

Day 3 – Wednesday, May 16 Municipal Financial Sustainability and Financing the City's Sustainability Plans

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GPSC African Regional Workshop Integrated Urban Development in Africa: Challenges and Lessons Learnt Abidjan, Côte d'Ivoire | May 14-16, 2018









What is financial sustainability?

A city is financially sustainable if it can deliver an adequate level of ongoing administrative and urban services within its total recurrent revenues, while also investing in infrastructure improvements to meet the foreseeable growth in demand for city services.



How is financial sustainability measured?

Financial sustainability is measured by analysis of a variety of financial and institutional information about a city.

The analysis that goes into the formulation of a credit rating provides a sound and objective assessment of a city's financial sustainability.



Why is financial sustainability important?

A city needs to be financially sustainable in order to finance infrastructure improvements specified in the city's sustainability plan and move the city along its chosen path to overall sustainability.



Four parts of the process for financing a city's sustainability plans

1. Measuring Financial Sustainability

2. Fulfilling the Prerequisites to Financing

3. Identifying and Preparing Projects

1. Structuring the Financing



Moody's		S&P		Fitch				
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term			
Aaa		AAA		AAA		Prime		
Aa1		AA+	A-1+	AA+	F1+ /			
Aa2	D 1	AA	A-1+	AA	F1+	High grade		
Aa3	P-1	AA-		AA-				
A1		A+	A-1	A+	F1	Upper medium grade		
A2		А	A-1	А	F1			
A3	P-2	A-	A-2	A-	F2			
Baa1		BBB+	д-7	BBB+				
Baa2	P-3	BBB	A-3	BBB	F3	Lower medium grade		
Baa3	P-3	BBB-	A-3	BBB-	F3			
Ba1		BB+		BB+				
Ba2		BB		BB	в	Non-investment grade speculative		
Ba3		BB-	в	BB-		opoodiativo		
B1		B+	В	B+		в	в	
B2		В		В		Highly speculative		
B3		B-		B-				
Caa1	Net extend	CCC+				Substantial risks		
Caa2	Not prime	CCC				Extremely speculative		
Caa3		CCC-	с	CCC	С			
0		CC				Default imminent with little prospect for recovery		
Ca		С						
С				DDD				
1		D	1	DD	1	In default		
1				D				



Aspire to a national scale (ns) investment grade credit rating.

But... a city can start with a "private" or "shadow" credit rating.



Achieving and maintaining an investment grade rating.

- 1. Prudent management of:
 - the operating budget (revenue and expenditure),
 - the capital budget (investment in infrastructure),
 - liquidity (cash flow), and
 - debt.

2. And also a fiscal framework that:

- assigns adequate revenue sources;
- allows adjustment of tax, tariff and fee rates when necessary; and
- provides formula-based revenue transfers that are predictable and timely.



Key steps to financial sustainability and a better credit rating:

- Own source revenue increased
- Transfer revenues put on a sound and predictable basis
- Operating margin surplus achieved



2. Fulfilling the Prerequisites to Financing

- Two essential prerequisites to access long-term financing for urban infrastructure:
- 1) A capital investment plan (CIP)
- 1) A Financing plan for projects in the CIP.



2. Fulfilling the Prerequisites to Financing

A city's financing plan identifies the expected sources of financing for each of the projects for the next 3 - 5 years in the CIP.

Long-term, LOCAL CURRENCY financing options may include:

- capital grants
- long-term debt (bonds or loans)
- public private partnerships
- land value capture





3. Identifying and Preparing Projects

4. Structuring the Financing Long-term Debt Financing

If the capital investment is a public responsibility, then the city will need to issue local currency bonds (or similar securities), or take long-term local currency loans from lenders.

- Growing interest to finance environmentally sustainable projects with "green bonds".
- A hybrid form of long-term debt financing is called "pooled financing".



4. Structuring the Financing Long-term Debt Financing

General obligation bond (GO)

✓ Pledges all sources of revenue, and sometimes all assets, to repayment.

Project Revenue bond

✓ Pledges only project revenues, and sometimes project assets, to repayment.

Structured bond (SDO)

✓ Pledges only specific revenue sources to repayment as specified in the bond.



4. Structuring the Financing *Public Private Partnerships*

- Brings private sector expertise to the development and operation of the project/service.
- Require complex legal agreements that cities must negotiate, monitor and enforce
- Institutional and regulatory frameworks must allow private participation in the provision of public services
- The service must be able to be provided on a profitmaking basis.



4. Structuring the Financing Land Value Capture

- Land value capture (LVC) involves monetizing the land value increase caused by public investments or changes in regulations on land use.
- LVC based on taxes and fees generate increased own source revenue that can be used to repay long-term debt.
- LVC based on betterment charges produce payments from property developers that can amortize the city's related infrastructure investment.
- LVC based on auctions of public land or transferable development rights can generate substantial capital for infrastructure.



4. Structuring the Financing Credit Enhancements

The financial community's perception of the risk of default will probably need to be reduced in order to induce market-based financing.

