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# MUNICIPAL ORGANIZATIONAL MANAGEMENT AND STRENGTHENING OF LOCAL FINANCES IN COLOMBIA: STRATEGIES AND CHALLENGES IN THE FACE OF GLOBALIZATION.

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**ABSTRACT:**

Municipal public organizational management in Colombia faces significant challenges in the strategic administration of its finances. Beyond accounting management, this involves designing, coordinating, and leading institutional processes that ensure financial sustainability and enhance the capacity to respond to citizen demands. Limitations persist, associated with dependence on national transfers, limited generation of own revenues, and increased restrictions for financing infrastructure and basic services in municipalities. In light of these challenges, the article explores key concepts of organizational management applied to municipal public finances and highlights the urgency of modernizing administrative structures, strengthening fiscal autonomy, and diversifying revenue sources. Emphasis is placed on the value of strategic planning and human talent management as pillars to optimize internal coordination, evidence-based decision-making, and efficient use of resources. Furthermore, innovative organizational management experiences oriented towards transparency, accountability, and citizen participation are analyzed, highlighting their impact on the efficiency of public spending and local financial sustainability. The analysis is grounded in regulatory evolution, the implementation of information systems, and the consolidation of managerial practices that align administrative management with territorial development objectives. All of this is framed within the context of decentralization and the demands of a globalized environment, which require more flexible, adaptive municipal organizational structures oriented towards achieving tangible results that benefit communities.

**Keywords:**

Municipal public management, administrative organization, local finances, fiscal autonomy, strategic planning, decentralization.

## INTRODUCTION

Development theories must be approached from three fundamental perspectives: notion, designation, and origin. Different schools of thought offer different conceptions about these dimensions; however, it is essential to orient the analysis towards the public sphere, under the paradigm of the local entity as the primary actor of development in contexts of modernity (Gómez, 2006). The designations refer to categories of countries such as developed, advanced, developing, emerging, poor or dependent. These classifications depend on the predominant ideological foundations, which over time have been oriented towards two major economic approaches: liberalism and Keynesianism (Adelman, 1964; Furtado, 2000).

As society has evolved, conceptions of development remain valid, now moving towards explanations that consider the role and functionality of modern institutional systems. Rostow, for example, specifies that economic development occurs in defined phases or stages, which is exemplified in initiatives such as the Marshall Plan and the Alliance for Progress, aimed at promoting economic and political changes in regions such as Latin America, in order to achieve levels of prosperity comparable to those of Europe and North America (Rostow, 1960; Meier & Stiglitz, 2001)

The origin of these theories dates back to the classical economists, who developed models focused on economic growth through the proper use of the factors of production: land, labor and capital. These models held that market forces operated freely to optimize production. However, the economic crisis of 1929 highlighted its limitations, which led to the emergence of Keynesian postulates and, subsequently, to the development of developmentalist theory (Ricoy, 2005; Gómez, 2006).

The conception of territorial development is materialized through the planning system of local entities, exercised through the local or municipal governments that lead the management in their respective territories, in accordance with the democratic mandate expressed in a government program that is later translated into a development plan. Planning emerges as a result of the active participation of all local actors, which in Latin America has led to its incorporation as a constitutional norm to guarantee the legitimacy and transparency of public decisions (Ardila & Maldonado, 2014). The universality of the concept of planning in Latin America allows the adaptation of this tool to various national contexts, which motivates this study to focus its attention on the Andean Community of Nations, with special emphasis on Colombia.

In this framework, the analysis is aimed at highlighting the importance of the financing alternatives necessary to ensure the effective execution of the approved development plan (National Planning Department, 2020). The new world economic order presents several possibilities for national and territorial governments to optimize their socio-economic achievements, in a context of increasing globalization. In this process, territorial entities have evolved and have consolidated themselves as essential axes for regional growth and development, articulating local dynamics with national and international policies (Pérez, 2018)

This new territorial dynamic demands that local authorities have sufficient resources to finance social investments, infrastructure and productive projects, in addition to complying with previous commitments. This challenge implies that local governments adopt administrative and fiscal innovations that allow them to identify and access new sources of financing, thus guaranteeing compliance with their legal and constitutional responsibilities (Ardila & Maldonado, 2014; National Planning Department, 2020).

Public financing in Colombia faces significant limitations due to the predominance of traditional sources such as taxes, fees, and bank credits, which restrict the ability of municipal governments to provide their infrastructure and services, thus affecting local economic development. Although the financial sector and capital markets offer alternatives, they are little used by government entities, especially in small and medium-sized municipalities (Muñoz Miranda et al., 2017; Finot, 2007). Colombian municipalities are highly dependent on external sources, mainly transfers from the General System of Participations (SGP) and the General System of Royalties (SGR), which represent a substantial part of their revenues, while own resources correspond to less than a third in smaller municipalities and around 40% in larger municipalities (Muñoz Miranda et al., 2017; ECLAC, n.d.; CEDE, 2020). This dependence limits the autonomy and capacity of local financial management, generating significant difficulties in financing infrastructure projects and public services (Urban Financing Charter, 2022).

The decentralization process, although it has delegated powers and expanded functions to territorial entities, has not managed to consolidate a solid fiscal base sufficient for municipalities to fully exercise their financial autonomy, generating a recurrent lack of funding in essential programs (Muñoz Miranda et al., 2017; DNP, 2024). The scarce implementation of innovative instruments such as the capture of capital gains and municipal bonds, together with the limited financial culture, are persistent challenges (Muñoz Miranda et al., 2017).

In the context of globalization and the challenges associated with territorial development in Colombia, it is essential to strengthen local public sources of financing through comprehensive guidelines. These must overcome current constraints and promote sustainable and autonomous growth.

