Villes en développement

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Contents

The Port facilities of Capetown (South Africa) seen from the renovated Waterfront, a hotspot for local tourism. *Photo: Elisabeth Deliry Antheaume, ©IRD*

Financing Africa's Cities

Is there a need to put in place a specific finance initiative to support urban development in Africa? It is the idea that is put forward in "Financing Africa's Cities", a volume that has been published recently by the World Bank and the Agence Française de Développement (AFD) with support from Cities Alliance. If associated with the regularization of State transfers, the re-organization of local taxation and improvements in managerial capabilities, an initiative of this type would provide the basis for a comprehensive assistance programme for local authorities.

This bulletin, whose publication coincides with Africities 2012, showcases experience that relates to the issue of supporting sub-national governments. Three of the articles it contains deal with the issue of transfers and taxation. François Vaillancourt and François Yatta put into perspective the main issues raised by the existence and nature of transfers from the State to sub-national governments. Nathalie Le Denmat describes the UCLG-backed scheme for an observatory to monitor local finance and the allocation of transfers. Jean-François Almanza and Phil Sinnet take stock of the adaptation of the PEFA (Public Expenditure and Financial Accountability) framework to the case of sub-national governments and the improvement of local finance management systems. In connection with capacity building, Virginie Dago and Soobs Moonsammy describe a novel partnership between the CEFEB and MILE, which is the training institute for municipal staff that has been set up by the municipality of eThekwini in the Republic of South Africa and which is active in an ever-growing number of countries. Last, three texts describe special financial initiatives which could serve as an example in Africa. Berna Bohrer-Topaloglu and Hassan Mouatadid give an account of the UPFI, which is an initiative that has been set up in the framework of the Union for the Mediterranean to assist projects for cities in North Africa. A box describes Inframed, a para-public investment fund whose aim is to promote equity investment in urban infrastructure, energy and transport projects in the countries of the Mediterranean basin. At a time when the continent's sovereign funds, which already have significant resources, are called upon to expand considerably because of oil and gas discoveries, a structure like Inframed, which is resourced from sovereign funds and exclusively concerned with urban infrastructure, becomes a perfectly realistic proposition. Last, a second box describes JESSICA, Joint European Support for Sustainable Investment in City Areas, a European level "fund of funds".

A special financial initiative for African local authorities, which is based on this last model in particular, would set out to create lasting local investment funds that favour endogenous solutions. Where the institutional and economic context is conducive, these funds could create long term financial products by combining the resources of the market with those of donors and thereby promote gradual access to loans for the most developed sub-national governments, while at the same time setting up systems for monitoring national debt.

In view of the current situation in Africa – urban growth is still continuing but is now accompanied by strong economic growth – now seems to be the right time to modernize or even revamp the mechanisms for financing investments.

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(1) The views expressed in this text are those of the author. They do not necessarily reflect those of the AFD or the members of the PFVT.

Transfers from the State to sub-national Governments: some Keys for Action and Understanding

François Vaillancourt, PhD, CIRANO Fellow
François Yatta, PhD, Consultant

Depending on the country, transfers from the State play a greater or lesser role in the financing of African local authorities. François Vaillancourt, PhD, a CIRANO Fellow and François Yatta, PhD, a consultant, ask some questions that raise the major issues associated with these transfers.

Are they regrettable?
Some commentators see transfers as a sign of the failure of local taxation. This is not justified. Transfers exist all over the world because the major taxes such as VAT and income tax are collected over a larger area than that covered by sub-national governments, and because these have very different self-financing capabilities depending on whether they are, for example, urban or rural, or rich or poor.

How can the amount be decided?
This can be done in one of three ways:
- a fixed percentage, either of all central government revenue, or of part of the revenue derived from one or more specific taxes;

- a fixed amount that is determined annually like any other expenditure, with or without consulting the subnational governments;

- a variable amount that is determined by a formula (a percentage of the expenditure of the recipients or an amount that depends on the characteristics of the population in terms of age, education, etc.). There are both advantages and disadvantages to each of these approaches.

How should the amount be distributed?
There are two main characteristics of transfers. Equalization transfers aim to guarantee a minimum or a similar or equal level of public services by providing local authorities with adequate revenue. These methods use indicators that describe the sub-national government's fiscal capacity and/or needs. Measuring these two types of indicator presents varying degrees of difficulty. For example, it is important not to confuse the tax potential with revenue or expenditures with needs.

