

PPIAF Work Program 2011–2013

PPIAF Supports Sub-National Entities to Deliver Urban Infrastructure Services

Rapid urbanization is placing growing demands on governments and sub-national entities in the developing world to deliver essential infrastructure and related services (roads, urban transport, water supply, drains, sewers, etc.) to an ever-increasing number of people. Decentralization programs in many countries are forcing cities to become responsible for meeting these urbanization challenges, but city budgets alone are usually unable to do so. Many cities (as well as regional governments and utilities) are beginning to view the private sector as a source of needed infrastructure financing and management expertise, and public-private partnerships (PPPs) as well as options for directly accessing private finance from banks or bond markets are increasingly being seen as key elements in the overall infrastructure delivery strategies of cities.



PPIAF is uniquely qualified to help sub-nationals respond to some of the key challenges associated with urbanization and decentralization. **The traditional PPIAF program helps build the capacity of government officials to prepare and enter into PPP arrangements with private partners.** This work can include reforms to institutions, policies, and legal/regulatory frameworks necessary for sustainable PPPs. Most of these reforms are needed to facilitate PPPs for urban services. **Through its Sub-National Technical Assistance (SNTA) program,** PPIAF carries out similar work in support of **direct sub-national entities' access to private financing.** Municipal bonds, for example, represent a powerful capital allocation tool that is used by cities in many developed countries to build and maintain urban infrastructure, but has so far been untapped in many developing countries. SNTA's ultimate target is financial transactions involving bonds or bank loans to help utilities or municipalities access market-based finance without sovereign guarantees to tackle the urbanization problem developing countries face.

PPIAF has a long track record supporting private sector participation in the delivery of urban infrastructure services. PPIAF has supported policy and planning work for private sector participation in **urban water supply** in Laos, Cambodia, Indonesia, the Philippines, Vietnam, and India; **solid waste management** in Armenia, Maldives, Djibouti, the Philippines, and Egypt; and **urban transport** in Malawi, Botswana, and a number of other countries across regions.

| Box 1: Examples of PPIAF activities in support to cities and utilities to structure PPPs |
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| Enabling environment reforms |
| Côte d'Ivoire: strategy for private sector participation in solid waste management in the district of Abidjan |
| Indonesia: Surabaya Water Company—non-revenue water management strategy with private sector participation |
| India: PPP options to develop urban roads for 10 cities in Maharashtra |
| India: Maharashtra MSETCL—PPIAF technical assistance to formulate a business plan and PPP strategy (2007) and advice to develop implementation framework for transmission system (2008); followed by an IFC loan of \$50 million—expected to distribute power to 4.2 million people |
| Vietnam: models for soliciting private participation in bus transport in Hanoi and later Ho Chi Minh City |
| Project cycle related assistance |
| Central African Republic: pilot project for a waste recycling and collection system and drafting the solid waste management plan for the municipality of Bangui |
| Maldives: at the request of Waste Management Company, a state owned enterprise responsible for collecting and disposing waste, options for private sector participation in waste management |
| Armenia: preparation and financial closing of two concessions for waste collection and sanitary disposal for two city zones in Yerevan, and design-finance-build-operate the landfill |
| Colombia: study for road concessions for the Bogotá Buenaventura Road Export Corridor project |
| Ghana: airport authority—options for private sector participation |
| Capacity and awareness building |
| Philippines: building the capacity of General Santos City to help them prepare to bid out a design-build-operate contract for a sanitary landfill |

PPIAF is working with the South African Cities Network to fund prefeasibility studies for PPP projects that will expand the use of **renewable energy and energy efficiency** in a selection of cities in southern Africa. PPIAF is helping the cities of Kampala, Uganda and Cebu, the Philippines, to design strategies for using the private sector to deliver **bus rapid transit services** in order to reduce the congestion and climate consequences of vehicular traffic in their urban areas. PPIAF is also working on a regional study on the role of the private sector in mitigation and adaptation efforts in the transport sector, building on ongoing work in Ethiopia, Ghana, and Mozambique.



In the last three years, PPIAF's SNTA program has focused exclusively on municipalities and local utilities by helping them develop their capacity to access **market-based financing** without sovereign guarantees. Proceeds from the resulting financing raised are intended to expand and improve infrastructure services. In many cases, this financing is needed to respond to the emerging infrastructure challenges associated with rapid urbanization.

Box 2: Examples of SNTA support to cities to access financing, followed by specific financings

Quintana Roo, Mexico

Structuring of borrowing transactions by a state financing facility, including technical assistance to help restructure debt, raise new debt at better terms and tenor, reduce financing costs, and professionalize the institution. This is the first transaction of its kind in Mexico and included \$196 million raised in financing to be invested in sub-national infrastructure.