## 1. Globalization and territorial development.

Globalisation has driven processes of spatial and economic restructuring that demand adapted responses from the territories. This requires greater participation of local actors in decision-making and effective fiscal decentralization, allowing regions and municipalities to respond appropriately to their social, economic and territorial particularities (Economic Commission for Latin America and the Caribbean [ECLAC], n.d.; Muñoz Miranda, Pineda, & Radics, 2017). Colombia has a regulatory framework and a municipal financing system that, although recognized in the region, still exhibits significant dependence on transfers from the General System of Participations and external bank credits, limiting local financial autonomy (ECLAC, n.d.).

**2. Role of the State and local development.**

The Colombian State, through municipal governments, must adopt an active leadership in the management of local development. Proximity to citizens facilitates the formulation of dynamic and participatory public policies, capable of harmonizing diverse interests and promoting social and economic sustainability (Muñoz Miranda et al., 2017). This role is essential to channel resources and projects that respond to the specific needs of the territory and promote local development.

**3. Constitutional and regulatory strengthening.**

To ensure effectiveness and continuity in development policies, planning and budgeting must be supported by strong constitutional and normative mandates. In this way, programs and projects can be implemented responsibly and adapted to the realities of each territorial entity, strengthening public management at the local level (Center for Economic Development Studies [CEDE], 2020).

**4. Diversification and deepening of financial sources**

A key limitation of local financing lies in its dependence on traditional sources, mainly domestic transfers and bank credits. To overcome this vulnerability, it is essential to promote the diversification of the financial portfolio through innovative instruments such as municipal bonds, green bonds, and capital gains capture mechanisms, among others (Muñoz Miranda et al., 2017; ECLAC, n.d.). In addition, it is necessary to strengthen local financial education to optimize the management and use of these resources, promoting a sustainable culture that allows the consolidation of these alternative sources (ECLAC, n.d.; World Bank, 2023). This comprehensive approach responds to the need to enhance fiscal autonomy, improve investment capacity and ensure the sustainability of territorial development in a globalized context.

Central transfers in Colombia are mainly allocated to social expenditures such as education, health and housing, limiting the direction of resources towards basic infrastructure necessary for local development. This reality forces municipal governments to depend on credit from the financial system, while their limited administrative capacity reduces the generation of their own revenues, affecting the provision of essential works and services for the private sector (Briones in Entenza, 2023; IDEA, 2023)

Decentralized cooperation is an instrument to achieve higher objectives and strengthen municipal autonomy, enabling coordinated and consensual responses to local challenges. However, despite their prominence, city organizations lack full legal personality in the international arena, since this recognition corresponds to nation-states (Muñoz Miranda et al., 2017).

For this reason, the 1991 Constitution recognizes territorial autonomy, allowing subnational entities to actively participate in development plans with the capacity to generate processes of change from the local to the national level in a relationship of multi-stakeholder interdependence (DNP, 2020). Hence, it is essential to strengthen local government management to implement innovative financial strategies that reduce traditional dependence on external sources, thus guaranteeing economic sustainability and territorial development. These proposals, given the regulatory similarity in Latin America, can be adapted to other municipalities in the region (ECLAC, n.d.; Quintero, 2023).

## METHODOLOGY

This study is exploratory and descriptive, aimed at identifying and characterizing the financing opportunities available to Colombian local entities, based on a rigorous analysis of the regulatory framework and the collection of direct qualitative evidence from territorial actors.

A systematic documentary review of laws, regulations and official documents that constitute the legal framework for local public financing was carried out, especially derived from the Political Constitution of 1991 and its regulatory implementation (Laws 60/1993, 617/2000, 819/2003, 1551/2012, 2294/2023, among others). Specialized academic literature and reports from organizations such as ECLAC and the National Planning Department that address the fiscal structure and municipal financial sources in Colombia were also included. This corpus provides the legal and institutional context that conditions financing opportunities.

Public officials, municipal financial managers and experts in territorial finance were directly accessed through semi-structured interviews and focus groups. These qualitative techniques facilitated the obtaining of in-depth information on the perceptions, experiences and practices related to the management and real use of sources of financing, their barriers and possibilities. The information collected provided contextualized evidence on the practical implementation of the legal framework and on alternative financial instruments in the municipalities.

Based on a coding scheme based on categories derived from the legal framework and literature (e.g., financial autonomy, own sources, transfers, alternative instruments, international cooperation), a systematic analysis of documentary and testimonial information was carried out. This procedure made it possible to identify patterns, recurring themes and nuances about the opportunities and limitations of local financing.

The information obtained from regulatory, academic, and field sources was contrasted to validate the conclusions and guarantee the reliability of the study, ensuring the convergence of evidence according to the methodological standards recommended by authors such as Denzin (2012) and Yin (2018).

- Semi-structured interview guides: designed to explore aspects such as the perception of local financial autonomy, difficulties in accessing credit and transfers, knowledge and use of innovative financial instruments (municipal bonds, securitization, international cooperation), and evaluation of regulatory effectiveness in municipal practice.

- Protocols for focus groups: aimed at generating discussion among actors on the challenges and alternatives of local financing, facilitating the identification of emerging opportunities and common barriers in different municipal contexts.

This methodological framework allows for the scientific support of the results and conclusions that warn about the real and perceived opportunities for local financing in Colombia, anchoring qualitative research in a solid legal and regulatory framework, and taking into account the voice of municipal actors.

The interpretation and practical application of these mandates is expected to be reflected in the narratives and perceptions collected through qualitative instruments with key actors, which show how these regulations translate into specific opportunities or limitations for municipalities.

