

## PPIAF's Sub-National Technical Assistance Program: Africa

The Sub-National Technical Assistance (SNTA) program was launched in 2007 to **help sub-national entities access market-based finance without sovereign guarantees**. The objective of the program is to improve the borrowing capacity of local governments and utilities by providing financing for credit ratings, creditworthiness enhancement programs, assistance in the preparation of financing without sovereign guarantees, and for knowledge generation and dissemination.

Since the creation of the program, countries in Sub-Saharan Africa have requested its assistance due to their increasing need to find alternative financing sources for their growing infrastructure demands.

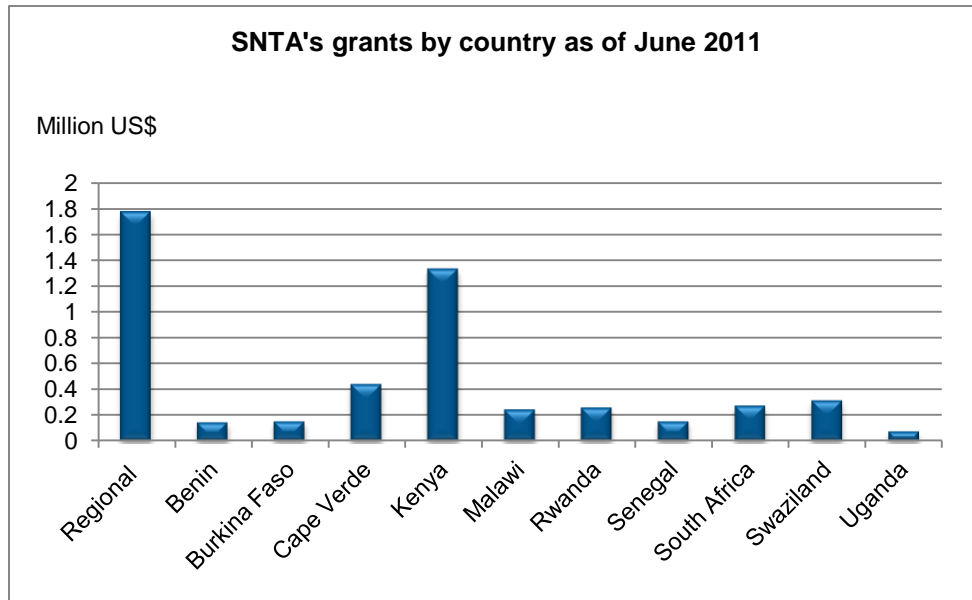


The main reason for the increasing demand for SNTA assistance is **decentralization**. In many developing countries, the responsibility for infrastructure financing and service provision is being transferred from central to sub-national governments. However, sub-national entities rarely have enough capacity to fulfill this new role due to weak policy frameworks, inadequate institutional capacity, evolving regulatory environments, and thin local capital markets. In addition, their traditional sources of financing, which consist of sovereign funding and guarantees, are either drying up or inadequate to meet the increasing service delivery responsibilities. This is due to the fact that many national governments are either unwilling or unable to provide further sovereign guarantees to sub-national entities due to pressing fiscal needs and a policy of promoting local financial autonomy. Sub-nationals often lack the creditworthiness to access markets directly, and thus programs such as SNTA enable them to “put their house in order” and facilitate their approach to the markets.

**Rapid urbanization** is another trend driving demand for SNTA. Almost half of the existing population in the world currently lives in cities; in the next 20 years nearly two billion new urban residents are expected, and urban populations in Africa are expected to double over the same period. As a result, the need for basic infrastructure—such as transport, water and sanitation, waste disposal, and electricity—in rapidly expanding urban areas will grow exponentially. Already, 40% of urban residents in Sub-Saharan Africa lack access to sanitation services. Service delivery and expenditure responsibilities are being devolved to the local level, and officials of municipalities and local/regional utilities will increasingly be responsible for finding financing. SNTA is a program designed to help these entities borrow the financing needed to respond to the emerging infrastructure challenges associated with rapid urbanization.

Since the inception of the SNTA program in 2007, **SNTA has funded 19 activities in Africa**, including **14 country-specific and five multi-country (i.e., regional) ones**. In four years, **the program has**

approved funding for over \$5 million in the region, including \$1.8 million for regional activities and \$1.33 million for Kenya.



