for rural shelter by the private sector, as committed in the Habitat II Agenda (action 68c). Also, the commitment to "review and adjust, when necessary, the legal, fiscal and regulatory framework to respond to the special needs of people living in poverty and low-income people" (68f) needs review.

11. The concept of equality and participation is missing in dealing with the habitat asset of land value taxes. The PPF needs to focus on land-value sharing, while promoting and enhancing equity and transparency in distribution of the revenue from land use.

12. The measures on management of the public investment at local/municipal level not addressed as have significant affect costs, and income growth and welfare at national and local levels therefore it's important to consider the participation and consultation with the communities in the neighboring municipality, metropolitan areas on the fiscal aspects (expenditure, revenue) of projects such as water, urban transportation, waste management, and energy.

Priorities

13. Local autonomy needs to be balanced against the risk of tax competition between cities bidding local tax rates down to low levels -> involve central government setting minimum local tax rates. (Framework paper on urban economic development strategies, PU7).

14. The participatory budgets should be highlighted as a way to mobilize citizens and to strengthen revenues and transparency. Nevertheless, the participatory budgets should not represent a choice that local communities have to make between basic needs such as health or education, that are obligations of the public bodies to provide.

15. States should regulate the sustainability of borrowing: local authorities should be limited by law, taking into consideration the budget of the city, previous debts and the goal of the loan; floating rates should be forbidden and the interest rate should be limited. They should also encourage the creation of public funds/agencies to fund local investments or pooling mechanisms managed by local governments.

Implementation

16. Regarding the rules of the game & capacities, draw an international of minimum tax rates framework to have a standard of minimum taxation system to implement sustainable, equitable and democratic cities, and avoid competition between cities bidding local tax rates down.

17. The climate finances should rely on the communalization or municipalization of energy with consequent competencies. In German cities, for instance, the municiplization of electricity has improved the quality of the service, allowing local governments to have sustainable investment in renewable energy and created revenues for the city.

18. Another measure could be the implementation of earmarked taxes –e.g. financing the development of policies against climate change by taxing polluting activities.

19. The main purpose for the creation of metropolises should be to balance wealth within an area. Equity mechanisms to correct socio-spatial segregations should be implemented according to the characteristics of the metropolis.