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Case Study: Dakar Municipal Bond

Tags: Investment, Infrastructure, Cities, Case Study, Evidence



This case study covers a sequence of technical assistance interventions by PPIAF/SNTA and other development partners between 2009 and 2014 designed to strengthen the financial management of the City of Dakar and raise financing for municipal infrastructure projects (See Annex I, Table 7). This illustrates a number of distinctive and instructive features even though the planned municipal bond issue was aborted shortly before it was due to be launched in early 2015 because of political opposition from the central government.¹ These features include:

- A pioneering transaction to access market funding for municipal infrastructure;²
- The linkages between TA to support the enabling environment (EE) and facilitating financing or investment transactions;
- Achievement of some notable positive results based on constructive co-operation between a range of donors providing complementary upstream and downstream support; and
- The powerful influence of political economy issues on the outcome of the planned transaction.

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Overview

Description of the PPIAF/SNTA platform

The Public-Private Infrastructure Advisory Facility (PPIAF) is a multi-donor technical assistance facility established in 1999 to help developing countries improve the quality of their infrastructure through the participation of the private sector. PPIAF's Sub-national Technical Assistance Program (SNTA Program) was set up in 2007 to provide technical assistance to support sub-national entities (SNEs) to improve their ability to access financing for infrastructure investments, without relying on sovereign guarantees.

SNTA's objectives and scope of activity

The core PPIAF program supports policy, regulatory and legal reforms, primarily at the national level, to foster public-private partnerships (PPPs) in infrastructure. The SNTA program was designed to be a complementary window within PPIAF to develop the systems and capacities of SNEs in developing countries to access market-based and commercial financing. The SNTA Program delivers technical assistance, primarily through "capacity

¹ Africa Research Institute (ARI), *Dakar's municipal bond issue: A tale of two cities*, Briefing Note 1608, 2016 (provides a description of the political economy background to this case study).

² Previously the only municipal bonds issued in Sub-Saharan Africa had been in South Africa.

building to improve the credit worthiness of sub-national entities (SNEs) and their investment projects.”³ These capacity building activities are intended to improve financial management, strengthen governance and human resource capacity, encourage best practice procurement procedures, and enhance corporate and business planning.

Interviews with stakeholders undertaken during the recent independent evaluation of SNTA indicated that it is one of the few global programs that address the fundamental financial management needs of SNEs, and the only WB trust fund program dedicated solely to SNE financial management, indicating that it has a distinct and valued niche in this area.⁴ Other identified key organizations that work in this space are partners of SNTA, AFD (Agence Française de Développement), C40⁵, and the Rockefeller Foundation) and USAID.

Persons interviewed indicate that SNTA is distinct from other programs in providing tailor-made support to SNEs (including, for example, support for development of financial management skills, regulatory frameworks, stimulating market development). This compares favourably with the mandates of project development facilities which tend to focus either on downstream work when working at the sub-national level, or on the whole project cycle, but only for projects at the national level or regional level.⁶ On the other hand, stakeholders expressed reservations about the continued relevance of the SNTA program’s objective, as articulated in its 2007 strategy, which is narrowly focused on SNEs accessing *market based financing without sovereign guarantees*, as being neither realistic nor appropriate given the modest financial management capacities of most SNEs in LICs, and particularly in fragile states.⁷ These issues are being addressed by PPIAF as part of an ongoing review of SNTA’s strategy.

Theory of Change

The Universalia evaluation concluded that the SNTA program is relevant and has had positive results, but also found that it lacks the systems to plan, manage, review and report on overall SNTA program performance.⁸ While the components, outputs, outcomes of each funded SNTA activity are defined in the activity application, and used to monitor and report on activity performance, the SNTA programme lacks an overall framework that clearly defines its expected results and how they will be measured. Similarly, while PPIAF multi-year business plans and annual work programmes identify specific quantitative targets for SNTA (e.g. related to the emphasis on Africa or on developing countries and fragile states), no PPIAF document describes SNTA objectives, strategies, expected results, risks and assumptions for the multi-year or annual period. Instead, PPIAF documents blend all PPIAF programmes together.

Unlike PPIAF, SNTA does not yet have its own results logframe that corresponds to the Theory of Change. The current Extended Version of the PPIAF ToC identifies several outcomes relevant to SNTA (See Annex II, Table 8) but is not sufficiently grounded in the SNE context to provide a practical basis for program design and management.

Evidence of economic development contribution

PPIAF SNTA performance indicators

The SNTA Program continues to be guided by the program objective in the 2007 Business Plan, which includes the following four Performance Indicators.⁹

Indicator #1: The *number and size of financings* that result from the improved financial management and project preparation provided by the programme technical assistance.

³ World Bank, *PPIAF Sub-National Technical Assistance Program Business Plan, 2007*, p2.