- Credit enhancements are tools designed to reduce risk associated with a specific infrastructure financing such as a bond, loan, or PPP.
- Credit enhancements carry some cost.
- More than one credit enhancement can be used to increase confidence of the financial community that obligations will be paid on time and in full.

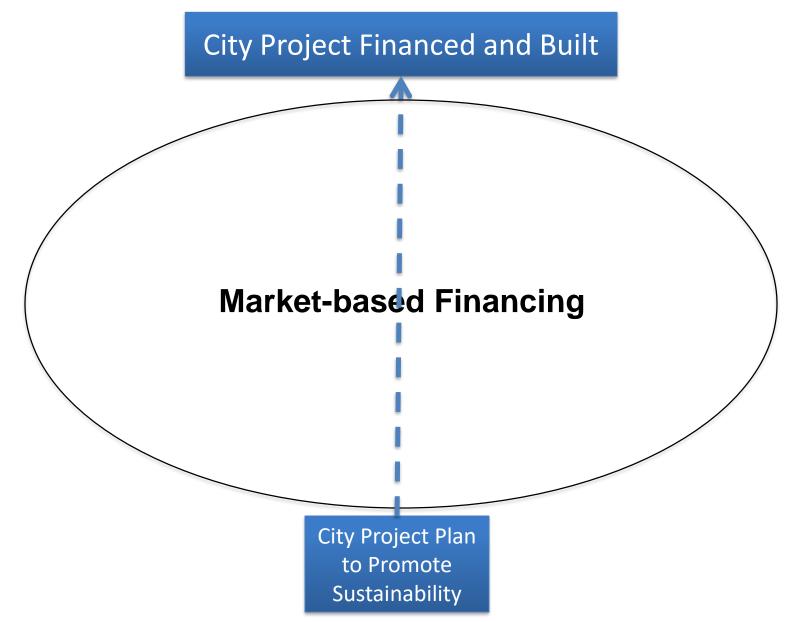


4. Structuring the Financing

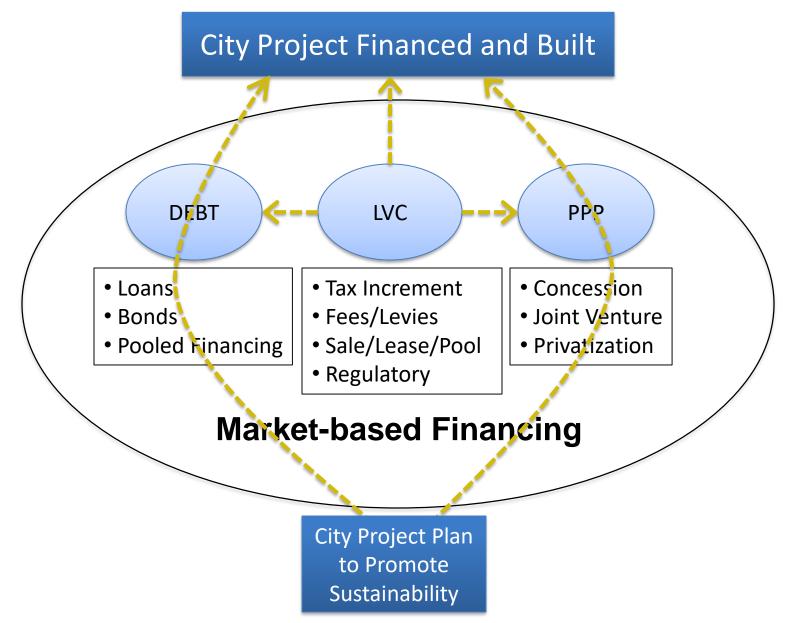
Types of Credit Enhancements

- Debt Service Reserve (Collateralization) Escrow
 Account: Holds money in reserve for each
 payment.
- ✓ Revenue Intercept: Directs transfer revenues to bondholders before they reach the city's account.
- ✓ Partial Credit Risk Guarantee: Assures bondholders of at least partial payment.















City Project Financed and Built

Step-by-Step to Market-based Financing

Closing the Financing Transaction

Adding Credit Enhancements Getting the financing transaction credit rated Structuring the financing transaction Getting the city credit rated Hiring the Other Transaction Service Providers (Legal/Credit Rating/Financial/Technical) Getting the City's Financial House in Order + Plans & Approvals

Hiring an Independent Public Finance Advisory

City Project Plan to Promote Sustainability





to Promote Sustainability

Summary & Conclusions

Understanding, measuring and tracking financial sustainability is the first step in the process of defining and improving on city's financial performance.

Obtaining a national scale (ns) investment grade credit rating should be an aspiration of all city governments and urban service providers that are pursuing sustainability.

Cities need to assess the strengths and weaknesses of their financial management and develop self-directed actions that can strengthen their creditworthiness overtime.



