Towards an African Cities Development Fund

A joint instrument allowing cities to issue bonds on national or international markets


Special pan African vehicle dedicated to the financing of African Cities.

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Challenge 1: Filling the gap

- Improving the lives of at least 31 million slum dwellers by 2020 (target 11 of MDG-7) would translate into investments of the order of $16 billion (UN Millennium Project).

- If the more ambitious objective of eradication of African slums is pursued, then the costs jump to $167 billion for the population of 250 million African slum dwellers.
Challenge 2: Following the urban development

- To support the economic growth on its current level, expenditures in infrastructures account for 5.5% of the GDP, 140 Md$ (World Bank)

- The two-thirds of these expenditures (90Md$) are under local governments competence

- While the current investment capacity of African local governments is estimated at only 4% of the public investment needed for urban development;
African Cities

- These cities produce about 60% of the African GDP and host a growing middle class that should equal that of China in 2020;

- The economic weight of this middle class is currently valued at USD 700 billion and is expected to reach USD 1 700 billion by 2030;

- Experts estimate the annual added value of cities in Africa at around USD 51 billion, and their annual debt capacity at USD 8 billion;
Building the development process

- **Servicing Local Governments**: Long term funding, lending to municipalities in local currency and LG owners.

- **Building a credible financing institution**: Getting an investment grade rating, separating political governance & professional management, building a comprehensive and resilient guarantees package.

- **Reaching a market share that benefits local authorities**: Covering the main financing needs of members, offering a competitive option.

- **Choosing a supervision model or drafting a specific one**: The model will have large impacts on management and daily activity.
Designing the vehicule

- **Business model**: Positioning the vehicle: Direct lending or Refinancing national entities; Targeting eligible local governments; Financing projects or credit lines

- Accepting the primacy of ensuring the portfolio quality: this quality is the main criterion that will sustain a good rating, that is ensure the capacity of the vehicle to raise funds at an acceptable price

- **Business plan**: tackling a long list of issues like: market, revenues, currency, legislation for operation and management, profitability, etc;
Designing the vehicule

- **Risk management framework**: bridge the gap between local governments and the financial market mean to assess a list of risk.

- **Structuring the capital**: First, the vehicle is a limited company, owned by the participant local governments; Secondly, the Fund is an international institution, or is backed by an international institution.

- **Containing processing costs**: keeping processing costs under control is a strategic issue, aiming to maintain margins at an acceptable level.

- **Owning and governing**: Corporate governance, Voting rights, applicable legislation, etc.
Designing the vehicle

- **Getting the local governments ready**: Drafting the lending policy, Improving local capacities to manage financing, Partnering with programmes aiming to reinforce creditworthiness

- **Mobilizing partners**: Forming a first club of cities, politically and technically involved in the preparation of the Fund and a first club of States

- **Prefiguring and launching**: Funding the preparatory process, Negotiating the legal arrangements with States and other involved institutions, Designing the 1st issuance, Roadshows and marketing
Local authorities involvement

Partners mobilization

Technical work

Workshop in Rabat

Initial paper

2018

Inviting the first municipality club

Club general assembly - 1

Identifying eligible LG

1 M€

mobilizing 10 supporting states

Assessing existing tools

Risk management framework

1 M€

Eligibility of federated states

Business model & plan

Partners mobilization

2019

Club general assembly - 2

Negotiating with foreseen shareholders

Legislative modifications

Expected collateral benefits

Legal and fiscal advisory

Regulation and State’s

financing

consultancy services

Partners mobilization

Club general assembly - 3

Approving processes of members

Expected collateral benefits

Legal and fiscal advisory

Regulation and State’s

procurement

2020

Founders assembly

Preparation of 1st issuance

Seeking authorization to run Bank operations

Recruitment

Regulation and State’s

1st loans

2021

General assembly

1st issuance

Equity payment

Roadshows

1st issuance

Regulation and State’s

Club General Assemblies Decisions

1 - Launching and financing the process

- Approving the business model & risk assessment framework
- Requesting legislative modifications...

2 - Approving the institutional set-up and internal rules
- Locating the

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Thank you for your attention