⁴ Universalia, *Independent Evaluation of the Public-Private Infrastructure Advisory Facility’s Sub-national Technical Assistance Program*, Final Report, 2016, p28.

⁵ C40 is a network of the world’s megacities committed to addressing climate change which supports cities to collaborate effectively, share knowledge and drive meaningful, measurable and sustainable action on climate change, Available at: <http://www.c40.org/>

⁶ The Infrastructure Consortium for Africa, *Assessing infrastructure project preparation for Africa*, Volume A: Diagnostic & Recommendations. African Development Bank, 2012.

⁷ Universalia, 2016, p.31

⁸ *Ibid.*, p.54.

⁹ *Ibid.*, p.8.

Indicator #2: The *number of sub-national entities that have increased their capability* to raise financing from non-governmental sources, because they have (1) earned an appropriate local currency credit rating; or (2) substantially improved a local currency credit rating;

Indicator #3: Indicators of *performance reported on a portfolio basis, which measure the percentage of clients achieving entity-specific targets* established for individual interventions, for example, unqualified audit opinions, etc.;

Indicator #4: The *number of people who benefited from infrastructure services* (expanded or improved services) and level of inclusion of poor and vulnerable groups, as a result of investments facilitated under this programme.

As noted, the Universalia evaluation found that PPIAF lacks systems to plan, manage, review and report on the overall SNTA program; this contributes to a fragmented view of the program's performance. In particular, the evaluation report highlights specific weaknesses:

- Over time, the PPIAF systems used to record and report on the performance of programs evolved, contributing to some gaps and inconsistencies in the types of information available;
- Information on some program indicators was not collected by SNTA;
- The PPIAFF Activity Tracking System (PATS) system contains data on activity outputs and outcomes. However for earlier activities information is in documents in text form and could not be tabulated.¹⁰

In mitigation of these criticisms, TA providers not involved in downstream transactions related to their work have less access to information on outcomes related to access to services or increases in employment or incomes which will often only be realized several years after completion of the TA intervention.

In addition, there are considerable problems of attributing the influence of TA activities to macro-level economic outcomes. The evaluation concluded that attempts to measure the longer term in a programme that is primarily focused on short-term activities are, in our view, futile.¹¹

Inclusion of poor and vulnerable groups: Although PPIAF's performance indicator #4 refers to inclusion of the poor and vulnerable groups, the 2015 PPIAF Technical Advisory Panel (TAP) Annual report, raised concerns the coverage of the cross cutting themes of gender and poverty in PPIAF/SNTA's monitoring and reporting documentation. As stated in the TAP's Annual report.¹²

"The Program Council has requested more emphasis on gender and on poverty but at the same time, wants PPIAF to work upstream. In practice these two demands may be contradictory and could only be fully reconciled by greater 'vertical' stretch from high level activity to downstream detail, which would mean more financial commitment..."

In the context of the DMBI case, the Gates Foundation which financed the feasibility study of the market project to be financed by the bond issue made its support conditional on addressing social inclusion issues. As a result, the project to finance the relocation of existing city markets to a central built marketplace, was expected to provide improved livelihood opportunities for about 3,000 street vendors,¹³ and to contribute to social inclusion (a high proportion of the street traders to be accommodated by it are women) and adaptation to climate change (by reducing the impact of flooding on the street traders).

Climate and environment: Climate and environment objectives were not directly addressed across this program. Although there is some suggestion that SNTA has addressed climate change objectives on some projects (based on TAP 2014 reviews), this could not be clarified for the purposes of this review.

¹⁰ Universalia, 2016, p. 4

¹¹ Universalia, 2016, p. 32

¹² PPIAF Tap Annual Report (2015)., p7-8

¹³ Cities Alliance, *West Africa's First Municipal Bond Enables Pro-Poor Investment in Dakar*, http://www.citiesalliance.org/sites/citiesalliance.org/files/CA-in-Action-Municipal-Financing-Dakar_Final.pdf.

The Interventions

Khalifa Sall was elected Mayor of Dakar in 2009, unseating an ally of the then President Wade. He promised to improve the city, especially for its poorer residents, and to ensure greater public participation in its affairs. Sall was re-elected in 2014 and by then had emerged as a standard bearer for active local government throughout Africa.¹⁴

Many developing African countries have adopted decentralisation policies and enhanced local governance, which have transferred considerable responsibility for service provision to local governments. However, this has often been done without corresponding decentralisation of revenue sources to support the provision of these services, or strengthen public sector management systems. The initial PPIAF diagnostic study of Dakar's public finance highlighted these issues and their consequence constraints on the city's capacity to plan and develop its infrastructure services.¹⁵

Without the regular transfer of resources, Dakar cannot fulfil all its devolved responsibilities. There is limited scope to increase local revenue collection because taxation is highly centralised. Although the city succeeded in increasing its own revenues by almost 40% in 2008-12, it has control over less than 10% of its total revenue, mostly generated from fees for advertising billboards.