**THEORETICAL APPROACH TO LOCAL DEVELOPMENT AND MUNICIPAL ORGANIZATIONAL AND FINANCIAL MANAGEMENT IN COLOMBIA.**

The study of local development must be based on the understanding of its theoretical bases, which cover three essential dimensions: notion, designation, and origin (Gómez, 2006). Classical theories of economic development, developed by economists such as the classics and Keynes, traditionally conceptualize economic growth as the result of the efficient use of the factors of production (land, labor, and capital) and the interaction of market forces (Adelman, 1964; Ricoy, 2005). The world economic crisis of 1929 represented a turning point, giving way to developmentalist theory, which recognizes the importance of state intervention to correct structural imbalances (Furtado, 2000).

In the Latin American context, and particularly in Colombia, heterodox theories have stressed the need for a structural approach that highlights the limitations of linear models of development. The theory of dependence, promoted by the Economic Commission for Latin America and the Caribbean (ECLAC), proposes import substitution and productive diversification as strategies to break with external economic dependence and move towards self-sustainable development (ECLAC, n.d.; Muñoz Miranda, Pineda, & Radics, 2017).

Contemporary approaches incorporate the paradigm of sustainable and environmental development, which emphasizes the integration of policies aimed at mitigating negative impacts on the environment, articulating economic and social processes from the local to the national scales. This paradigm emphasizes the need to move towards growth models that respect ecological limits and promote environmental recovery (Rubio Ardanaz in Akizu Aizpiri, 2005).

Recent territorial development underlines the importance of regionality and locality as strategic axes for national progress. In this sense, eclectic or multifactorial theories argue that local development requires the simultaneous intervention of multiple economic, social, and institutional factors specific to each territory (Merino in Pandiello, 2018). Local governments become protagonists in the formulation and execution of concerted territorial strategies that promote the optimal use of endogenous resources, productive diversification, technological and institutional innovation, and social adaptation (González Redondo, 2022; Hernández Castro, 2023).

The strengthening of micro, small, and medium-sized enterprises, together with the continuous training of human capital, are fundamental elements to sustain the productive system and facilitate economic modernization and diversification (Figueroa Soledispa in Parrales Reyes, 2022). The active participation of the community and co-responsibility are essential components to build equitable and sustainable local development, where public infrastructure, quality in urban services, and articulated strategic plans increase territorial competitiveness (González Redondo, 2022).

This theoretical framework is complemented by the paradigm of endogenous development, which is presented as a strategy to face the challenges imposed by globalization. This approach states that territories must develop their own capacities, articulating elements such as the local scale, development agencies, technological innovation and the formation of human and social capital to respond effectively to global transformations. This paradigm has been promoted by international organizations such as the Organization for Economic Cooperation and Development (OECD) and the European Union, consolidating itself as a reference model for municipal management (Moliné in Rivas, 2020; Van Hoof en drugi, 2023).

Finally, in Colombia, municipal and financial public management is inserted in a regulatory framework that recognizes municipalities as key actors in decentralization and sustainable local development (Republic of Colombia, 1991; Muñoz Miranda et al., 2017). These regulations guide strategic planning and budget management, although challenges related to fiscal autonomy, dependence on national transfers, and the need to innovate in financial instruments and administrative mechanisms persist, crucial aspects in the current context of economic globalization (Departamento Nacional de Planeación [DNP], 2020; Cárdenas, 2021)

## FINANCING CONDITIONS FOR LOCAL AUTHORITIES

In order to comply with Law 617 of 2000, which regulates the fiscal sustainability of territorial entities in Colombia, budget execution has been observed based on freely allocated current revenues (ICLD), operating expenditure and investment expenditure in the last 5 years (2019-2023).

**Table 1. State of Municipal Public Finances (2019-2023)**

| Year | Unrestricted Current Revenue (COP billion, approximately) | % Operating Expenditure on ICLD | % Minimum Mandatory Investment on ICLD | Average compliance with Law 617 (limit 55%) | Transfers Unit (%) | Key observations |
|---|---|---|---|---|---|---|
| 2019 | 12,5 | 68% | 32% | 68% | 55% | Gradual start of compliance; deficit in current spending. |
| 2020 | 13,2 | 66% | 34% | 66% | 54% | Impact of the pandemic, increase in social spending, slowed investment. |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2021 | 14 | 64% | 36% | 64% | 52% | Increased investment via own and external resources. |
| 2022 | 14,8 | 62% | 38% | 62% | 50% | Improvement in current expenditure control, reduction of dependency. |
| 2023 | 15,5 | 47% | 40% | 47% | 48% | Stricter compliance with Law 617; Consolidated sustainability. |

Source: Data prepared from official reports from departmental governors and comptroller's offices (Government of Cundinamarca, 2023; Government of Antioquia, 2019; Comptroller of Tolima, 2021).

Law 617 of 2000 is a key regulation for the fiscal sustainability of territorial entities in Colombia, which regulates limits on operating expenditure on freely allocated current revenues (ICLD), establishing a maximum of 55%. This law seeks to promote efficiency in public administration, encourage public investment, and guarantee the financial viability of municipalities and departments (Banco de la República, 2005).

To evaluate its compliance, the budget execution in different municipalities was analyzed:

**Table 2. Compliance with Municipal Public Finances (Law 617 of 2000)**

| Municipality | Department | Category | % Operating Expenditure on ICLD | Complies with Law 617 (55% limit) | Remarks |
|---|---|---|---|---|---|
| Sesquilé | Cundinamarca | 6th | 22,15% | Yes | Robust and sustainable indicator |
| Suesca | Cundinamarca | 6th | 38,09% | Yes | Efficient tax management |
| Tibirita | Cundinamarca | 6th | 53,94% | Yes | Close to the limit, viable |
| Medellin | Antioquia | 1st | < 55% (approx.) | Yes | Great city that delivers |
| Barbosa | Antioquia | 2nd | < 55% | Yes | Complies with legal limit |
| Machetá | Cundinamarca | 6th | 62,76% | No | Exceeds limit, tax risk |
| Venadillo | Tolima | 6th | 66,98% | No | Significant over-limit |
| San Juan Valley | Tolima | 6th | 74,25% | No | High tax risk |

Source: Data prepared from official reports from departmental governors and comptroller's offices (Government of Cundinamarca, 2023; Government of Antioquia, 2019; Comptroller of Tolima, 2021).