Incentivizing transfers have the purpose of changing the behaviour of sub-national governments. They involve conditional transfers that are made either to reward certain types of behaviour or which are to be spent in compliance with certain criteria and on certain types of expenditure, and they may or may not be accompanied by locally-financed expenditures. Which type is appropriate depends both on objective conditions (the local authorities management capacities …) and the country's goals.

The two types of transfers may be combined, as long as this is done in an explicit manner.

What is their effect?
Care must be taken to make sure the transfers do not have negative side effects. For example, transfers that are budget balancing, i.e. that cover the difference between expenditure and revenue, may discourage sub-national governments from making the effort to collect taxes. Other transfers may increase some types of expenditure (salaries) disproportionately. Ideally, transfers should have incentives effects, for example to increase inclusion on the tax roll or the collection of local taxes, or to improve the quality of services.

Photo: Philippe Haeringer, ©IRD

High-rise social housing dating from the late 1970s, Port-Bouet (Côte d'Ivoire).

What are the conditions for success?
Resource equalization works if wealthy local authorities are able to gain access to fiscal resources by collecting taxes or by setting taxation rates. In addition, we should be wary of methods that replace a local tax by a transfer from central government: fixing the level of such transfers poses problems as they are rarely indexed to inflation and rarely take account of the way the tax potential in each area varies over time.

The financing of needs is often based on the expenditure made prior to decentralization. Therefore local authorities that have been favoured historically continue to be so. For example, financing the salaries of teachers favours local authorities which have schools, while a financing system that is based on the potential number of schoolchildren takes account of the situation as it is now rather than how it was in the past.

If decentralization is carried out by gradually moving from the first mode of financing to the second, one must be certain that the local authorities can raise the necessary funds. Finally, a system of transfers will only have an effect if the transfers are made in a regular and transparent manner in accordance with the parameters of the system.

Local Financial Information, a Key Issue for Strengthening Local Governments in Africa

Nathalie Le Denmat, Committee on Local Finance and Development,
United Cities and Local Governments

In the context of their dialogue with their governments, local authorities need reliable and comprehensive financial data to provide an objective basis for their pleas for a balanced distribution of national resources. This financial data, together with qualitative indicators relating to institutions in particular, is essential for a good understanding of the strengths and weaknesses of decentralized financial systems.

Moreover, when information becomes a key factor in regulation, promoting financial transparency also provides a way of making it easier for sub-national governments to access loans, which are indispensable for financing increasing needs for urban investment.

By means of its plan to set up an observatory, the UCLG Committee on Local Finance and Development aims to create both a pool of technical expertise and a partnership framework that will provide local elected officials with the tools they need to finance the tasks that are devolved to them and improve quality of life for their citizens.


Photo: Frédéric Audras.

An urban market in Kisumu (Kenya).

Giving Impetus to a Reform Process Focused on sub-national Governments - the Value of PEFA Assessments

Jean-François Almanza, Economist, French Development Agency (AFD)
Philip Sinnett, Head of the PEFA Secretariatt

The Public Expenditure and Financial Accountability methodology (PEFA) has been implemented at national then at local level. In this framework, an evaluation has been conducted of its application to 56 sub-national governments and the experience of teams from the Agence Française de Développement (AFD). Jean-François Almanza, an AFD Economist, and Philip Sinnett, Head of the PEFA Secretariat, describe the principal conclusions of this evaluation in this article.

A study has been conducted to evaluate the potential value of applying the PEFA (Public Expenditure and Financial Accountability) methodology to decentralized bodies. What conclusion can be drawn from this?

- The subnational governments are so diverse and have such different degrees of autonomy that they cannot be compared. Therefore, one should not consider the PEFA framework as a rating tool.

- Subnational governments should not expect to attract lenders just on the basis of their PEFA score. This must be combined with other elements such as a financial analysis or the quality of their urban development and capacity building strategies.

- The PEFA methodology facilitates access to loans by building confidence. However, before this stage is reached, it should be used to improve local financial management systems, provide directions for reform and encourage the involvement of partners in enhancing the capacities of the assessed subnational government. In this respect it is an essential tool for analysis and, above all, decision-making.

The PEFA initiative

PEFA was founded in 2001 as the result of a partnership between the World Bank, the European Commission, the United Kingdom (DFID), Switzerland (SECO), France (MAE), Norway and the International Monetary Fund (IMF). Its goal is to allow countries and their technical and financial partners to evaluate the performance of Public Financial Management (PFM) systems and promote the implementation of reforms and capacity-building actions.

