



Round table 2: The different financing instruments in support of decentralisation

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Summary

- **Decentralisation: the key concepts**
 - ✓ Strengths and objectives of decentralisation
- **Decentralisation in the world: an overview**
 - ✓ Africa
- **The decentralisation approach of the AFD**
 - ✓ AFD: A pragmatic pro-decentralisation approach
 - ✓ Elements of context
 - ✓ AFD expertise on decentralisation
- **AFD instruments for financing the local public sector**
 - ✓ public policy loans to strengthen decentralisation
 - ✓ loans to LC or their urban operators
 - ✓ loans to specialised financial institutions in the local public sector
 - ✓ Program VAINCRE financed under the debt reduction and development contract (C2D)
- **NS Public Sector Risk Assessment Tools**

1. Decentralisation – key-concepts

Strengths and objectives of decentralisation

• Strengths:

- Contribute to supporting a more democratic political life by mobilizing local stakeholders
- promotes citizen buy-in and ownership through proximity
- greater citizen confidence in local governments seen as more transparent and closer
- Stronger accountability of local political actors

• Two major objectives:

- Improve service to the user: because of proximity, needs are better understood
- Enable local democracy through interest in local projects

2.

Decentralisation in the world

Unprecedented financial needs

- **Urban Infrastructure Needs by 2030:**
 - **\$ 75,000 billion for the whole world (50% for water and sanitation)**
 - **\$ 57,000 billion for all southern cities**
- **Decentralisation of skills more advanced than the decentralisation of means:**

| | Share of local pub expenses (% of national advertising expenses) | Share of local government revenue (%% of national revenue) |
|--------------------|---|---|
| OECD | 31% | 22% |
| Latin American | 19% | 12% |
| Sub-Saharan Africa | 8% | 3% |



3.

The decentralisation of the AFD

A pragmatic pro-decentralisation approach

- AFD has long supported local communities and in particular cities through its funding
- The legitimacy of AFD's intervention has been strengthened since the transfer of the governance competence (which includes decentralisation) since January 2016 by the Ministry of Europe and Foreign Affairs.

3.

The decentralisation approach of the AFD

Elements of context

- The territory is the relevant level of intervention and allows a transversal view of the issues and solutions
- Modalities of interventions diversified, flexible and adapted to the reality of the local legal and political context
- A wide range of financial products including the possibility of direct loan without guarantee from the State to a community
- A precise knowledge of the counterparties resulting from an analysis both in terms of financial risk and maturity in terms of project management capacities and a close dialogue

3.

The decentralisation approach of the AFD

Elements of context

- **A degree of decentralisation that is uneven and globally weak in AFD's intervention geographies:**
 - Africa: sometimes theoretical decentralization, particularly in West Africa. Most mature countries: RSA, Ethiopia, Uganda, Senegal
 - Latin America: mainly Colombia and Argentina
 - Asia: level of decentralisation overall very low
 - MED Zone: recent process, related to the Arab Spring. Sometimes more of deconcentration
- **Consequences:**
 - A small number of countries authorising the external indebtedness of CLs without State guarantee
 - Counterparties with financial and human capacities often insufficient to be able to mobilise loans
 - A small number of bankable local authorities

3.

The decentralisation approach of the AFD

AFD expertise on decentralisation

▪ A dedicated team (VIL):

- Team of Local Finance and Decentralisation Specialists (Former Local Public Sector Specialists, Seconded Territorial Administrators)
- Tools: Decentralisation Diagnosis, PEFA NS Studies, Financial Analysis Method, OECD / UCLG Observatory

▪ The "steering local authorities" course of the CEFEB

- 4 modules :
 - «Financial strategy instruments»
 - «urban planning tools»
 - «urban service management»
 - «management and project management»

3.