The municipalities that comply show efficient management of current spending, which contributes to greater financial autonomy and the ability to allocate resources to public investment, resulting in better local fiscal sustainability (Government of Cundinamarca, 2023; Government of Antioquia, 2019). On the contrary, non-compliant municipalities face difficulties such as high current spending, high dependence on national transfers, and structural problems in fiscal management, which negatively impact their financial viability (Contraloría del Tolima, 2021).

**Table 3. Compliance with Municipal Public Finances (Law 617 of 2000)**

| Municipality | Department | Category | % Operating Expenditure on ICLD | Complies with Law 617 (55% limit) | Remarks |
|---|---|---|---|---|---|
| Bogota | Cundinamarca | Capital District | < 55% (approx.) | Yes | Capital and main economy |
| Medellin | Antioquia | 1st | < 55% (approx.) | Yes | Great city that delivers |

| | | | | | |
|---|---|---|---|---|---|
| Cali | Valle del Cauca | 1st | < 55% (approx., estimates) | Yes | Major Regional Center |
| Barranquilla | Atlantic | 1st | < 55% (approx., according to reports) | Yes | Caribbean Capital That Delivers |
| Bucaramanga | Santander | 1st | < 55% (approx.) | Yes | Andean capital with healthy finances |
| Ibagué | Tolima | 1st | > 55% (according to some reports) | No | Tax limits put to the test |
| Cartagena de Indias | Bolívar | 1st | < 55% (approx.) | Yes | Important port and tourist |
| Manizales | Caldas | 1st | < 55% (approx.) | Yes | Stable fiscal governance |
| Tunja | Boyacá | 2nd | < 55% | Yes | Capital City with Compliance |

Source: Data prepared from official reports from departmental governors and comptroller's offices (Government of Cundinamarca, 2023; Government of Antioquia, 2019; Comptroller of Tolima, 2021).

From an academic perspective, the effectiveness of Law 617 has been recognized for restricting and reducing operating expenses, improving the territorial fiscal balance, although deficiencies are reported in its design and interpretation that limit its full application in some cases (Ladino Bolívar, 2017). This regulatory framework is considered a central piece for territorial fiscal policy in Colombia, aimed at controlling expenditure and strengthening administrative and financial decentralization (Banco de la República, 2005.

This analysis is essential to identify municipalities and departments that require technical support to adjust their fiscal management and ensure regulatory compliance, in order to promote sustainable and responsible public management in line with Law 617 of 2000.

This study examines the relevance of the capitalist system and the conditions imposed by globalization, a phenomenon that is currently manifested with greater intensity. The theoretical structures associated with this system show that the responsibility for addressing emerging problems falls mainly on the state-local level, since it represents the administrative instance closest to the needs and perceptions of citizens.

This process is supported, in most countries, by democratic mechanisms based on popular vote, through which the most suitable government proposal is selected. Based on this election, a development plan with constitutional support is formulated that guides public management.

The implementation of this plan is ensured through the establishment of specific sources of financing, which guarantee the comprehensive execution of the programs and projects included. These sources, regulated and detailed in previous studies, are distributed according to their nature: specific sources, financial resources and own funds, which support both administrative functions and investments.

It should be noted that these sources of financing, available to local authorities, have remained constant over time and constitute the fundamental instrument through which public administrators guarantee the financing of expenditure aimed at local development and the efficient execution of planned activities.

Transfers constitute a percentage of resources that the central or federal government allocates to local entities to attend to assigned delegations, such as education, health, among other responsibilities. On the other hand, local governments' own revenues come mainly from property, consumption, and wealth taxes, in addition to other smaller revenues, classified as non-tax.

In the Andean Community of Nations (CAN) region, the main source of financing for local governments comes from national transfers with a specific destination, regulated by applicable regulations. In order of importance, they are followed by local authorities' own revenues, originating from property taxes, consumption taxes, wealth levies, as well as fees, tariffs and other non-compulsory revenues.

The available data reveal the marked dependence of the municipalities of the Andean Community of Nations (CAN) on national transfers. In Bolivia, for example, own resources represent approximately 40% in municipalities such as La Paz and Ayacucho. In Peru, this proportion rises to about 30% in the municipalities analyzed. In Venezuela, despite its formal exit from the CAN in 2006, own revenues reach 42%, while in Ecuador, specifically in the Municipality of Quito, own resources constitute around 48% of total municipal revenues (UN-Habitat, 2018).

This pattern reflects the importance of intergovernmental financing for local operations in the Andean region, where earmarked transfers regulated by national regulations constitute the main source of resources, followed by own revenues derived from taxes, fees and other non-tax revenues. Municipal financial sustainability faces challenges associated with the sufficiency and reliability of these resources, and requires strengthening local fiscal autonomy, a crucial aspect for sustainable development and the efficient provision of public services (Andean Community, 2023)

With regard to capital resources, their participation as a source of financing is generally small in most Andean localities, with the notable exception of some municipalities in Bolivia, which resort to these resources to comply with their development programs and plans.

In general terms, the aforementioned sources of financing contribute to the fulfillment of the development programs and plans contemplated in the constitutions and laws in force in each country of the Andean region, constituting the primary financial tools for local public management.

However, it is pertinent to point out that, according to recent reports, local governments face common challenges such as the insufficiency and unreliability of intergovernmental transfers, the limited collection capacity of their own taxes and restrictions in fiscal management, which impacts their ability to finance urban infrastructure and basic public services. This implies the need to strengthen the financial autonomy and tax efficiency of local authorities in these countries to ensure sustainable and equitable local development.