A PFM assessment methodology was developed to this end. This consists of a set of 31 high-level indicators (28 of which relate to PFM and 3 to donor practices), a scoring system and a PFM Performance Report (PFM-PR). Since it was launched in 2005, about 330 assessments, 90 of which were for local authorities, have been performed rolled out in 135 countries.

The AFD study

Analysis of the reports on 56 subnational governments has shown the PEFA framework to be well-suited to decentralized sub-national governments. However, there are three essential requirements:

• the diversity of subnational governments in terms of size, autonomy and capacities means the PEFA report must include a detailed description of the institutional, legal and regulatory context of the subnational government under analysis. The reason for this is that the role and powers of such governments are essential for understanding their score;

• use of the PEFA framework must be restricted to subnational governments with a genuine degree of autonomy. In practice, in the case of municipalities, this refers to political and economic capital cities whose executives can plan expenditure on the basis of realistic forecasts of resources;

• the PEFA framework must be seen by technical and financial partners as a stage that is prior to the development and implementation of a programme to build capacities in the area of fiscal and financial management;

To sum up, although the PEFA assessment focuses on the sub-national government, it also reflects the quality of its financial relationship with the Central Government. However, in the context of a decentralization process, the relationship may vary, in particular as regards the autonomy granted to subnational governments. This makes it even more necessary to avoid modifying the methodological framework to ensure that the tool used to assess the quality of this relationship remains neutral, objective and durable.

Photo: Michel Grouzis, ©IRD.

The urban landscape of Antananarivo (Madagascar).

MILE: An African Training Initiative for Capacity Enhancement

Virginie Dago, Head of Educational Projects, CEFEB
Soobs Moonsammy, Head of Development, Planning and Management at eThekwini Municipality and MILE's Programme Head

For the first time in the history of African local authorities, a forward-looking municipality has set up a body with the exclusive function of developing the capacities of municipal leaders and executives. Virginie Dago and Soobs Moosammy describe this African initiative.

In 2009 the municipality of eThekwini (Durban, South Africa), laid the foundations of the first capacity enhancement programme for professionals to be run by local authority professionals themselves. The function of MILE *(Municipal Institute of Learning)* is therefore to provide African local authorities with the necessary means to meet the challenges that face them on a daily basis.

The first centre in Africa for local authority professionals

Although the MILE is an initiative of eThekwini and managed by the municipality, its services are available to every municipality and any other agency involved in the management of local authorities, in Africa or elsewhere.

eThekwini, which already played a leading role among the municipalities of NEPAD *(New Partnership for Africa's Development)*, is an active member of UCGL *(United Cities and Local Governments)* in Africa and ICLEI (International Council for Local Environmental Initiatives). To increase the impact of its activities, MILE is pursuing a strategy of partnership with key institutions that are active in strengthening the capacities of local authorities such as ICLEI, UNITAR *(United Nations Institute of Learning and Research)*, PPIAF *(Public-Private Infrastructure Advisory Facility)*, the Sustainable Cities International Network, UCGL and, since 2010, AFD's institutional university, CEFEB.

The partnership between AFD and MILE

AFD is committed to supporting local authorities as a result of their key role in implementing development goals at the local level. At the same time as providing funding for urban projects (1.25 million Euros in 2011), training and exchange activities have become an integral part of AFD's support to its partner municipalities. CEFEB implements these activities, organizes workshops and seminars and is running a vocational master's degree course on its French premises.

The partnership between CEFEB and MILE is the natural outcome of their shared goal of strengthening African local authorities.

MILE and CEFEB organized a climate change workshop in Durban with the ICLEI during the COP17 conference (December 2011) as well as a workshop on the management of municipal resources with the PPIAF (March 2012).

The latter brought together 41 elected officials and municipal executives from 12 countries, giving them an opportunity to discuss ways of increasing municipal revenue (organization, management, governance, systems and communication). The success of this workshop has prompted CEFEB, MILE and PPIAF to organize another in Accra (Ghana) in November 2012.

Since its creation in 2009, MILE has run ten training courses in the municipality, nine workshops for participants from Africa on topics such as water and sanitation, strategic planning, waste management, resource management, and land. MILE is currently running technical support programmes in Malawi, Namibia and Mozambique.