### SNTA-funded activities in Africa since 2007

Country	Type of activity	Scope
South Africa	Financing	Local government borrowing
South Africa	Specific performance improvement	Improving framework for development charges
Senegal	Specific performance improvement	Local public finance management (Public Expenditure and Financial Accountability study)
Kenya	Financing	Debt transactions in the Kenyan water utility sector
Kenya	Credit rating	Kenya Airports Authority debt finance review
Kenya	Financing	Assessment of Geothermal Development Company for enhanced access to finance
Kenya	Financing	Support market finance debt transactions in the Kenyan water utility sector
Uganda	Financing	Domestic currency bond
Benin	Specific performance improvement	Local public finance management (Public Expenditure and Financial Accountability study)
Burkina Faso	Specific performance improvement	Local public finance management (Public Expenditure and Financial Accountability study)
Malawi	Specific performance improvement	Enhancing the creditworthiness of electricity utility ESCOM
Swaziland	Financing	Improve municipal/sub-national finance
Cape Verde	Specific performance improvement	Enhance creditworthiness of electricity and water utility ELECTRA
Rwanda	Financing	Pre-feasibility study to construct new bus terminal
Multi-country	Credit rating	Development Financial Institutions in Africa
Multi-country	Financing	South African Cities Network sub-national borrowing support program

Country	Type of activity	Scope
Multi-country	Credit rating	Water utility credit ratings
Multi-country	Credit rating	Creditworthiness improvement for Southern Africa Power Pool members
Multi-country	Credit rating	Sustainable municipal finance for infrastructure development in Southern Africa

### SNTA results in Africa

The development value generated by the SNTA program can be viewed by the number and size of financings that result from the improved financial management resulting from the technical assistance provided by SNTA. These are mostly financings provided by international finance institutions or commercial banks, without reliance on sovereign guarantees.

Another indicator is the number of sub-national entities that have increased their capability to raise financing from non-governmental sources, because they have 1) obtained an appropriate local currency credit rating or 2) substantially improved a local currency credit rating.

Financings obtained/to be obtained	Shadow credit ratings obtained	Formal credit ratings obtained
<ul style="list-style-type: none"> <li>• <b>Senegal:</b> \$15.8 million loan from Agence Française de Développement (AFD) for Dakar municipality</li> <li>• <b>Uganda:</b> \$12 million loan from AFD for National Water and Sewerage Corporation</li> <li>• <b>Kenya:</b> 18 loans (\$1.5 million from K-Rep) for peri-urban water operators</li> <li>• <b>Burkina-Faso:</b> €3 million AFD loan accompanied by a €650,000 grant expected in November 2011</li> <li>• <b>Kenya:</b> 2 loans of \$93 million from European Investment Bank and AFD for the rehabilitation of Jomo Kenyatta International Airport in Nairobi</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Africa:</b> 7 water utilities (in Kenya, Senegal, Burkina Faso, Uganda, Tunisia)</li> <li>• <b>Africa:</b> 3 national development finance institutions (Namibia, Botswana, Mauritius)</li> <li>• <b>Southern Africa:</b> 10 municipalities (Windhoek, Arusha, Blantyre, Dar es Salaam, Gaborone, Lilongwe, Lusaka, Maputo, Ndola, Port Louis)</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Swaziland:</b> 2 Swazi municipalities (Manzini, Matsapha)</li> <li>• <b>South Africa:</b> 2 South African municipalities (Msunduzi and Sedibeng District)</li> </ul>

Sub-national entities use the proceeds from the financing raised as a result of SNTA assistance to provide and extend access to basic infrastructure services such as water and power; as such, the program contributes to improving the living standards of populations and to the reduction of poverty.

Qualitative results of the program are also noteworthy, particularly because they offer long-term benefits in terms of capacity building and changed behavior. Some of the qualitative results of the program to date include the following:

- **Reducing the costs of borrowing:** SNTA has shown clients in Kenya how to access guarantees to facilitate more affordable borrowing.
- **Maximizing access for small borrowers:** SNTA has helped peri-urban water suppliers in Kenya access funding from micro-lenders and helped micro-lenders understand infrastructure and project finance.
- **Developing credit culture:** SNTA has used workshop trainings to help municipalities in southern Africa understand how and why to use debt in improving their infrastructure.
- **Using credit ratings to design reform strategies:** the program has pioneered a combination of unpublished “shadow” ratings and technical assistance to begin reforms in water utilities in Africa.
- **Helping national officials facilitate sub-national borrowing:** One of the biggest obstacles to sub-national borrowing is resistance by national-level officials. SNTA has helped national officials in various countries understand how to monitor sub-national borrowing and what to do to encourage responsible borrowing behavior.
- **Developing innovative financing schemes:** SNTA has created a project development facility in Kenya to distribute project preparation grants to dozens of small peri-urban water suppliers.