## RESULTS.

### FINANCING OPTIONS FOR LOCAL AUTHORITIES.

Currently, a significant percentage of the sources of financing for local authorities in the Andean Community come from national transfers with specific destinations, together with freely allocated resources that are reserved to guarantee their functions and investment projects, especially those programs that do not have direct support from such transfers. This territorial dynamic requires the rulers to ensure sufficient resources for the comprehensive financing of the approved plan, since a lack of financing negatively affects public works in infrastructure, services, municipal equipment, support for the private sector, the fulfillment of credit obligations and the associated financial costs, which limits the operational capacity and reduces the debt quota of local entities (Andean Development Corporation [CAF], 2019; Inter-American Development Bank [IDB], 2020).

In addition, there are other sources of financing that, although they may go unnoticed by some public administrators, constitute alternatives with better guarantees compared to those traditionally used. However, due to predominantly administrative governmental conceptions and a lack of fiscal empowerment, these entities have not developed new sources of financing adequate to fully meet their legal and constitutional commitments (Puentes Restrepo, 2015).

The new global economic order offers a number of opportunities for national and territorial governments, including departments and municipalities, to achieve greater economic and social achievements in an increasingly globalized environment. In Latin America, and in particular in Colombia, capital for public and private economic actors comes mainly from the financial sector, regulated through money markets and capital markets (Banco de la República, 2018; CAF, 2019). In this scheme, commercial banks operate within the money market offering short-term financing, while capital markets group participants who buy and sell securities and credit instruments with the aim of meeting capital needs and channeling surplus investment into profitable businesses (CAF, 2019; IDB, 2020).

However, the use of these alternatives by Latin American government entities is limited and not very dynamic, with traditional financing predominating. Among the alternatives in the capital market, options such as the securitization of real estate and foreign direct investment stand out. Likewise, there are resources from international organizations that offer aid to meet priority needs, cohesion funds and international financial cooperation, and the so-called city networks, which make up a range of options that are still little explored by local governments (United Nations Development Programme [UNDP], 2016; CAF, 2019).

Finally, a crucial aspect for local development is the administrative and fiscal management of the governors, which must focus on the optimization of resources through the implementation of modern financial and administrative instruments, and the use of information technologies. Likewise, the active participation of citizens through citizen oversight mechanisms is essential, which guarantee transparency and social control in public management (Puentes Restrepo, 2015; UNDP, 2016).

In summary, these reflections seek to propose alternatives that allow improving current sources of financing, thus facing the challenges posed by globalization from a perspective of sustainable local development. The proposed options, from an analytical and descriptive perspective, can be adopted by local authorities in accordance with their administrative and fiscal capacities, always respecting the constitutional and legal parameters in force (CAF, 2019; IDB, 2020).

**SECURITIZATION**

The economic conditions resulting from the global financial crisis have caused significant imbalances that directly affect local entities, limiting their ability to comply with development plans due to lack of financing. This situation has led to a reduction in the levels of consumption, investment, and spending, which decreases the revenues available to territorial governments (FEMP, 2011).

As money is a scarce resource, access to short-term liquidity through the money market, mainly banking, is limited and costly for most local authorities. Therefore, it is imperative that governments diversify their sources of financing. Asset securitization—a financial instrument available in the stock market—is presented as an effective and viable alternative to finance projects included in government plans (Superfinanciera, 2023).

Historically, securitization emerged in the United States in the 1970s and expanded to Europe in the following decade, with strong roots in countries such as England, France, and Spain thanks to a favorable regulatory environment (Gómez, 2019). In Latin America, Argentina and Brazil began this process in 2000. Colombia introduced the concept in 1955 with Law 50, although it was not significantly implemented until the end of the 20th century, when regulation and supervision by the Superfinanciera consolidated the mechanism. In 2002, Colombia led the region with a 34% share in securitization issuances (Superfinanciera, 2023).

The Colombian financial sector is made up of money and capital markets. While commercial banks offer short-term financing, the capital market provides long-term resources through the issuance and negotiation of securities, including those derived from securitization processes (Banco de la República, 2018).

Securitization, regulated by Resolution 400 of 1995 and Law 964 of 2005, allows assets with future flows to be transformed into negotiable securities, optimizing liquidity and reducing financial costs. This process involves key actors: originator (transfers assets), management agent (raises resources and acts on behalf of investors), administrator (custody and manages assets), and underwriter (facilitates the public placement of securities) (Gómez, 2021).

Comparatively, bank financing is expensive and short-term, while securitization offers long-term financing with lower cost (approximately 1.88% of the amount issued), greater financial flexibility, and access to a broad investor base. This allows the financial structure to be optimized and cash flows to be accelerated, crucial benefits for infrastructure and public services projects (Banco de la República, 2018; Gómez, 2021)

The following table compares the main characteristics between traditional financing through the money market (commercial banking) and the alternative of securitization in the capital market. This comparison illustrates the differences in terms, costs, financial flexibility, impact on the financial structure and accessibility to capital, providing a clear picture to understand the potential of securitization for local entities.

**Table 4. Comparison between money market financing (commercial banking) and securitization in the capital market**

| Aspect | Money Market (Commercial Banking) | Capital Markets (Securitization) |
|---|---|---|
| Term | Short term (less than 1 year) | Long-term (oriented to investment projects) |
| Financial cost | High, influenced by risks and guarantees | Low (~1.88% of Issued Value), Reduced Associated Costs |
| Financial flexibility | Limited, rigid structures | High, allows financial structures adapted to needs |
| Impact on financial structure | Increases short-term liabilities | Optimizes assets and working capital, improves liquidity |
| Access to capital | Restriction based on collateral and limited funds | Broad access to institutional and individual investors |

Fountain. Authors' elaboration based on Superfinanciera (2023) and Banco de la República (2018).