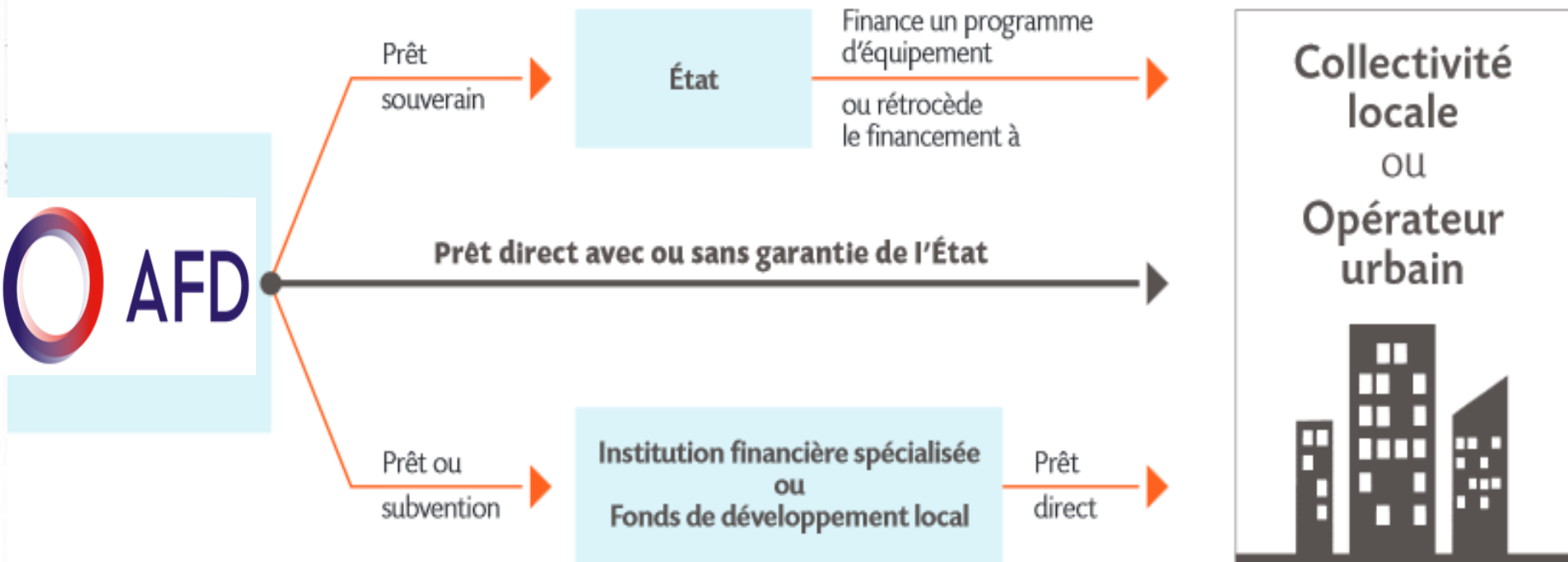
The decentralisation approach of the AFD

AFD expertise on decentralisation

- The ability to rapidly mobilise French expertise:
 - French LC's, in particular through their decentralised cooperation programs
 - *National Center of the Territorial Public Function and the National Institute of Territorial Studies*
 - *Office of the Commissioner General for Territorial Equality (CGET)*
 - *Agence France Locale*
 - *Expertise France*
 - French consulting firms specialising in local finance and decentralisation

4. AFD instruments for financing the local public sector

AFD financial tools serving the local public sector: general scheme



4. AFD instruments for financing the local public sector

Outils: **Public Policy Loans for Strengthening Decentralisation**

- Sovereign loans in the form of sectoral public sector lending
- Central objective: to transform regional capitals into local actors, solid and bankable in 5 to 10 years in order to rebalance the urban network
- Important leverage to support reforms including:
 - LC funding framework: streamlining of state financial transfers, improvement of local taxation, access to credit
 - The establishment of stable and well-trained human resources (Technical Assistance)
- Relevance of co-financing research with other donors based on the results / performance approach to make these reforms effective to increase the impact of these projects
- Eg: Philippines (with ADB), Ethiopia and Senegal (with WB), Jordan (with WB and USAID)

4.

AFD instruments for financing the local public sector

Tools : **public policy loans to strengthen decentralisation**

- Instruments that articulate with the financing of local investment programs:
 - Loans to big cities to finance investment projects or programs (Dakar, Addis, Joburg, etc.)
 - Secondary cities programs
 - Implementation of intermediated loan guarantee instruments (Cityriz) and disintermediated to diversify the financing of LC investments
 - financing of specialized financial institutions in the local public sector

4. AFD instruments for financing the local public sector

Tools : public policy loans to strengthen decentralisation

- **Examples:**

Senegal

€80M (2018)

2 principles aims:

- **Reform of state transfers to LC**
- **Support to the implementation of the territorial civil service (recruitment, training, etc.)**

Co-financing of the financial instrument Program for results of the WB.

