



PPIAF

Enabling Infrastructure Investment

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PPIAF Helps the City of Dakar Improve its Creditworthiness

PPIAF's Sub-National Technical Assistance (SNTA) program is helping the City of Dakar to obtain financing to improve its infrastructure services. SNTA's support to the City of Dakar began in 2008, when PPIAF helped the city to undertake a Public Expenditure and Financial Accountability (PEFA)¹ assessment. Following the PEFA, SNTA provided technical assistance to help the City improve its revenue improvement strategy and obtain a credit rating for its first municipal bond issuance.

As a result of the SNTA's support, the City of Dakar has strengthened its financial management practices and secured infrastructure financing totaling CFA 26.8 billion (\$46.1 million) from the French Development Agency (AFD), the West African Development Bank (BOAD), Ecobank and the Islamic Bank of Senegal (BIS). The city has also achieved a BBB+ (regional scale) institutional credit rating and plans to initiate other activities to improve the city's revenues.

Like a number of cities in Sub-Saharan Africa, the City of Dakar is facing huge urban management challenges, including a rapidly growing urban population within a limited geographic area. To realize its strategic vision of creating a vital and growing city, the City of Dakar recognized the need to invest in improving its infrastructure services. In order to access long-term financing to support its infrastructure investments, the city made improving its creditworthiness a priority.

PPIAF SUPPORT

PPIAF's SNTA program, first provided assistance to the City of Dakar to help it improve its fiscal condition in 2008 through a diagnostic review of the financial management system for the City of Dakar. The SNTA activity used the PEFA assessment tool – a framework for measuring management performance of local public finance – to review the current state of the city's financial management and identify measures to improve its creditworthiness. Following the implementation of the PEFA study's key recommendations, the City of Dakar

received its first public credit rating from a local credit rating agency. The city was rated as investment grade (BBB+) on the CFA regional scale.

In 2013 PPIAF provide follow-up assistance to support the city in refining its revenue improvement strategy. This assistance was part of a series of initiatives the city undertook to implement the recommendations of the PEFA assessment. The SNTA support included the development of an action plan to improve financial management and guidelines to strengthen the legal framework for revenue collection. A capacity building workshop on public finance management was also held for senior city executives responsible for financial administration.

As part of its strategy to mobilize long-term infrastructure financing, the City of Dakar decided to issue the first municipal bond in the West African (CFA) currency zone. In 2014 SNTA supported a credit rating for the bond transaction. The bond was rated an A on the regional scale by a local credit rating agency, reflecting that the transaction structure and credit enhancements on the bond substantially reduced the investment risk. These credit enhancements are discussed further in the donor coordination section below.

OUTCOMES

The City of Dakar improved its financial management practices by implementing the findings of the PEFA assessment. These improvements enabled the city to secure its first 20 year loan from AFD in 2009. The City of Dakar has since 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 by the City.

In addition, the improvements also contributed to the city obtaining a BBB+ investment grade credit rating (CFA regional). By obtaining this credit rating, the City of Dakar has met the requirements of the Conseil Régional de l'Épargne Publique et des Marchés Financiers (CREPMF)² to issue a municipal bond in the West African regional capital market. If the bond is issued, its credit rating of A (CFA regional) will help improve the marketability of the bond by further reassuring investors that the credit enhancements built into the bond have reduced their risk.

IMPACTS

The principal impact of the SNTA's assistance has been to enable the financing of much-needed infrastructure improvements in the City of Dakar. After the completion of the PEFA assessment, AFD supported the City of Dakar by financing part of the street lighting program. The 20 year AFD

Loan of €10 million (approximately \$15 million at the time of the transaction) has financed a thousand solar streetlights in Dakar. The program aims to improve street lighting services in Dakar and its surroundings and strengthen the technical and financial capacities of municipal teams. The first phase of the work reached completion in February 2013 and a thousand solar streetlights were installed.

Subsequently, AFD financed the extension, densification and refurbishment of the City of Dakar's existing street lighting network, with the installation of 10,000 new lights, refurbishment works on the street lighting network on a section of the urban highway. The existing "traditional" network (overhead cables) has been replaced by a "modern" lighting network (concrete poles, underground network, residential white lighting).

DONOR COORDINATION

City of Dakar's initiative to expand their access to long term infrastructure financing has received strong support from a variety of donors. As noted above, AFD was an early supporter of the city's efforts, which was crucial to encouraging other lenders to view the City of Dakar as creditworthy. The Bill & Melinda Gates Foundation contributed \$5.5 million to helping the city seek more innovative ways to finance their infrastructure. The Gates Foundation funds helped pay for technical assistance, feasibility studies and other front-end expenses for development of the city's first municipal bond. Cities Alliance, a global partnership for urban poverty reduction and the promotion of the role of cities in sustainable development now manages the initiative on behalf of the Gates Foundation.

In 2014, as a credit enhancement for the Dakar bond, USAID provided a bond guarantee for half of the principal amount under its Development Credit Authority (DCA). While the City of Dakar obtained an investment grade institutional credit rating of BBB+ (CFA regional), the DCA guarantee and other internal credit enhancements built into the bond structure improved the credit quality of the bond to an A (CFA regional).

RELATED PPIAF-SNTA ACTIVITIES IN SENEGAL

- 2008: City of Dakar Financial Management Diagnostic, \$152,500
- 2013: Improving Fiscal Revenues for the City of Dakar, \$164,500
- 2014: Credit Rating for the Dakar Municipal Bond, \$50,000

Footnote

¹ <http://www.pefa.org>

² <http://www.crepmf.org>