## Selected SNTA country activities in Africa

### Financing

Activities designed to help sub-national entities **secure capital for infrastructure development**, i.e., raise money for infrastructure investments from banks or bond markets. The range of assistance includes feasibility studies, market sounding exercises, targeted policy diagnostics, and transaction support for the actual structuring and implementation of financial operations. Since 2007, **SNTA has funded eight such activities in Africa.**

#### Facilitating Sub-National Infrastructure Investment in Swaziland



In 2007 the government of Swaziland requested SNTA funding to help facilitate the entry of the country’s most creditworthy cities to the regional municipal finance market. Global Credit Ratings awarded a credit rating of A- to Manzini City Council and a long term domestic rating of BBB to Matsapha Town Board. Following SNTA’s support, Swaziland Water Services Corporation and the municipalities of Matsapha, Manzini, and Mbabane were strengthened. Demand-side capacity and understanding of the potential of infrastructure financing has been improved, and pro-forma methodologies have been developed (how to become creditworthy, how to develop a capital investment plan, how to approach the capital market).

**The Matsapha Town Board was found to be highly creditworthy and should be able to sustainably finance part of its infrastructure program** in the domestic capital market. A full assessment of infrastructure requirements and debt absorption capacity of Ezulwini Town Board led to a defensible capital investment plan. Working closely with municipal officials, various documents were prepared including an information memorandum, road show material, and a request for proposals document, but Councilors ultimately decided to fund a scaled-down capital investment plan from their own reserves.

In December 2009, the team issued a [Handbook for Municipalities](#) with substantial information for municipalities seeking funds for capital infrastructure programs.

### Municipal Bond Issuance Support to the National Water and Sewerage Company in Uganda



In 2007 Uganda's state-owned utility National Water and Sewerage Corporation requested SNTA's assistance to structure a bond issuance. The bond issue was prepared, and a listing was approved by the Capital Markets Authority. However, due to the financial market upheavals, the Ministry of Finance decided not to issue the bond.

Subsequently, **National Water and Sewerage Corporation received a €9.5 million (\$12,188,500) loan from AFD** to upgrade two water intakes in Gaba and Jinja from Lake Victoria, which will help improve the quality of basic water used in the Kampala and Jinja Water networks. The project will thus reduce the inherent cost of water treatment and improve the quality of water. The funding comprises a soft loan of €7 million to Stanbic Bank of Uganda along with a €2.5 million direct grant to National Water and Sewerage Corporation.

### Credit ratings

Credit ratings are designed to **indicate the relative creditworthiness of potential borrowers**. In the case of "shadow" credit ratings—unpublished, unofficial ratings done for diagnostic purposes—the rating exercise is usually followed by technical assistance to make improvements with the objective to go for a formal rating. **Since 2007, SNTA has funded five credit rating activities in Africa.**

### Kenya Airports Authority Debt Finance Review



In 2009 Kenya Airports Authority requested funding from SNTA to help access financing in order to meet its current capex requirements. One of the objectives of the activity was to **analyze diverse debt raising options**. In June 2010, Kenya Airports Authority was offered two solutions: a domestic option (corporate lending/public placement bond) and an international option (funding from a partner/development finance institution).

Kenya Airports Authority received a rating advisory report with advice on the main considerations to be taken into account when conducting a credit rating. In 2010 **two \$93 million loans from AFD and European Investment Bank** were approved for the rehabilitation of Jomo Kenyatta International Airport.

### Performance improvement

SNTA's performance improvement activities are designed to address problems that weaken the credit standing of sub-national entities in the eyes of potential lenders. They focus on helping sub-national entities build financial sustainability plans, strengthen or identify potential revenue flows, diagnose current financial management practices, improve transparency, and strengthen financial monitoring mechanisms. **Since 2007, SNTA has funded six performance improvement activities in Africa.**

### Burkina-Faso: City of Ouagadougou Financial Management Diagnostic



In 2009 the city of Ouagadougou requested technical assistance to conduct a Public Expenditure and Financial Accountability study. The objective was to improve the creditworthiness of the municipality and to increase the transparency of financial management. In January 2010, the action plan based on the study was approved by the Mayor and other local authorities in Ouagadougou. **A €3 million AFD loan accompanied by a €650,000 grant is expected in November 2011** for the

rehabilitation of the city's bus stations and a new bus station management system.