The results-based approach is relevant in this type of program. Allows to "force":

- **Effective implementation of reforms by the national government, which conditions disbursements**
- **Compliance by the CLs of the project (120 municipalities) with minimum conditions and performance indicators to access funds**



4.

AFD instruments for financing the local public sector

Outils : **loans to LC or their urban operators**

- AFD's extensive experience in direct lending to overseas local communities to finance their investments
- A flexible tool that fits:
 - Regulatory possibilities: direct or retroceded loan / sovereign or non-sovereign (unsecured)
 - At maturity of counterparties: project / program / budget loans
- The AFD financial offer is coupled with technical assistance (if possible via decentralised cooperation) to support capacity building for resource management and project management
- Tool for a ripple effect: strengthening the credibility of the community vis-à-vis the domestic banking sector and investors => access to new financing
- Only de facto concerns large LC (Dakar, Joburg, Amman, Medellin, Ouagadougou, Izmir, Guayaquil, etc.)
- The problem of currency risk limits the possibility of lending

4.

Dakar – € 10 M

**Unsecured project
loan from the state**

€10 M

Direct loan over 20 years



Financing the doubling of the public lighting park of the city of Dakar, particularly in underserved areas, while improving its energy efficiency.

Technical assistance on public lighting strategy, procurement support and financial management, and training of the public lighting division of the City's Technical Services Department to improve their ability to ensure sustainability equipment.

4. AFD instruments for financing the local public sector

Tools : loans to specialised financial institutions in the local public sector

- Variable legal status: municipal funds, caisses, banks, etc.
- Transmission belts between the State and LC, they have a detailed knowledge of territorial realities and can play an important role in terms of capacity building of local authorities
- Enable to reach a large number of local authorities, especially medium-sized cities, and lend on long maturities and in local currency
- Eg: FINDETER (Colombie), FEC (Maroc), CPSCCL (Tunisie), etc.

4. AFD instruments for financing the local public sector

Program VAINCRE financed under the Deleveraging and Development Contract (C2D)

Mauritania

€ 4,9M (2010)

€ 4M (2013)



- **Aims:** Empowering municipalities in the definition and implementation on their territory of coherent development actions at regional level.
- Subsidy abundant the investment budget of the communes in the wilayas of Assaba, Gorgol and Guidimakha.
- **The field of eligible projects remains very open:** all the actions included in the areas of competence of the communes are likely to benefit from the financial support of the program,
- Phases I and II of this program have resulted in the completion of more than 800 micro-projects, of which about 2/3 have focused on improving access to basic services (water, education, health) for the populations of the wilayas of Gorgol, Guidimakha and Assaba.

4. AFD instruments for financing the local public sector

Improvement clue: safeguards mechanisms

- **Objective: to contribute to the emergence and structuring of a domestic market for local debt (banking and disintermediated) to improve access to finance for cities**
- **The guarantees offered by an actor like AFD could take two forms:**
 - **Guarantees of intermediated financing: by the banking sector on the existing model for SME bank loans (CITYRIZ system)**
 - **Guarantees of disintermediated financing: it would be a question of guaranteeing the bonds issuance of the local public sector and in particular to support by this means the innovative mechanisms of the type of "pooled financing" (emissions bonded groups of collectivities, or carried out by specialised financial Institutions), and green emissions**

5.

NS Public Sector Risk Assessment Tools

The decentralisation diagnosis

- Methodological tool to know more about:
 - the institutional organisation of a country
 - the division of competences between the national and local levels
 - the translation of this distribution in terms of financial and human resources
- Aims to allow AFD to target its potential interventions:
 - identify needs in support of strengthening decentralization
 - NS leads

PEFA NS studies: Public Expenditure & Financial Accountability (

- Common framework for evaluation, measurement and monitoring of results over time in public financial management.
- AFD pioneered the development and use of the PEFA evaluation framework at the sovereign level: Dakar (2008); Ouagadougou (2010); Cotonou (2011); Nouakchott (2012); Douala (2012)
- 50 evaluations conducted since 2015, including Tunis, Sfax, Sousse, Agadir, Casablanca, Pointe Noire, Joburg, Beira, Amman. Coordinated work with the World Bank.

Conclusion

- **A complex concept, implemented in a very diverse way from one country to another**
- **The arguments for decentralisation seem compelling, but it is important to remain vigilant about its potential risks and its shifting character**
- **AFD has the main tools and expertise to pragmatically support these processes**
- **Finding collaborations on these topics with other donors is the right approach to increase the impact and efficiency of these programs.**