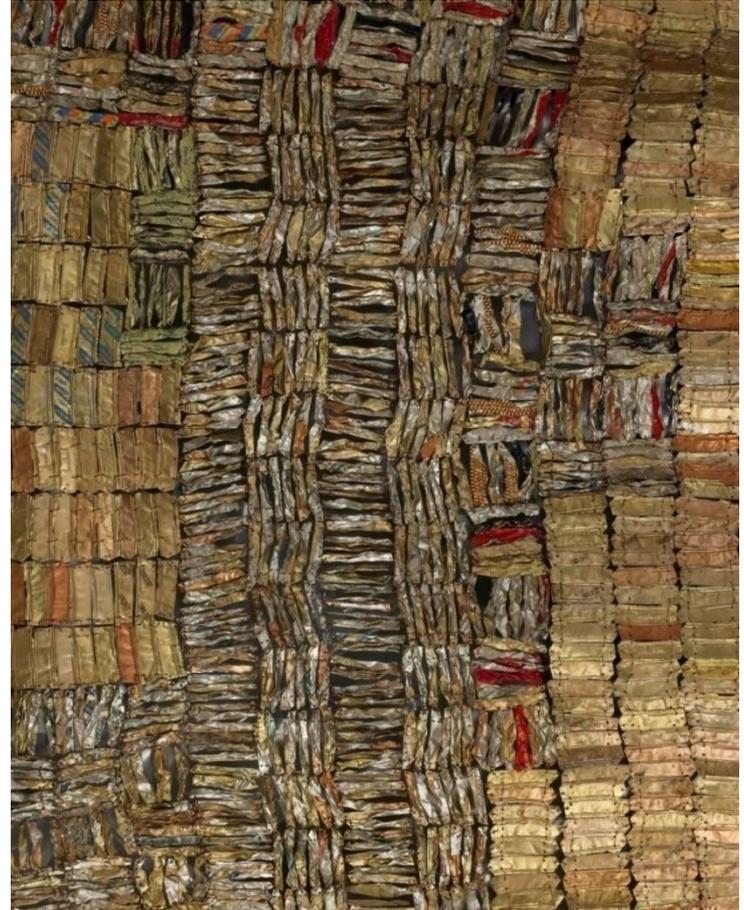


# Financing Africa's Cities

*The Imperative of Local Investment*

Thierry Paulais



Part A. **Book's overview**

Part B. 2030-2050 perspectives: which roadmap(s)?

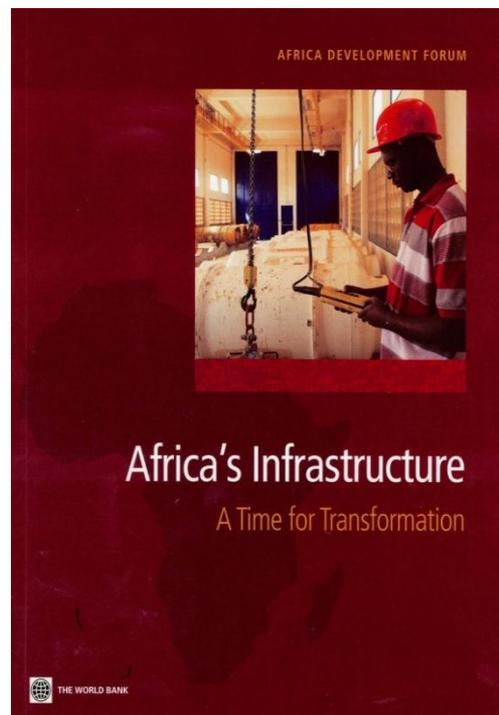
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### *To be published in:*

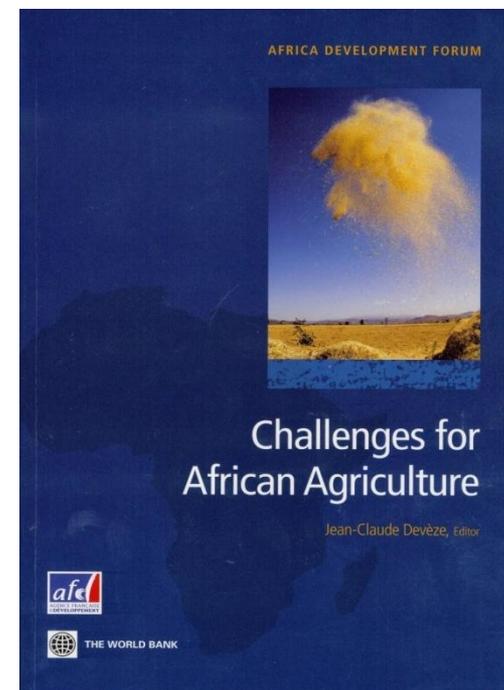
- Africa Development Forum Series
- English and French versions
- First quarter 2012
- Hard copies/e-book