### Cape Verde: Enhancing the Creditworthiness of ELECTRA



In 2009 Cape Verde's national power and water utility ELECTRA requested SNTA funding to improve its performance and obtain a credit rating.

The final recommendations included a detailed action plan with a comprehensive set of activities (tariff adjustments, improvements in billing, etc.) to achieve the ultimate targets of 15% energy losses and an improvement in the quality of the services offered by ELECTRA. It was concluded that ELECTRA could improve its performance and achieve a

rating if it implemented the recommendations formulated in the recovery plan. The government of Cape Verde recently launched a discussion on the relevance of the proposed financial and institutional restructuring of ELECTRA. A decision is expected to be reached in 2012.

### Selected SNTA regional activities in Africa

#### Better understanding of the creditworthiness of Africa's development financial institutions (DFIs)



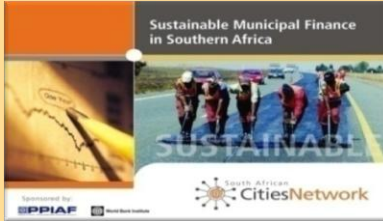
This activity involved the **preparation of credit ratings for a select group of African DFIs**: National Development Bank of Botswana, Development Bank of Namibia, and Development Bank of Mauritius. The objective was to facilitate:

- Access to finance: credit ratings can communicate important information to potential lenders and can help unlock untapped sources of finance
- Regulatory oversight: credit ratings can be used by governments and their agencies and regulatory bodies to monitor DFIs and deliver targeted support to efficient compliance with regulations and reform strategies
- Organizational reform: the independent review of DFI performance and peer comparison can provide an objective basis on which to set the internal reform agenda for the DFI

#### Primary results:

Following the first phase of this activity, the National Development Bank of Botswana and the Development Bank of Namibia obtained a shadow credit rating and were assessed to be in a good state. Both are considering obtaining a formal rating, which could be a prelude for obtaining financing. The Development Bank of Mauritius also obtained a shadow credit rating. This activity identified weaknesses in the governance and operational systems of several DFIs; recommendations from the report have been adopted in the restructuring strategies for some of the DFIs.

## Sustainable Municipal Finance in Southern Africa



In 2008 the South African Cities Network requested SNTA funding **to foster the emergence of a sustainable municipal finance market in Southern Africa**, which would be carried out in two phases. The objective of the activity was to **promote effective planning management of financial activities, better credit ratings, and the ability to access capital for investment purposes from banks or capital markets**. This included capacity building, facilitating the entry of the region's creditworthy cities and subnationals into the regional

municipal finance market, and assisting other subnationals and local governments to achieve creditworthiness.

### Results:

- **Phase I:** credit ratings for 2 South African municipalities (Msunduzi and Sedibeng District)
- **Phase II:** credit ratings for 10 municipalities in Southern Africa (Windhoek, Arusha, Blantyre, Dar es Salaam, Gaborone, Lilongwe, Lusaka, Maputo, Ndola, Port Louis); and conclusions and recommendations from report

Conclusions	Recommendations
<ul style="list-style-type: none"> <li>• City governments should have clear mandates and should be able to finance much of their services through appropriate local revenue resources. They need to develop and maintain a social contract with city households and businesses, and an adequately funded capital investment plan, ideally from own-revenue sources.</li> <li>• Intergovernmental fiscal arrangements should provide strong incentives to maintain capital assets.</li> <li>• Good financial management and creditworthiness can together improve access to capital infrastructure funding.</li> <li>• City government administration and service delivery, together with an effective city social contract, should be able to create the correct environment and platform for social development and economic growth.</li> </ul>	<ul style="list-style-type: none"> <li>• City leadership with political stature and maturity and dedicated management team</li> <li>• <u>Internal reform program:</u> <ul style="list-style-type: none"> <li>– Administrative financial and revenue reforms</li> </ul> </li> <li>• <u>External reform program:</u> <ul style="list-style-type: none"> <li>– Improve effectiveness of relationship with national government</li> <li>– Address aspects of the inter-governmental fiscal relations</li> </ul> </li> </ul>