Photo: Virigine Dago

Workshop on the management of municipal resources organized by MILE, CEFEB and PPIAF in March 2012. (From left to right) Joshua Gallo, PPIAF, Virginie Dago, CEFEB, Erias Lukwago Mayor of Kampala, James Nxumalo Mayor of eThekwini (Durban) and Sogen Moodley, MILE.

For further information visit: **www.mile.org.za**

The UPFI Initiative in the Mediterranean: an Example for African Cities?

Berna Bohrer-Topaloglu, Urban Development Specialist, Projects Directoraten, European Investment Bank
Hassan Mouatadid, Project Leader
Local Authorities and Urban Developmen Department Agence Française de Développement

What criteria should we use to to finance urban development projects in the cities of the South, and how can we make sure they are sustainable? The project selection procedure that has been followed by the Union for the Mediterranean (UfM) for the cities in the Mediterranean basin may serve as an example for similar initiatives elsewhere in the world.

The scale of investments in many South Mediterranean countries has not been able to keep pace with urban growth, provide universal access to basic services and drive a job-creating economy. The absence of autonomy at the local level and Central government's lack of interest in responding to urban growth have gradually resulted in social dislocation, i.e. a feeling among the population that they have been abandoned by forms of government that are disconnected from their concerns. This feeling of resentment was partly responsible for the "Arab spring". These revolutions are encouraging political decision-makers and international financial institutions to consider the problems of Mediterranean cities and their funding while giving priority to urban development issues.

In connection with this new situation, during the Ministerial Conference of the Union for the Mediterranean (UfM) on urban development that was held in Strasbourg on 9 and 10 November 2011, the French Development Agency (AFD) and the European Investment Bank (EIB) presented a joint practical initiative for funding sustainable urban projects in the region. This initiative is based on a set of evaluation criteria that may qualify the best projects for UfM "certification" and preferential admittance to the appraisal stage for donor financed projects.

At the outset, all the parties agreed on the singular nature of Mediterranean cities, highlighting that the Mediterranean basin is in many ways the cradle of the modern world, and that for the last 6000 years it has been the location of an intense mingling of civilizations. This historical legacy, combined with the region's characteristic climate and flora and the presence of the Mediterranean Sea has shaped the urban and architectural forms that are so characteristic of Mediterranean cities.

Everyone also acknowledges that this marvellous heritage is currently threatened by the region's high rate of urbanization. More than two in three Mediterraneans live in the region's cities, twenty-four of which have over a million inhabitants. The massive increase in the urban population that will occur in the coming decades raises the issue of the sustainability of the Mediterranean cities very intensely in connection with their ability to maintain long-term stability and not lose their identity.

It was decided that the set of criteria should promote "integrated" development projects that cover all social aspects, both at project level and at the different scales of urban planning. This set of criteria targets a number of goals which include: i) strategic and geographical coherence ii) the creation of economic, social, environmental, heritage and cultural value, iii) the robustness of the project's management and its monitoring and evaluation system, iv) financial solidity and viability.

Following on from this, the EIB and the AFD decided to launch the Strasbourg initiative. This sets out to encourage the development and implementation of sustainable innovative urban development projects which match the needs of the population while helping to share and disseminate good practice around the Mediterranean.

With support from the UfM General Secretariat and in partnership with the EU and the KfW, a step-by-step process to select fifteen projects was put in place, which was coupled with a system to improve the components of the selected projects, financed in the framework of the EU Neighbourhood Investment Facilities (NIF). The process is currently running and will end in mid-2013 and allow donors to finance sustainable and innovative urban projects. Its ultimate goal is to raise awareness about the revival of cities and thereby help transform the type of urban planning that is implemented in projects for the Mediterranean.

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InfraMed: A Parapublic Investment Fund

The InfraMed investment fund was created in 2010 as a joint initiative between the Caisse des dépôts et consignations (France) and the Cassa depositi e prestiti (Italy), each of which provided 150 million Euros. The fund also received 50 million Euros from the EIB, 20 million Euros form the Morrocan Caisse de dépôts et de gestion (CDG) and 15 million Euros from the Egyptian bank EFG Hermes. Ultimately, the fund should mobilize 1 billion Euros.

InfraMed's goal is to promote, in a market economy framework, equity investment in urban infrastructure, energy and transport projects in countries of the South and East of the Union for the Mediterranean (UfM), which is a region that has some of the highest rates of urban growth in the world. It intends to make longer term investments than traditional private funds that invest in infrastructure.