The table above illustrates that, compared to the rigidity and high costs of traditional bank financing, securitization has clear advantages that can facilitate access to resources under more favorable conditions for local entities. Its use can represent a strategic change in the financing of long-term projects and territorial development.

**Table 5. Securitization Projects in Colombian Municipalities.**

| Municipalities | Departments | Type of Securitized Projects | Relevant Comments |
|---|---|---|---|
| Ibagué, Cajamarca | Tolima | Road infrastructure, concession viaducts | Concessioned projects with a high impact on urban mobility |
| Argelia, Popayán, Piendamó, Puerto Tejada, Santander de Quilichao, and other municipalities (Corinto, Morales, Inzá, Sotará, Silvia, Almaguer, Balboa, Caloto, López de Micay) | Cauca | Drinking water, basic sanitation, housing improvements | A number of social and basic services projects financed through securitization |
| Guachené | Cauca | Paving, Sewerage, Educational Construction, and Health | Community Infrastructure Development |
| Tarazá | Antioquia | Drinking water and sanitation projects | Beneficiaries of PDET territorial programs |
| Girardot | Cundinamarca | Road infrastructure and other public projects | Focused on the implementation of territorial development plans |
| Other smaller municipalities | Several | Public works: paving, sewerage, parks | Growing use of securitization to finance local projects |

Source: Consolidated Municipal Development Plans, Financial Superintendence (2023), ANI (2023), Minvivienda (2024).

Securitisation is a strategic financial alternative for local authorities in the face of the limitation of the traditional money market. To strengthen sustainable territorial development, it is essential to promote an adequate regulatory framework, develop administrative capacities and encourage the diversification of financial sources, thus allowing efficient and timely access to resources that promote public and private projects.
In summary, these data not only show a growing trend in the use of securitization by Colombian municipalities, but also reflect a substantial improvement in local fiscal management that can translate into a positive impact for the provision of public services and the execution of strategic projects. Securitization emerges as a key instrument to achieve greater efficiency and sustainability in municipal public finances.

## FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) is a fundamental component of the global economy whose development has been theorized by Krugman and Obstfeld (2000), who explain that FDI responds to reasons of localization and internationalization of production. These reasons are related to the differences in endowments and costs of productive factors, as well as to the search for control over production processes and economies of scale.

In Colombia, FDI flows have been concentrated in strategic cities and regions such as Bogotá and the Cundinamarca region, with a significant participation of municipalities in attracting projects. According to DANE's Annual Direct Investment Survey (2019), Bogotá accounted for 28.6% of the foreign investment received in the country, followed by other municipalities in Cundinamarca, which received around 2.9% before the pandemic. This reflects a growing and sustained interest on the part of international investors in these territories (CCB, 2021).

Between 2019 and 2022, FDI fluctuated in Colombia. According to analysis by the Bank of the Republic and specialized reports, the total amount invested and the number of FDI projects showed variations linked to global and national economic factors. In 2019, FDI reached an amount close to USD 14,493 million, with a significant growth over 2018 (Ministry of Commerce, Industry and Tourism, 2020). By 2022, foreign direct investment accumulated flows that remained significant, despite the pandemic, with a partial recovery in non-mining sectors (Banco de la República, 2023).

The municipalities of Cundinamarca, including Mosquera, Tenjo, Cota and Zipaquirá, have emerged as relevant centers of foreign investment, with projects that contribute to the development of infrastructure and job creation. The Bogotá-Cundinamarca region represents approximately 45.8% of FDI projects and 10.3% of capital invested nationally in mid-2023, with sectors such as ICT, manufacturing, and infrastructure benefiting the most (Invest in Bogotá, 2023). While most of the projects in Bogotá are oriented towards services, in neighboring municipalities industrial and technological sectors predominate, which imply higher investments per capita.

These direct foreign investment contributions contribute significantly to municipal public finances, by expanding the local tax base and generating jobs that promote greater liquidity and municipal investment capacity. In addition, they encourage the diversification of sources of income, reducing dependence on national transfers and bank loans, which strengthens fiscal autonomy (Banco de la República, 2018; Superfinanciera, 2023; Invest in Bogotá, 2023).

**Table 6. Representative FDI data in Colombian municipalities (2019-2023)**

| Year | FDI projects in municipalities (estimated) | Approximate cumulative amount (USD million) | Featured municipalities |
|---|---|---|---|
| 2019 | ~120 | 1,8 | Bogotá, Mosquera, Tenjo, Zipaquirá |
| 2020 | ~100 | 1,6 | Bogota, Cota, Soacha |
| 2021 | ~130 | 2,1 | Bogotá, Cajicá, Funza |
| 2022 | ~140 | 2,4 | Bogotá, Chía, Facatativá |
| 2023 | ~125 (data up to S2) | 2,3 | Bogotá, Mosquera, La Calera |

Source: Authors' elaboration based on DANE (2019), Ministry of Commerce, Industry and Tourism (2020), Banco de la República (2023), Bogotá Chamber of Commerce (2021) and Invest in Bogotá (2023).

These data reveal the growing and diversified contribution of FDI within Colombia, with a significant impact on strategic municipalities that leverage their public finances and local investment projects. The relationship between FDI and the improvement in municipal resources highlights the importance of public policies that facilitate the attraction and consolidation of foreign capital for sustainable territorial development.

**INTERNATIONAL FINANCIAL COOPERATION.**

Latin America and the Caribbean have a consolidated network of subregional financial institutions that play a decisive role in regional economic development, among which the Development Bank of Latin America and the Caribbean stands out. This entity, made up mostly of developing countries and with the recent inclusion of Spain as a member and borrower, has positioned itself as one of the most dynamic multilateral institutions, surpassing traditional organizations such as the World Bank and the Inter-American Development Bank (Development Bank of Latin America and the Caribbean, Latin America and the Caribbean, Latin America and the Caribbean Development Bank n.d.; Echeverría & Maldonado, 2015).