### *Targeted audience:*

- Decision makers
- Local authorities
- Civil servants, municipal workers
- Finance practitioners
- Urban practitioners
- Academics, students



**Cities Alliance**  
Cities Without Slums

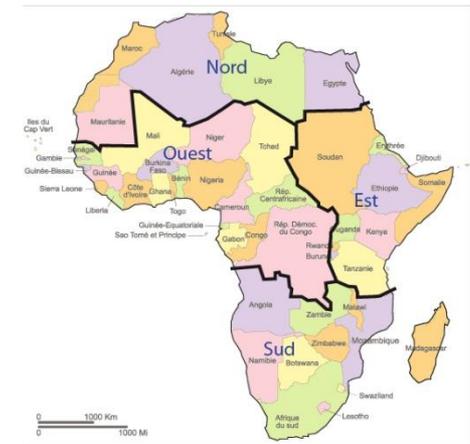
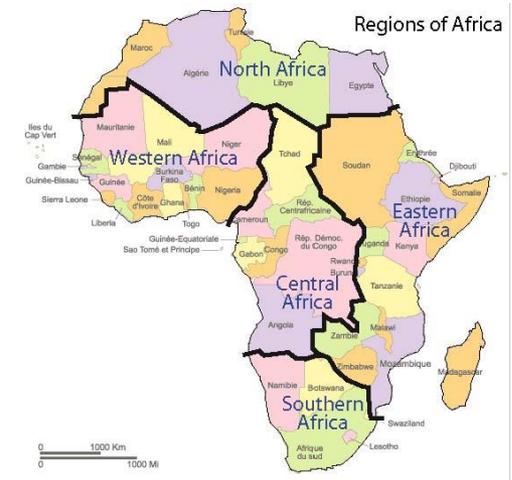


### *Geographic scope:*

- African Continent...
- with a focus on Sub-Saharan Countries (without SAR)
- sub-divided into five regions (WDR 2009)
- and examples from other regions (Asia, Americas, EU)

### *Background papers by:*

- Victor Chomentowski (Conjuguer)
- Festus Egwaikhide and Stanley Okafor (Ibadan University)
- Fernando Gama (Evensen Dodge International, Inc.)
- Lucien Godin (Groupe huit)
- David Painter (TCGI)
- Juliana H. Pigey (The Urban Institute)
- David Sims and Marion Sejourne (consultants)
- Anne Sinet (Groupe huit)



## *Objectives:*

- Highlight the issue of financing local investments in Africa's cities
- Provide a synthesis of the stakes and issues
- Inform the choices of decision makers at the national and local levels
- Offer operational avenues to bolster and modernize the financing systems
- Promote a strong culture of investment and credit

## *Five parts:*

1. Financing local investments: a review of fundamentals
2. Urbanization and sectoral policies in context
3. Decentralization, basics services and local governance
4. Investment financing framework and new financing mechanisms
5. 2030-2050 perspectives: which roadmap(s)?

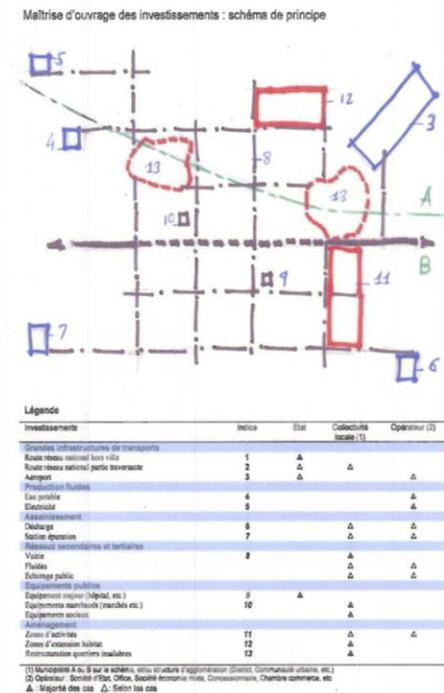
## *And:*

- Case Studies: 8 countries and their Financing Tools
  - 70 examples from Africa, East and South Asia, North and Latin America, and Europe
  - 290 references, more than 800 documents in bibliography
-

## Section I

### Financing Local Investments: a review of fundamentals

1. The concept of “local investment”
2. Different ways to finance local investments
3. Specific financing products and techniques
4. Climate change and new financing mechanisms
5. The economy of public-sector local investment and its financing
6. Selecting local investments and a strategic framework
7. Governance and contractual approach set-up
8. The importance of financial analyses
9. Some lessons from the Financial 2008 Crisis