At least 20% of the funding provided by InfraMed will be allocated to infrastructure located in Morocco and Egypt, operating in parallel with two funds that have recently been created on the initiative of the CDG (InfraMaroc) and EFG Hermes (InfraEgypt).

Source: Caisse des dépôts et consignations

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"Fund of Funds": Europe's Example of JESSICA

JESSICA (Joint European Support for Sustainable Investment in Cities Areas) is a combined initiative on the part of the European Commission, the European Investment Bank (EIB) and the Council of Europe Development Bank (CEB), which is supported by the European Regional Development Fund (ERDF).

JESSICA is a provider of loans and subsidies. Instead of using them as subsidies to be spent in one go, the authorities are encouraged to place the aid they receive from the ERDF in renewable mechanisms such as local urban development funds; on condition the projects satisfy a number of criteria. The local funds are well-placed to finance themselves with loans and can invest in public-private partnerships, either by means of equity investments or guarantees. JESSICA also conducts expert appraisals and provides consultancy services.

Source: European Union, European Investment Bank (EIB), Council of Europe Development Bank

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In brief

Erratum: a mistake crept into issue 92 of the Bulletin Villes en Développement. On page 1, the cover photo showed a workshop in Saint-Louis, Senegal

• Ecocity World Summit of Sustainable Cities, Nantes 25-27 September 2013
ECOCITY 2013 aims to identify solutions and draw attention to projects for the future in order to speed up the transition to sustainable cities : **www.ecocity-2013.com**

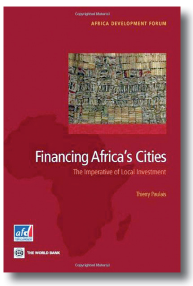
• Global Campaign for local Authority Access to Sustainable Finance
In the run up to the Habitat III conference, the Metropolis network of cities, United Cities and Local Governments and the Global Fund for Cities Development (FMDV) are launching a Global campaign for local authority access to sustainable finance for urban development.
The aim is to build on and spread awareness of the strategies for financing urban development (i.e. tools, mechanisms and policies) that are implemented by local authorities and their partners. This campaign will be run separately in different regions of the globe and will make use of technical consultation seminars, publications, training sessions and operational assistance for the implementation financing strategies that have the backing of cities.
The campaign will be announced at Dakar during the Africities Summit in December of this year and the operational phase will commence after the UCLG Rabat Summit in October 2013: **http://www.fmdv.net/**

• Launch of the magazine Local Africa published by the United Cities and Local Governments of Africa and glObserver Africa at the Africities Summit 2012.

Publications

• Publication of the English version Financing Africa's Cities

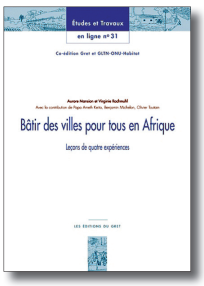
Thierry Paulais, *Financing Africa's Cities: The Imperative of Local Investment*, Agence Française de Développement, World Bank.
February 2012, 349 p.



This book provides a methodological survey of local investment that is intended for decision-makers and practitioners. Based on a set of African case studies, it provides concrete suggestions for modernizing the systems that finance local investment, promoting private sector involvement, applying endogenous solutions and mobilizing new sources of finance.

• The publication Bâtir des villes pour tous en Afrique is available for downloading at http://www.gret.org

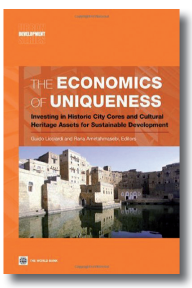
Aurore Mansion, Virginie Rachmuhl, Bâtir des villes pour tous en *Afrique, leçons de quatre expériences*, Published jointly by Gret-and GLTN-UN Habitat, in the series Études et Travaux en ligne, No. 31, April 2012, 143 p.



Based on an appraisal of four recent experiments in Mauritania, Morocco, Rwanda and Senegal, this publication highlights the issues involved in urban operations in informal districts, asks nine key questions and suggests approaches for improving the quality of interventions.

• Publication of a book on heritage economics

Guido Licciardi, Rana Amirtahmasebi (dir.), *The Economics of uniqueness, World Bank*, October 2012, 340 p.



The Economics of uniqueness is published by the World Bank and contains papers by scholars and practitioners specialized in heritage economics which show how heritage assets can serve as drivers of local economic development. This book is aimed at practitioners and proposes a practical approach that gives full weight to the cultural dimension in the context of urban renewal operations.

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