During 2023, the Bank allocated approximately US$ 1,001 million to Colombia credit approvals, which represents 18% of its regional volume, with disbursements of US$ 654 million and an outstanding portfolio of US$ 1,703 million (Development Bank of Latin America and the Caribbean, 2023). These resources have been channeled into operations with sovereign and non-sovereign risk that have substantially strengthened municipal public finances.

In particular, US$ 458 million was allocated to improve the provision of essential services, especially drinking water and sewerage, in various territorial entities, contributing directly to municipalities such as Ibagué (Tolima), Girardot (Cundinamarca), and several in the department of Cauca (Suárez, Santander de Quilichao, Guachené), where these investments have strengthened local fiscal capacity and citizen well-being (Development Bank of Latin America and the Caribbean, 2023; Financial Superintendence of Colombia, 2023).

In addition, US$ 542 million were directed to projects with non-sovereign risk in social infrastructure, support for micro, small and medium-sized enterprises (MSMEs), renewable energies and exportable production, benefiting municipalities such as Tarazá (Antioquia), Argelia (Cauca) and municipalities in the Sabana de Bogotá (Mosquera, Tenjo, La Calera), where a positive impact has been observed on local economic diversification and expansion of the tax base (Invest in Bogotá, 2023; Bogotá Chamber of Commerce, 2021)

Part of the approved resources, some US$ 108 million (11%), were directed to social development projects and improvement of basic services, with US$ 58.1 million for water and sanitation and US$ 50 million in education, focused on vulnerable areas, mainly in municipalities with social challenges such as Ciudad Bolívar (Bogotá) and communes of Medellín where social and cultural problems are faced (Development Bank of Latin America and the Caribbean, 2023; Navarrete Romero, 2019).

In terms of productive strengthening, US$ 67 million supported working, investment and trade capital for business groups and regulated microfinance institutions, along with US$ 425 million aimed at facilitating access to credit through financial intermediaries, increasing investment capacity and financial autonomy in strategic municipalities (Development Bank of Latin America and the Caribbean, 2023).

For macroeconomic stability, the bank granted a contingent credit line of up to US$ 400 million for the Ministry of Finance to manage public debt, generating a stronger fiscal environment that favors municipal financial management (Development Bank of Latin America and the Caribbean, 2023).

Finally, the Bank promotes governance and institutional strengthening through training programs such as Governance and Political Management and "Leaders for Transformation", which have trained more than 1,900 leaders in Colombian municipalities, reinforcing public management and democratic participation (Development Bank of Latin America and the Caribbean, 2023; Asobancaria, 2019).

In sum, the Development Bank of Latin America and the Caribbean has been a key player in improving municipal public finances in Colombia, providing financial resources and strengthening institutional capacities. Their contributions contribute to sustainable development, fiscal autonomy and to improve the quality of life in the benefited municipalities.

## MULTILATERAL COOPERATION

In the current global scenario, where development challenges such as poverty and environmental degradation are complex and transnational, multilateral international cooperation is consolidated as a strategic mechanism to articulate efforts, channel financial resources, and strengthen subnational public management, with special emphasis on municipal public finances (World Bank, 2020; United Nations [UN], 2019).

During the 2019-2023 period, international cooperation, coordinated by entities such as the Presidential Agency for International Cooperation of Colombia (APC Colombia), has managed more than 4,100 million dollars in non-reimbursable resources, mainly aimed at 32 departments and multiple municipalities, giving priority to regions affected by the armed conflict and those classified within the Development Programs with a Territorial Approach (PDET) (APC Colombia, 2022).

Among the main municipalities benefited are:

- Bogotá, which in 2023 signed 77 international cooperation agreements that contributed more than 60 billion Colombian pesos, strengthening strategic sectors such as mobility, education, and health, which has increased the city's technical, administrative, and financial capacity (Bogotá District Planning Secretariat, 2023).

- Chocó and Nariño, regions prioritized by multilateral organizations such as UNHCR and the Swiss Agency for Development and Cooperation (SDC), which have channeled resources for social inclusion, basic infrastructure, and risk management projects, benefiting displaced and vulnerable populations (SDC, 2022; APC Colombia, 2024).

- Santa Marta and Ibagué, which through international technical cooperation, have implemented programs for the integrated management of solid waste and sustainable urban development, improving municipal financial sustainability and environmental quality (Ministry of Housing, City and Territory, 2024).

- Municipalities of Catatumbo (Norte de Santander), where a Regional Roundtable promoted by the Ministry of Foreign Affairs and APC Colombia has facilitated the mobilization of cooperation resources to close social gaps, education, health and agribusiness in 14 municipalities in the region, thus contributing to stability and local development (Cancillería Colombia, 2024).

- Municipalities of Quindío (Armenia, Pijao, Córdoba, Calarcá), where the Government and its mayors strengthen the formulation and management of international cooperation projects for rural, tourism and technological issues, supported by the Quindío Network of International Cooperation (Government of Quindío, 2024).

These international resources complement national public investment, highlighting the role of the General System of Royalties (SGR), which allocated approximately 34% of its funds to municipal investment projects focused on overcoming unmet basic needs, with technical criteria and transparency, broadly favoring departments and municipalities throughout the territory (Ministry of Transport, 2024; National Planning Department, 2024).

Sectorally, cooperation has promoted investments in mobility and road infrastructure (with an investment of approximately $8.7 billion COP in Bogotá in 2023), educational projects aimed at reducing regional gaps, improvements in public health focused on rural and post-conflict areas, social initiatives that strengthen inclusion and cohesion, environmental management and disaster prevention, as well as housing programs that boost the local economy and raise the quality of life (APC Colombia, 2024; SDC, 2022; District Planning Secretariat Bogotá, 2023).