## Section II

### Urbanization and sectors policies in context

1. Africa(s) on the move
  2. A perspective on demographics and urbanization
  3. Still- underestimated challenges and exploitable opportunities
  4. The new challenges: climate change and its consequences
  5. The land-ownership issue
  6. Land development and housing
  7. An attempt to estimate the amount needed for local urban investment
-

## Section III

### Decentralization, basic services and local governance

1. A perspective on decentralization
  2. Local Government's institutional landscape
  3. An attempt to estimate local government's financial capacities
  4. The difficulty of managing basic services
  5. Local-level governance and implementation capacity
  6. Fragile situations, fragile cities
-

## Section IV

### Investments financing frameworks and new financing mechanisms

1. Local governments' financing systems
  2. Financial systems and financing investments
  3. Banks and regional or national development institutions
  4. Local investments financing tools and mechanisms
  5. Overviews and results of public-private partnerships in Africa
  6. Philanthropic foundations
  7. China and other emerging countries
  8. Sovereign wealth funds and infrastructure investments funds
  9. Carbon finance
  10. The stakes surrounding migrant remittances
  11. Micro-finance and the missing link of meso-finance
-

## Section V

### 2030-2050 perspectives: Which Roadmap(s)?

1. Change scales, change paradigms: two imperatives and paradigms
  2. Empower local governments
  3. Encourage endogenous financing
  4. Bolster financing tools
  5. Modernize financing systems
  6. Turn to local capital markets
  7. Mobilize credit institutions
  8. Toward a new generation of local investment funds
  9. A legislative and regulatory framework sub-sovereign debt
  10. Financing the city through land value capture and land development: an inevitable evolution
  11. Increasing capital and commercial activity: leveraging housing
  12. A special initiative for fragile cities
  13. A conclusion
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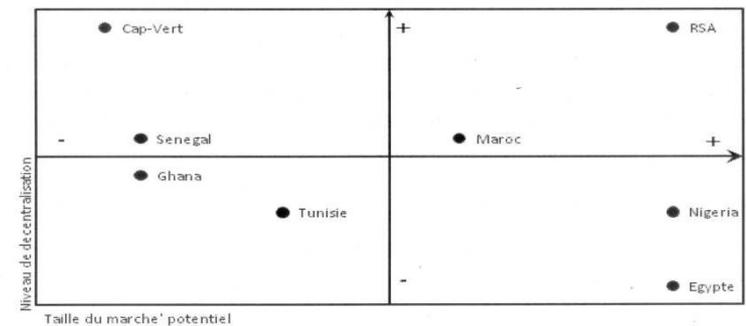
## Case studies: countries and their financing tools

- Cape Verde and commercial banks
- Egypt and NIB and land value capture
- Ghana and DDF/MFA
- Morocco and FEC
- Nigeria and UDB
- RSA & DBSA/INCA/Capital Markets
- Senegal and ADM
- Tunisia and CPSCCL
- An attempt to characterize countries and tools

Récapitulatif :types d'outils par pays

	Banques commerciales	Banque nationale	Fonds décentralisation	IFS Publique	IFS privée	Marché obligataire
Cap-Vert	•					
Ghana			•			
Egypte		•				
Maroc				•		
Nigeria					•	•
RSA				•	•	•
Sénégal			•			
Tunisie				•		

Positionnement des pays sur une grille taille de marché/niveau de décentralisation



Part A. Book's overview

Part B. 2030-2050 perspectives: which roadmap(s)?

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## Change scales, change paradigms: two imperatives

- ❑ Following decades of underinvestment, the situation in cities has actually degraded
  - ❑ Real decentralization probably not progressing
  - ❑ 300 millions to urbanize: an underestimated challenge
  - ❑ Local investments needed: USD 25 billion/year
  - ❑ Investment capacities by Local Governments: USD 10 billion/10years
  - ❑ Lack of operators in land development
  - ❑ Present trend “business as usual” not sustainable
  - ❑ Economic consequences underestimated
  - ❑ Improve the productivity of cities
  - ❑ Drastic changes in scale and paradigms necessary
-

## The inevitable strengthening of local governments

- ❑ State transfers probably not to be increased in proportion to needs (other priorities)
- ❑ International aid for local investment probably not to be increased significantly
- ❑ Local government to be on the front line

## New generation of donors programs

- ❑ Transfer efficiency, governance, budget aid
- ❑ Increase in sub-sovereign lending
- ❑ New tools and techniques: PEFA, Output-Based Aid (WB's Indonesia), etc.