Summary & Conclusions

Depending on the needs of each city, actions may focus on specific approaches to developing financial sustainability including:

- Improving own source and transfer revenues;
- Decreasing expenditures;
- Improving the management of information, personnel, assets, liquidity, debt, budgeting, and the operating margin;
- Strengthening capital investment planning and planning for access to financing;
- Increasing the availability of options for long-term local currency financing of infrastructure from domestic capital markets, bank/nonbank lenders, and (when necessary) blended financing from MDBs, IFIs, and market-based sources; and
- Facilitating the access of cities and urban service providers to longterm local currency financing.





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Day 3 – Wednesday, May 16 Enhancing the Financial Sustainability of African Cities: Brief Case Studies

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Enhancing the Financial Sustainability of African Cities: Brief Case Studies

Where?

What were the objectives?

What was done?

What were the results?



Where?



What were the objectives?

Improve the city's fiscal condition

Develop a revenue improvement strategy

Access long-term financing to support its infrastructure investments



What was done?

Dakar completed a Public Expenditure and Financial Accountability (PEFA) assessment

Dakar undertook a series of initiatives to implement the recommendations of the PEFA assessment including:

- an action plan to improve financial management
- Guidelines strengthened the legal framework for revenue collection
- capacity building workshop for senior city executives responsible for financial administration



- These improvements enabled the city to secure its first 20 year loan of €10 million from AFD in 2009 to finance a thousand solar streetlights in Dakar.
- The city obtained a BBB+ (CFA regional) investment grade credit rating.
- By obtaining an investment grade credit rating, the City of Dakar met the requirements to issue a municipal bond in the West African regional capital market set by the Conseil Régional de l'Epargne Publique et des Marchés Financiers (CREPMF).



Dakar receives BBB+ rating from Bloomfield

Posted on: 24 October 2013 By: admin



Association of African Central Banks http://www.aacb.org/en/allnews/dakar-receives-bbb-

rating-bloomfield

The city of Dakar was rated BBB+ by the credit rating agency Bloomfield Investment Corporation.It indicates a moderate risk of investment on the long term, with a positive outlook. This is the first time a local community in West Africa has been assigned a rating by a credit rating agency.

On the short term, Dakar was rated A3, with a positive outlook. According to Jeune Afrique, the assignment of this rating is a prerequisite for the issuance of bonds by the Senegalese capital on the regional Stock Exchange in Abidjan in 2014.



- After the City of Dakar obtained an investment grade institutional credit rating of "BBB+" (CFA regional), a USAID partial guarantee and other credit enhancements built into the bond structure improved the credit quality of the bond to an "A" (CFA regional); although the bond was never issued.
- The City of Dakar also obtained a series of loans from the West African Development Bank (BOAD), Ecobank, and the Banque Islamique du Senegal (BIS) to fund specific infrastructure needs.





CREDIT RISK MANAGEMENT BEYOND NUMBERS

SENEGAL, BOND ISSUE OF THE CITY OF DAKAR

CREDIT RATING REPORT

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Category of value	f Rating scale	Currency	Current rating	Previous rating	Outlook	
Long-term	Regional	CFA	A	n/a	Stable	
Short term	Regional	CFA	Al	n/a	Stable	

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Basic information

P	Provisional loan amortization plan (in million CFA francs)								
	Year	Outstandings at start of period	Capital amortization	Interest	Annuities				
	2014	20 000	0	660	660				
	2015	20 000	0	1 320	1 320				
	2016	20 000	2 000	1 320	3 3 2 0				
	2017	18 000	4 000	1 1 2 2	5 1 2 2				
	2018	14 000	4 000	858	4 858				
	2019	10 000	4 000	594	4 5 9 4				
	2020	6 000	4 000	330	4 3 3 0				
	2021	2 000	2 000	66	2 066				
	Total		20 000	6 2 7 0	26 270				

Summary presentation of the operation

The city of Dakar is making a bond issue on the regional financial market of the Regional Stock Exchange (BRVM).

profitability in order to meet its financial commitments associated with the Felix Eboue

January 2015

project.

The loan is secured at 50% by USAID (United States Agency for International Development).

Repayment is made on a half-yearly basis.

The Felix Eboue project, entirely financed by the loan, involves the construction of a sixstorey commercial building with a surface area of more than one hectare.

The shopping center will host 4,241 canteens of various types, 352 parking spaces and 14 underground storage boxes.





Where?

Kampala Capital City Authority, Uganda



What were the objectives?

Improve financial management

Maximize revenues

Improve debt management performance

Develop a PPP project pipeline

Kampala Capital City Authority, Uganda



What was done?

KCCA completed a Financial Management Assessment (FMA) and a Debt Management Performance Assessment (DeMPA)

Peer-to-peer capacity building through exchanges with South Africa's eThekwini Municipality

A PPP policy was added to the KCCA strategic plan to regularize development and procurement of PPPs

Kampala Capital City Authority, Uganda



- The city achieved an 83% increase in its Own Source Revenues through maximization of existing and identification of new sources.
- The city obtained an "A" (Uganda) investment grade credit rating.
- Ugandan investors responded positively to a market sounding for a future KCCA bond issue.
- A pipeline of high potential PPP projects has been established, possible financing solutions proposed and institutional bottlenecks identified.

Kampala Capital City Authority, Uganda





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