The ARI Briefing Note, which provides a detailed analysis of the political economy constraints on efforts by the municipality to achieve a degree of financial autonomy which eventually blocked the floatation the municipal bond, concludes "Dakar is in fact two cities [...] it is a fiercely contested political prize as well as being the direly underfunded centre and hub of Senegal's economic activity. This duality has proved a significant obstruction to economic and social development in many capitals worldwide."¹⁶

SNTA interventions in support of city of Dakar

SNTA's support to the City of Dakar began in 2008, when PPIAF helped the city to undertake a Public Expenditure and Financial Accountability (PEFA) assessment.¹⁷ Following the PEFA, SNTA provided technical assistance to help the City improve its revenue collection. Finally, in 2014, SNTA helped the City obtain a credit rating for its planned first municipal bond issuance: a necessary condition for attracting institutional investors.

Key success challenges in delivery

Innovative features of this intervention

SNTA'S assistance to the City of Dakar included several innovative features. The Public Expenditure and Financial Accountability (PEFA) assessment for Senegal, arranged and funded by SNTA was one of the first pilot applications of the PEFA methodology launched in 2005. Subsequently, in recognition of the limitations of short-term activities to build sustainable public finance management capacities of SNEs, AFD and PPIAF designed the multi-phase Public Expenditure and Financial Accountability program (PEFA) which provides two phases of support to help cities assess their performance using the PEFA tool, develop an action plan to improve it, and in the second phase, implement the action plan. PPIAF has since funded PEFA assessments for six cities in five countries.

Since 2005, PEFA has become the acknowledged standard for PFM assessments. More than 500 PFM assessment reports for 149 countries have been completed on 31st of December, 2015. In 2016, PEFA published a substantially upgraded from the original PEFA methodology, to reflect the changing landscape of PFM reforms and the evolution of good practices.¹⁸

The proposed municipal bond, which is to be issued without a government guarantee and ear-marked to fund a prop-poor infrastructure project, would have been the first such transaction in sub-Saharan Africa, outside South Africa.

¹⁴ ARI, 2016

¹⁵ PPIAF, *Evaluation de la gestion des finances publiques de la Ville de Dakar*, 2009.

¹⁶ ARI, 2016, p.4

¹⁷ PPIAF, *PPIAF Helps the City of Dakar Improve its Creditworthiness*, PPIAF Impact Story, 2015.

¹⁸ Public Expenditure and Financial Accountability program (PEFA), *Framework for assessing public financial management*, February 2016.

Conclusions

1. The City of Dakar benefited from PPIAF/SNTA's assistance, even if the intended bond transaction was aborted by political opposition from the central government. The initial PEFA assessment contributed to improving Dakar's financial management and, in particular, revenue collection. City revenues increased by almost 40% between 2008-12. Improved financial management was also instrumental in enabling Dakar to mobilize over \$50 million donor and commercial financing for infrastructure projects, including an ADF loan to fund improvements in street lighting completed in 2013. In addition, SNTA helped Dakar demonstrate its creditworthiness by obtaining a recognized credit rating, which may still be of value in future efforts to attract financing. Management capabilities are a critical component of rating agencies' credit analysis, of sub-sovereign entities.¹⁹
2. Despite the limitations to SNTA's mandate, a wide range of complementary donor support was mobilized to support the broader objectives of establishing Dakar's creditworthiness and accessing financing for urban infrastructure and demonstrated the important linkages between TA for upstream diagnostics and capacity building, and downstream work in facilitating transactions. Thus, the case illustrates the advantages of offering a range of TA services to meet the evolving needs for downstream support.
3. With professional planning, strong political support and participative consultation, urban investment projects, e.g. housing street vendors in permanent markets, can be structured to provide pro-poor benefits as well as being financially self-liquidating.
4. Political economy issues, in particular rivalry between central and municipal level governments and flawed models of fiscal decentralization, under which sub-national levels are assigned responsibility for infrastructure services without access to financial resources to deliver them, are major constraints on development. To be effective, a politically-informed approach to addressing these constraints needs to be iterative and flexible, not focused on a single output. The political sensitivity about raising the capital raising capacity of SNEs also suggests that TA support for the enabling environment for urban development would be better directed to the broader objective of enhancing the financial sustainability of SNE's, including expenditure management and revenue generation, rather than promoting specialized financial instruments with limited relevance to low-income countries.
5. There are opportunities for further comparison of the functional scope and geographic/sector coverage of TA linking upstream and downstream support for infrastructure development by SNE's, provided by the major donor organizations active in this field to identify gaps and opportunities for co-operation;
6. There is a need to assess the opportunities for applying the PEFA framework in DFID priority countries as an entry point to expand its urban programming work.

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¹⁹ Paulais, Thierry. 2012. *Financing Africa's Cities: The Imperative of Local Investment*. Washington, DC: World Bank.