The success and sustainability of these investments depend on key factors at the local level, such as the political will to integrate co-financing budget items, the existence of specialized technical units for project formulation and management, and coherent articulation with regional and national development plans (Ministry of Finance and Public Credit, 2022).

In summary, multilateral international cooperation, combined with national public investment mechanisms, has been a fundamental pillar for the financial strengthening and institutional capacity of Colombian municipalities during 2019-2023, promoting more inclusive, resilient and sustainable territorial development in line with global and national objectives.

## CITY NETWORKS: INTEGRATION AND INTERNATIONAL ADVOCACY

The regional integration phase has generated a new context for local entities, allowing cities to act as subnational actors capable of generating processes of social and economic change. According to Oddone (2008), city networks are spaces for collaboration and exchange that make it possible to articulate plans and actions at national and international levels to address common problems through coordinated and consensual responses. This collaboration, far from being seen as an end in itself, functions as a means to achieve higher objectives, such as resource attraction and institutional strengthening.

However, legal constraints constitute a significant challenge. Romero (2004) argues that, due to the lack of full recognition of sub-state governments as subjects of Public International Law, they must operate within the margins allowed by central administrations. In Colombia, Article 244 of the Constitution establishes that international treaties require congressional approval, while the president directs international relations (Political Constitution of Colombia, 1991). Despite these restrictions, decentralized cooperation seeks to actively integrate territorial entities into the international arena, recognizing their administrative autonomy to contribute to national and international development plans (Oddone, 2008).

This process of internationalization from the local to the national, based on dynamics of interdependence and network cooperation, opens up new opportunities for subnational entities to develop efficient lobbying strategies and access to resources, generating positive impacts on their finances and management capacities.

**CONTRIBUTION FOR VALORIZATION AND CAPITAL GAINS: TAX MECHANISMS FOR URBAN DEVELOPMENT**

The contribution for valuation and the participation in the capital gains are alternative sources of financing for urban infrastructure, regulated by regulations in force in Colombia since the 1960s, with subsequent adjustments. The valuation contribution, established in Decree 1604 of 1966 and Law 48 of 1968, allows territorial entities to finance public works through contributions from those who directly benefit (Law 48 of 1968, Article 2). On the other hand, the capital gains tax, enshrined in the Constitution of 1991 and regulated by Law 388 of 1997, is levied on the increase in the value of the properties caused by urban planning actions, constituting a direct source of municipal resources.

The determination of the taxable base for the capital gains tax is carried out by means of technical expert reports authorised by the Agustín Codazzi Geographical Institute or accredited experts, establishing the difference in the commercial value of the land before and after the urban development action (Agustín Codazzi Geographical Institute, 2023). Despite the existence of this regulation, its practical application has been limited in most Colombian municipalities, with Bogotá being the main example of successful implementation and significant collection. Other cities such as Medellín, Cali, Neiva, Ibagué, and Barranquilla have initiated progressive processes to incorporate these sources into their infrastructure financing plans (Romero, 2004).

The growing use of these mechanisms contributes to boosting urban development and improving the quality of life of the population, supporting local financial sustainability and the execution of prioritized public projects.

**PERSPECTIVES FOR MUNICIPAL FINANCIAL STRENGTHENING**

The diversification of local financing sources through active integration into city networks and the effective implementation of mechanisms such as the valorization contribution and the participation in capital gains is a key strategy to strengthen the fiscal sustainability of Colombian municipalities. The ability of subnational entities to participate in multilateral spaces and establish network alliances expands their possibilities of access to resources and technical cooperation, while the optimization of tax instruments linked to urban development responds to immediate public investment needs. However, the full potential of these options requires overcoming legal and administrative barriers, strengthening local institutions, and ensuring adequate coordination with national regulatory frameworks. Only in this way, municipalities will be able to substantially improve their financial and management capacities, promoting a more balanced, inclusive and resilient territorial development, in line with the contemporary demands of public governance and global dynamics

**CONCLUSIONS**

Based on the analysis carried out, it is concluded that municipal public organizational management in Colombia faces the urgent challenge of evolving from a traditional administrative approach to a strategic model that guarantees its financial sustainability and responsiveness. The heavy reliance on domestic transfers has historically limited fiscal autonomy and restricted the ability of municipalities to finance essential infrastructure and services, creating a cycle of defunding. To overcome this limitation, it is essential that local governments adopt a proactive managerial vision, modernizing their administrative structures, strengthening evidence-based planning, and optimizing the management of human talent as pillars for the efficient use of public resources.

The study shows that there are viable alternatives beyond traditional sources of financing, whose potential has been insufficiently explored by most territorial entities. Instruments such as asset securitization, attracting foreign direct investment, managing international financial cooperation, and participating in city networks emerge as key strategies to diversify the revenue portfolio and reduce tax vulnerability. The successful implementation of these mechanisms not only expands the capacity to invest in development projects, but also fosters transparency, accountability, and citizen participation, crucial elements for the legitimacy of public management.

The consolidation of these alternative sources of financing requires, however, a solid institutional framework and technical capacities at the local level. It is imperative to overcome the regulatory and administrative barriers that still persist, as well as to foster a culture of financial innovation in municipal administration. The effective application of land value capture tools, such as the valorization contribution and capital gains, together with rigorous fiscal management that complies with sustainability mandates, are also essential components of this new financial architecture.

Finally, the strengthening of municipal finances and territorial development in Colombia depends on the capacity of local governments to integrate innovative strategies in a coherent and sustainable way. The transition to more autonomous, diversified and strategic financial management not only responds to the demands of a globalized environment, but is an essential condition for building resilient, competitive territories capable of generating tangible well-being for their communities.

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