## Encouraging endogenous financing

1. Modernize financing systems and collect local savings
  2. Land-based financing
  3. Increase local fiscal resources
-

## Bolster Financing Tools

- ❑ The concept of local market of local investments (supply/demand)
- ❑ Stakes and issues of creating new institutions (feasibility, business plan, status, etc.)
- ❑ Using existing institutions
- ❑ Incentives for commercial banks
- ❑ A role for regional development banks

## Modernize financing systems

- ❑ Present systems based on good faith and willingness to pay
  - ❑ Reinforce the borrower's credibility: demonstrating an ability to repay debt
  - ❑ Adjustments to the legal framework (Mexico)
  - ❑ Specialized mechanisms for creating structured financing, credit enhancement (debt service reserve fund, escrow account, revenue pledge, revenue intercept, external guarantee, etc.)
-

## Turn to capital markets

- ❑ Local markets emerging / local currencies: regional approaches
- ❑ Direct access
- ❑ Access through an intermediation
- ❑ “Bank bonds” in USA, WSPF and TNDF in India
- ❑ A potential role for regional development banks

## Mobilize credit institutions

- ❑ Directly or through an umbrella institution
  - ❑ Incentives for commercial banks (Cape Verde)
  - ❑ Commercial banks as operators for a financial institution (Findeter Colombia)
  - ❑ A potential role for regional development banks
-

## Toward a new generation of local investment funds

- ❑ Harness new financing (Carbon finance, remittances, foundations...)
- ❑ Make new financial products by blending (duration, rates, grace periods)
- ❑ Interface with donors, leverage private sector financing
- ❑ State Revolving Funds (USA), UDIC (China), HIFIC (Vietnam)

## A legislative and regulatory framework for sub-sovereign debt

- ❑ The “moral hazard” notion
  - ❑ Ex-ante regulatory framework (debt limits, prohibitions, approvals...)
  - ❑ Ex-post regulatory framework (monitoring, compliance with the rules...)
  - ❑ Information and disclosure: the key to successful regulation
-

## Financing the city through land value capture and land development

- ❑ Used worldwide (all continents)
  - ❑ The “city finances the city” model (Chinese example)
  - ❑ Remove the bottleneck: an inevitable evolution
  - ❑ Legal framework reforms
  - ❑ Land development: land pooling (Japan, India) and guiding grid (Latin America, Africa 80's)
  - ❑ The need for operators: Local Investment Fund or Land Development Corporations
  - ❑ Mechanism of value capture: sale or lease, taxation, in-kind contribution
    - ✓ Sale or lease: China
    - ✓ Taxation: Betterment levy (USA), *contribucion de valorization* (Colombia)
    - ✓ In-kind: Europe, Land pooling (Japan) TPS Mechanism (India)
  - ❑ Risks
    - ✓ Inflation, bubbling? No
    - ✓ Anti-poor policy? No
    - ✓ Corruption? Yes
  - ❑ Regulation framework
  - ❑ Transparency, professionalism
-

## Increasing fiscal resources and activities: leveraging housing

- ❑ Remove the second bottleneck
  
  - ❑ Increase fiscal resources
    - ✓ Property tax still a very important resources for local Gov. in developed countries (USA: 70%)
    - ✓ Modernize the system of taxation (fiscal register, simplified cadastre...)
  
  - ❑ Boost housing and construction
    - ✓ Sole real sector of activity and job creation for most African cities
    - ✓ Support and regulate rental housing
    - ✓ Support small developers and formal builders in the private sector (NURCHA RSA)
    - ✓ Link: (1) land development housing and (2) public-private (El Omrane, Morocco)
    - ✓ Migrants as potential investors, the stake of remittances
-

## A special initiative for “fragile cities”

- ❑ Fragile states: one-third or half of the continent's states
  - ❑ Risks of a divided Africa (pre-emerging countries versus fragile states or cities)
  - ❑ Cities of fragile states in a double trap:
    - ✓ Trap of poverty
    - ✓ Trap of financing
  - ❑ “Fragile cities” in a vicious circle for decades
  - ❑ Certain “fragile cities” largely more important than states (Kinshasa...)
  - ❑ A Special Initiative consisting of multi-partners (Donors, Foundations, Private sector, African sov. funds...)
  - ❑ Not only giving grants, but supporting structural changes
  - ❑ Supporting/leveraging the often very dynamic local private sector (Somalia)
  - ❑ Based on the “Fund of Funds” model (JESSICA model)
  - ❑ Safety nets and Workfare programs
-

## A conclusion

- ❑ Pre-emerging countries, non fragile states:
    - ✓ Level of local investment not unreachable
    - ✓ Techniques, methods and tools well known around the world
    - ✓ The agenda in structural changes will be demanding
    - ✓ Good timing considering the present socio-economic evolutions
  
  - ❑ Cities in fragile states in need of special support
  
  - ❑ Donors to support these structural changes rather than making plain commitments
  
  - ❑ And three suggestions:
    - ✓ A revolving Institutional Engineering Fund
    - ✓ Reinforce the process of collecting data
    - ✓ Coordinate and boost the training of local staff
-

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***Thank you for your attention***