Peru

Technical assistance to selected municipalities to access commercial bank financing and strengthen financial standing and management capacity. **Municipality of Lima** is the first Peruvian municipality to access a \$70 million loan from BBVA, partially backed by a \$32 million IFC Partial Credit Guarantee. Funds will be used for Lima's bus rapid transit system that will benefit over 500,000 passengers per day. After receiving a credit rating, the **Regional Government of Arequipa** obtained a S/.30 million (≈\$10 million) loan with an eight-year tenor and an IFC partial credit guarantee to finance a regional road rehabilitation program.

Alcaldía Municipal del Distrito Central (AMDC) of Tegucigalpa, Honduras

Technical assistance for infrastructure project identification and capacity building. Tegucigalpa obtained a \$44 million loan from local commercial banks, backed by an IFC Partial Credit Guarantee of \$15.9 million—the first sub-national investment in Honduras. This activity is followed by technical assistance for the performance measurement of the local public financial management.

City of Ouagadougou, Burkina Faso

Technical assistance for a financial management diagnostic: undertaking a diagnostic review of the financial management system to identify measures to improve the city's creditworthiness and provide a view of financial management through a framework for measuring management performance of local public finance. An AFD loan of €3 million is expected in November 2011 for the rehabilitation of city bus stations and establishment of a new system to manage them.

City of Dakar, Senegal

Technical assistance for a financial management diagnostic: public expenditure and financial accountability (PEFA) report on quality of public financial management. Technical assistance provided to help Dakar obtain a €10 million (≈\$15.8 million) loan on June 6, 2009 from AFD to support a public lighting program.

Barranquilla, Colombia

Technical assistance to improve the fiscal and financial situation in Barranquilla and determine best sources of funds to sustainably co-finance a bus rapid transit system. As a result the Ministry of Finance issued a memo allowing the municipality to obtain new lines of credit from local financial institutions. Barranquilla obtained two credit lines of COP 25 million (≈\$13,000) and COP 30 million (≈\$15,000) from a local bank.

Sergipe, Brazil

Strengthening creditworthiness of Companhia de Saneamento de Sergipe-DESO, the water company of the State of Sergipe, in the Northeast of Brazil, to help it prepare financial projections and a credit memorandum on the company for purposes of submitting it to prospective lenders. In November 2010 IFC closed a BRL 18.9 million (≈\$11 million), seven-year loan to DESO to implement the necessary investments to reduce water losses including purchasing water meters.

Urban infrastructure projects make up a large percentage of the PPIAF portfolio (and virtually the entire SNTA portfolio) and are driven by demand expressed by municipal officials in connection with specific service delivery problems.



PPIAF is already working collaboratively with several partners active in urbanization, including the International Finance Corporation, the World Bank’s Urban Development Department, and Cities Alliance.

| Box 3: Examples of SNTA support to cities or utilities to access financing, which have produced some outcomes, but are yet to produce specific financings | |
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| Lima, Peru SEDAPAL | |
| | IFC granted a loan of \$65 million to be used for a potable water plant, which will improve services for 1.2 million people. SNTA to provide technical assistance for financial coaching (ongoing). |
| Peru | |
| | Assistance to sub-national entities to formulate debt policies, financial plans, and get shadow or full credit ratings. Credit ratings have already been obtained for Cusco, Piura, Arequipa, SEDAPAR (Arequipa’s municipally-owned water utility), and the Provincial Municipality of Santa (Chimbote); and financings for Piura, Cusco, and other Peruvian sub-national governments are expected. |
| Honduras | |
| | Follow-up activity for technical assistance for the Alcaldía Municipal del Distrito Central (AMDC) to measure the performance of local public finance management to better increase public finances. |
| Kenya, Senegal, Burkina Faso, Uganda, and Tanzania | |
| | Shadow credit ratings and related capacity building for seven African water utilities. |
| China | |
| | Formal credit ratings for six Chinese Urban Development Investment Corporations (UDICs), municipal corporations owned wholly by municipal governments: BUDIC (Baise Urban Development & Investment Co. Ltd.), WEDIC (Wuhan Economic Development Investment (Group) Co. Ltd.), HNIC (Henan Investment Group Co. Ltd.), JIG (Jilin Investment Group Co. Ltd), SHEG (Shandong Highway Engineering Construction (Group) Co. Ltd.), and SIGC (Sichuan Provincial Investment Corp. Ltd.). |
| Swaziland | |
| | Formal credit ratings for three Swazi municipalities: Matsapa, Mbabane, and Manzini. |
| Philippines | |
| | Formal credit ratings for eight Philippine Local Government Units (LGUs): cities of Iligan, Malabon, Mandaluyong, Marikina, Naga, Quezon, Tacloban, and Taguig. |